Objective: The objective of the course is to make students aware of ethical and moral issues concerning business both in Indian and International context and develop sensitivity of students for right ethical practices in conduct of business, to understand the principles of corporate governance, to know the social responsibility of the corporate.


4. Corporate Governance: Purpose – Theories and Philosophies of Corporate Governance

Corpor ate Social Responsibility: Stakeholders – Environment – social Development.

Textbook:

- Business Ethics and Corporate Governance – A.C. Fernando, Pearson Education.

References:

- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
- Ethical Management, Satish Modh, Mcmillan.
UNIT 1
BUSINESS ETHICS AND CORPORATE ETHICS

1. MEANING:

The term ethics was derived from Greek word ETHIKOS which means character.

Ethics is a branch of philosophy and is considered as normative science because it is concerned with norms of human conduct.

Business ethics or corporate ethics or applied ethics is the art and discipline of applying ethical principles to examine and solve ethical dilemmas.

DEFINITION

FOR ETHICS:

“Ethics is the discipline dealing with what is good and bad and with moral duty and obligations”.

- According to WEBSTER.

FOR BUSINESS ETHICS

“Business ethics is the study of business situations activities and decisions where issues of right and wrong are addressed”.

- According to ANDREW CRANE

“The ethics of business is the ethics of responsibility. The businessmen must promise that he will not harm knowingly”.

According to RAYMOND C BAUMHART

2. IMPORTANCE OF BUSINESS ETHICS:

Ethics in business and business activities have major importance which is as follows.
<table>
<thead>
<tr>
<th>Importance of business ethics</th>
<th>Attracting customers</th>
<th>Protection of consumer rights</th>
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<tr>
<td></td>
<td>Reduced labor turnover</td>
<td>Social responsibility</td>
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<td>Promotes socialism</td>
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<td>Relation with society</td>
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<td>Long run survival/sustainability</td>
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<td>Controlling fraud</td>
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**A. ATTRACTING CUSTOMERS:**

- Customer is a person who buys goods and services from business or shop.
- By adopting ethical practices in organization individuals will be able to make right decisions in ethical way.
- With these customers get attracted to firms prudently.

**B. PROTECTION OF CONSUMER RIGHTS:**

- Consumer rights are the rights of a consumer (who uses firms product) against false and misleading claims of business.
- The products produced by company should be safe, and then only consumer rights get protected.

**C. REDUCED LABOUR TURNOVER:**

- Labor turnover means leaving of employee from the organization.
- By adopting ethical organization, there will be no discrimination in organization. With this labor turnover get reduced.

**D. SOCIAL RESPONSIBILITY:**

- Social responsibility is the responsibility of companies. Regarding welfare of this Society.
- This is done by producing safe products, protection of environment by pollution free activities, doing development activities for society.

**E. REDUCED TAKEOVER:**

- Takeover means the act of buying of one company by other company. By following ethical activities in business.
• Investors get attracted and companies share price will be high thereby business get protected from takeover.

F. PROMOTES SOCIALISM:

• Socialism means interaction among individuals, with ethics discriminating among individuals gets reduced by treating everyone equally.

G. LONG RUN SURVIVAL / SUSTAINABILITY:

• Survival / sustainability mean the ability to be maintained at a certain rate of level.
• Unethical practices may give short-term benefits but in the long run it will not lead to survival. So to have long run survival ethics should adopt.

H. RELATION WITH SOCIETY:

• To maintain good relations with society, ethics should be followed by the business by doing welfare and betterment activates to society.

I. CONTROLLING FRAUD:

• Fraud means wrongful deception intended to result in financial or personal gain.
• Ethics in business will control fraudulent activities like corruption, harmful products and improper services.

3. FUNCTIONS OF BUSINESS ETHICS

The functions of business ethics are explained here under,

A. SOCIAL RESPONSIBILITY:

• Ethical guidelines also help business to demonstrate social responsibility to consumer.
• As a provider of products or services a company must choose voluntary actions to be known for social responsibility.

B. TAKE CARE OF STAKEHOLDERS:

• Stakeholders are those who have direct or indirect relation with business.
• While making decisions an ethical company will consider how its behavior will affect stakeholders
• A company should take care of its stakeholders.

C. MAINTAIN HONESTY:

• Having code of ethics encourage employees to stay honest.

D. DEMONSTRATE BEHAVIOURS:

• Another vital function of business ethics is to demonstrate behavior that is the current norms.
• Actions that were acceptable in past years can because in appropriate in later years.

E. POLITICS AND PROCEDURES:

• Business ethical also performs functions of reviewing policies and procedure to know whether they are ethical or not and accordingly changes will be made if there are unlawful policies and procedures.

F. COMMUNICATION:

• Employees use formal and informal channels of communications to explain each other the acceptable norms of heavier.
• In ethical organization, all employees will be know how to act in business.

G. ENSURE GOOD EFFECT OF POWER:

• As a business expands opportunities for corruption also grows.
• In some cases this expansions can destroy valuable elements in community.
• With good code of conduct/power a company cans a work to repair possible damage caused.

4. UNETHICAL PRACTICES AND ETHICAL DILEMMA:

Unethical practices or behavior in business refers to actions that fail to rise in acceptable standards of business practices.

Consumers would be every wise on these unethical practices to protect themselves their families and their wallets. Unethical practices are as follows,
1. **DUMPING POLLUTANTS INTO THE WATER**
   Which leads to water pollution with a lot of toxins like chemicals, oils, sewages etc. by this plants and animals get affected?

2. **RALEASING TOXINS INTO THE AIR**
   Generally a limit is permitted by environment protection agency on release of toxins into air. If toxins; released above permitted level it leads to air pollution.

3. **COERCION (COMPOULSION/DEMAND)**
   It is unethical to coerce or force an injured worker not to report or complaint to government by threatening him with loss of job or benefits.

4. **REFUSAL FOR PAYCHEQUE**
   Refusing to give an employee a final pay cheque after the employee leaves the company. It is also unethical.

5. **Delay in payment** of salaries in time.

6. **DISCRIMINATION**
   It means showing discrimination on a particular race, gender, class etc. also one of the unethical practice done in business.

7. **THEFT OR FRAUD**
   Personal use of company property or expense account misses representations unethical.

8. **TERMINATION** (THE ACTION OF ENDING SOME ONE’S JOB AT A COMPANY)
   Without fair notice or cause.

9. **FAKE ADVERTISEMENTS**
   It is unethical of using fake advertisements or tactics to convince the customer to buy the products.

10. **REFUSAL FOR WARRANTY SERVICES**
    At the time of selling companies product they offer warranty services on the product but when need arises, they refuse to provide these services which is unethical.

11. **DEFECTIVE PRODUCTION**
    It means producing defective products which are not safe and harmful to the consumers also unethical in nature.

4.1: **REASONS FOR UNETHICAL PRACTICES IN INDIA:**

- Lack of proper education
- Raising in efficiency
- Inefficiency laws
- Consumer exploitation (producers for their own benefit induce impact on illiterate consumers.)
4.2. ETHICAL DILEMMA:

An ethical dilemma also referred as moral dilemma or ethical paradox. It is a situation in which choice has to be made between two equally undesirable alternatives. Dilemma may arise out of various sources like,

Dilemma is a dilemma because there is a conflict between the choices. Usually one action though morally right violates another ethical standard.

Failure personal character conflict of personal values and organization goals etc.

FOR EXAMPLE:

Stealing to feed a family. Stealing is legally and ethically wrong but if a family is starving it might be morally justified.

Ethical dilemmas involve problem solving situations in which decisions rules are vague or in conflict. The outcome of an ethical decision cannot be predicted with any degree of accuracy. Even most businesspersons do commit ethical mistakes while deciding business issues.

4.3. SOURCES OF ETHICAL PROBLEMS:

According to KEITH DAVIS AND WILLIAM C FREDERICK, ethical challenges in business take several forms and raise different kinds of ethical dilemma. Ethical dilemma arise due to following aspects,
1. **FAILURE OF PERSONAL CHARACTER**
   Companies sometimes recruit workers whose personal values are not desirable. Such employees misuse funds, take unjustified leave, use inside information for their personal benefit. If a Company recruits such persons, It is not blamed for situation.

2. **CONFLICT OF PERSONAL VALUES AND ORGANIZATIONAL GOALS**
   To achieve objectives ineffective and ethical way, both individual goals (recognition, career opportunities etc) and organizational goals (profits, reputation, increased sales etc.) should be integrated. The conflict of these goals leads to ethical dilemmas.

3. **ORGANISATIONAL GOALS VERSUS SOCIAL VALUES**
   In a fast-changing situation a company may find itself at odds against changing social values.
   
   For example-organizations follow a hierarchical setup on dress code, working hours relations of superior –sub-ordinate etc. But now, it is changed.

4. **PERSONAL BELIEFS VERSUS ORGANISATIONAL PRACTICES**
   Ethical dilemmas may arise in organizations when they employ multi-racial and multi-religious employees.
5. **PRODUCTION AND SALE OF HAZARDOUS BUT POPULAR PRODUCTS**

There is an ethical dilemma regarding production and sale of hazardous but popular products like cigarettes, drugs etc. This dilemma may arise because some are in favor for these as they produce revenue and some are against as they are harmful for health.

6. **OTHERS**
- Price fixing due to monopoly
- Wage discrimination
- Over working women and children
- Shifting business at the cost of society.

4.4. **RESOLVING ETHICAL DILEMMAS IN BUSINESS**:

Following are the steps to resolve ethical dilemmas in business,

- Establishing corporate code of conducts for employees
- Employ highly skilled people in the top level of the corporation who have standard ethical behavior.
- Rewarding employee who have good ethical conducts
- Follow personal code of ethics for employees.
- Effective and open communication with every employee.
- Avoid conflict creating situations
- Create an ethical working environment
- A manager must judge his actions by characteristics’
- Like honest, transparency, impartiality, fairness & equality.

5. **ETHICAL THEORIES AND APPROACHES**:

5.1. **ETHICAL THEORY**:

An ethical theory provides reasons or norms for judging acts to be right or wrong. It provides ethical principles or guidelines that embody certain values. This can be used to decide in particular cases what action should be chosen and carried out.

<table>
<thead>
<tr>
<th>Ethical theory</th>
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<tbody>
<tr>
<td>Ethical principle</td>
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<td>Ethical judgment</td>
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In the above fig., at the top we can start by clarifying ourselves what we think, then moving for principles generated from theory and next to conclusions about moral values. It’s like ladder arrangement, with two directions.

5.2. Types of Ethical Theories:

Consequentialist theory:

The theory which is based on moral judgments or consequences is called “consequentialist theory” (or) “Teleological moral theory”.

(Telos = Goal (or) end in Greek)

Non–Consequentialist theory:

Those theories that hold actions can be right or wrong regardless of their consequences are called “Nonconsequentialist” or “deontological theory”.

(Deon = Duty, in Greek)

Normative theories of business ethics:
1. Consequentialist theories:

Consequentialist theories are those which are based on consequences and these include;

a. Egoism theory
b. Utilitarianism theory

a. Egoism theory:

Ego means self. Egoism theory contends that an act is morally right if and only if it best promotes the agents (persons, groups or organizations) long-term interests. This may be personal or impersonal.

Criticism of Egoism theory:

- Egoism as an ethical theory is not really a moral theory because individuals never try to be objective they are only subjective.
- This theory ignores wrong doings.

B. Utilitarianism theory: (Ethics of Welfare)

There are two names associated with utilitarian philosophy: they are “Jeremy Bentham” and “John Stuart Mill”

According to utilitarian principle, a decision is ethical if it provides a greater net utility than any other alternative decision.

An action is right from ethical point of view if and only if the sum total of utilities produced by that act is greater than sum of utilities produced by any other act.

Criticism:

- Lack of predictability about benefits and costs.
- Measurement of utility becomes difficult as it changes from time to time, place to place.

2. Non-Consequentialist theory:

This theory holds actions whether right or wrong regardless of consequences. It includes;


Kantianism theory was developed by Immanuel Kant. This theory also referred as “Kant’s Theory” or “Ethics of Duty”.

According to this theory, rightness or wrongness of actions doesn’t depend on their consequences but on whether they fulfill our duty or not.

The two formulations of Kant are as follows:

- To act only ways that one should wish others to act when faced with same circumstances.
- Always to treat other people with dignity and respect.
3. Other theories:-

i. **Stock holder theory:**
   This theory also referred as ‘shareholders theory’, that expresses the relationship between the owners and their agents.
   - **Shareholders** are the real owners of the company and managers are agents who run day-to-day activities.
   - **Owners** and managers should be with mutual consent that owners provide salaries for managers and in return, managers perform activities for owners.

![Diagram: Owners → Salaries → Managers ← Perform activities]

ii. **Stakeholder theory:**
   A stakeholder will mean any individual or group who can affect or is affected by the corporation.

   Narrowly, a stakeholder means ‘those groups who are vital to the success and survival of corporation.

   As normative theory, stakeholder theory stresses that regardless of fact whether the management achieves financial performance or not, managers should promote interests of all stakeholders.

   **Criticisms:**
   - It is not applicable in practice by corporations
   - This theory extends the rights of stakeholders for too much.

iii. **Social contract theory:**
   Social contract theory is one of the evolving normative theories of business ethics. This is based on ‘principals of social contract’.

   The social contract theory stresses that all businesses are ethical duty bound to increase the welfare of society.

   **Welfare activities:**
   Social contract theory aims at doing some welfare activities to society and they include;
   1. Avoiding pollution, depletion of natural resources
   2. Protecting worker’s interests, and so on.

   **Criticism:**
   The social contracts theory is no contract at all it is just like a promise from one person to do something in consideration of other’s agreeing to do.

iv. **Right theory:**
   The right theory was advocated by Immanuel Kant who stressed on personal rights, and Locke who underlined importance of property rights.

   According to this theory, ethical decisions should protect the legal and moral rights of an individual like right to free consent, privacy, free speech, due process (fair treatment).
v. **Justice theory:-**
   As per this theory, ethical decisions should result in a situation where all human beings are treated equally and sometimes unequally, based on defensible reasons. Justice theory advocates that all the persons should be guided by fairness, justice, impartiality and equality.

   For example: A Supreme Court judge and drily wage worker are working in construction industry cannot be treated equals in terms of salary, status, accommodation. This will unfair to judge who have high status. However, treating unequal’s as equals is unjust is itself.

vi. **Virtue theory:-**
   This theory or approach is an ancient one, advocates that ethical actions should be consistent with certain morally acceptable virtues like honesty, integrity, courage, compassion, fairness, love, sacrifice and self control that pave the way for full development of humanity.

   **Examples for virtuous people:-**
   - Mahatma Gandhi, Jawaharlal Nehru, mother Teresa and so on.
   - By treating them as role models, an individual will be like a virtuous person.

6. **MODERN DECISION-MAKING**

Modern ethical decision-making process involves following steps,

![Diagram of decision-making process]

1. **MORAL(ETHICAL AWARENESS)**
   Moral awareness refers to an individual’s ability to recognize that a situation contains a moral issue. Recognizing a moral issue requires the individual’s awareness that his/her actions have the potential to harm/benefit other people.

2. **MORAL JUDGEMENT**
   Moral judgment involves making a judgment about which course of action is morally right or fair. Thus choosing one possible line of actions as what one ought to do in that situation.

3. **MORAL(ETHICAL) MOTIVATION**
   The third component is moral motivation in the sense that values motivate individuals to achieve goals and guide their behavior. It has been maintained that the motivation to behave morally must be an intentional conscious process.

4. **MORAL BEHAVIOUR**
   To be ethical our intention to do the ethical thing must be followed by our really doing it. This means motivating our self regarding the implementation of ethics in organization.
7. **ETHICAL DECISION MAKING:**

Generally manager’s executives make hundred of decisions in an organization (everyday in their business dealings). A decision is a course of action out of various alternative courses. Many of these decisions may be ethically justifiable while some of them may be unethical.

At the time of decision-making an individual behavior get effected by

7.1. **ETHICAL DECISION:**

These are the decisions made by managers and executives in an organization and these are ethical and moral in nature.

Ethical decision-making is the process of evaluating and choosing among alternatives the best option in a manner consistent with ethical principles.

Four factors to be considered while making ethical decisions

- The end - the outcome sought
- The means - the methods employed
- The motive - the urge that makes decision in first place.
- The foreseeable consequences.

7.2. **MODELS FOR DECISION –MAKING**

Leaders have to develop ethical modes or standards that are used in the process of ethical decision-making.

There are five models that guide decisions making in a ethical way, they are,
1. **RIGHTS**
   Leaders who decide to go with a rights model are looking to protect and respect the rights and morals of anyone who could be impacted by ethical decisions. These rights of individual include,
   - Right to free consent
   - Right to privacy
   - Free speech
   - Due process

2. **UTILITARIAN**
   This model is all about the balance and this tries to produce the greatest good with least amount of harm to those involved. Utility; means usage and this concentrates on providing maximum utility to the concerned ones.

3. **FAIRNESS AND JUSTICE**
   This model is based on the fact that everyone should be treated equally regardless of their position or influence in a company. At the time of decision-making, such decisions should be fair and justifiable for all.

4. **VIRTUE (DIGNITY/GOODNESS)**
   A virtue model requires leaders to base ethical standards on universal virtues such as honesty, courage tolerance, compassion and many others.

5. **COMMON GOOD**
   Common good model concentrates on interlocking of relationships leaders should strive to protect the well-being of those around them. These ethical standards put lot of emphasis on relationship and how compassion for fellow man should drive people to do good by others.

7.3. **ETHICAL DECISION-MAKING PROCESS**

The process of ethical decision-making involves series of steps which are given as follows,
1. **DEFINE THE PROBLEM**
   Leaders should spend some amount of time to define the problem. Some initial analysis is needed to understand where they need to bring ethical principles and why decision will be made.

2. **CONSULT RESOURCES AND SEEK ASSISTANCE**
   Here there is a need to work on developing a strategy using the resources and people round the organization. For this, leaders should have clarity on the needed resources and proper assistance from others.

3. **THINKING ABOUT LASTING EFFECTS**
   Once the problem gets defined and the resources are decided to develop a strategy. The lasting effects from such planned strategy should be considered. Here leaders should be very careful.
   
   **For example** - developing policies to solve issue of workers on working hours.

4. **CONSIDER REGULATIONS IN OTHER INDUSTRIES**
   Regulations and standards that other companies have established can be a good starting point for developing a strategy. So by knowing the regulations in other companies some information will be generated on good and bad things.

5. **DECIDE DECISION**
   In this step the final decision is decided if such decision is personal one then it is appropriate to deal with those involved (example harassment) if decision is for ethical issues is workplace it should bring to team.

6. **IMPLEMENT AND EVALUATE**
   Once the decision is decided it should implements i.e., put into action and then evaluation is needed for implemented decisions to correct any deviations.

8. **INDIAN ETHOS**

8.1. **ETHOS**
Ethos is a discipline that examines one's morality or the moral standard of the society. Ethics means expected standards in terms of personal and social welfare. It includes honesty, morality, responsibility etc.

India has rich ethical traditions which envisioned in the scripture of land like the BAGAVADGITA, the Upanishads etc. the rich Indian scriptures speak the performance of right duty at right time in right manner.

8.2: **NEED OF INDIAN ETHOS**

Indian ethos are needed because of following reasons,

- Management attitude
- Humanizing organization
- Interiorizing management
- Self introspection
- Self-dynamiting meditation
- Role of feeling

1. **MANAGEMENT ATTITUDE**
   Top management having firm belief in values oriented involving whole in the management. Profit is earned through service and satisfaction of all stakeholders, employees’ customers and fulfillment of social responsibility.

2. **HUMANIZING ORGANISATION**
   Looking at the three aspects of humane organization i.e., interpersonal relations, man machine equation and inner management through mental and spiritual growth of individual.

3. **INTERIORIZING (SELF) MANAGEMENT**
   Self management are management by consciousness .when the soul manager the other four members of human being namely the body mind, intellect and the heart , the conflict these four have amongst them can be resolved.

4. **SELF INTROSPECTION**
   It concentrates on self study, self analysis and self critics to locate areas of frictions and disharmony a self examination of one's thoughts emotions, sensation, passion and desire to reduce and subdue the ego.

5. **SELF DYNAMYSING MEDITATION**
   A dynamic meditation is meditation of transformation of lower consciousness into higher consciousness and hence called transformation meditation. This will helpful to tackle multiple problems.
6. **ROLE OF INTUITION (FEELING)**
   Intuition is the act of coming to direct knowledge without any reasoning. Intuitive skills enable one to cope with confidence the fluctuating changes in environment.

8.3: **ELEMENT OF INDIAN ETHOS**

Indian ethos is better than other ethos in other countries.

**INDIAN BELIEVE,**

- Ego sublimation rather than ego assertion
- Sacrificing spirit rather than fighting spirit.
- Team achievement rather than individual achievement
- Self control rather than outside control
- Concept of duties rather than concept of rights
- Yielding rather than dominating

8.4: **EXAMPLES OF INDIAN ETHOS**

1. **TRIKARANASUDDHI**- Purity and unity of thought, word and deed.
2. **PAROPAKARARDHAM IDA SHAREERAM**- the body is meant for serving others. By this everyone serves others.
3. **YAGNAYA CHARATHA**- Treating job as a sacred offering. Don’t treat job as useless one.
4. **PARASPAR DEVOBHAV**- respect the others person as a divine being.

9. **ETHICS FOR MANAGERS**

**MANAGER**

The managers are the persons who perform the functions of management. A manager is a person who is tasked with overseeing one or more employees or departments to ensure these employees or departments carryout assigned duties or not.

**MANAGERIAL ETHICS**

Managerial ethics is a set of principles and rules dictated by upper management that define what is right and what’s wrong in an organization. It is a guideline that helps to direct lower manager’s decisions regarding job when a conflict of values is presented.

9.1: **ETHICAL ACTIVITIES BY MANAGERS**

A study conducted by **BARRY POSNER** and **WARREN SCHMIDT** highlights following ethical activities by managers.

- The foremost goal of managers is to make their organization effective.
• Attending to customers is also important by being updated with changes in their needs and expectations.
• Integrity is the characteristic most highly rated by managers at all levels.
• Seeking advice of others at the time of dealing with complex ethical problems.
• Enforce the code and related policies consistently.
• Supporting employees, who is good faith, raise issues or concerns.

9.2: TYPES OF MANAGEMENT ETHICS

| Type’s          | Immoral management | Moral management | Amoral management |

1. IMMORAL MANAGEMENT
Immoral management not only lacks ethical principles but also opposed to ethical behavior. This is characterized by,
- Concern for company gains
- Emphasis on profits
- Emphasis on company success at any price.

2. MORAL MANAGEMENT
Moral management follows ethical principles and percepts. Here moral managers also have desire to succeed but they seek to do so within the ethical standards fairness, justice etc.

3. A MORAL MANAGEMENT
Amoral management is neither immoral nor moral but, rather ignores is obvious to ethical considerations. It may be intentional or un intentional

9.3: ETHICAL PRINCIPLES FOR MANAGERS

- Law abiding
- Commitment to excellence
- Common good
- Fairness
- Loyalty

- honesty
- accountability
- integrity
- respect
- flexibility
1. **LAW ABIDING**
   Managers should abide by laws, rules and regulations relating to their business.

2. **COMMITMENT TO EXCELLENCE**
   Managers should pursue excellence in performing their duties, are well informed and prepared and tend to raise proficiency in all areas.

3. **COMMON GOOD**
   The actions performed by managers should have greatest good for greatest number of people by protecting their rights.

4. **FAIRNESS**
   Managers should be fair, commitment to justice, equal treatment of individuals open-minded willing to admit they are wrong and so on.

5. **LOYALTY**
   Managers should be loyal regarding promise keeping, keeping public trust, excellence in quality of work commitment to laws etc.

6. **HONESTY**
   Managers should be honest by understanding their company’s policies and guidelines, as well as its mission, laws of government and so on.

7. **ACCOUNTABILITY**
   Good managers expect their workers to take responsibility for their actions and overall performance. This means answering to ownership when things don’t go right, accepting blame and coming up to solutions.

8. **INTEGRITY (MEANS QUALITY OF BEING HONEST)**
   Managers who possess integrity are often consistent in their decisions-making and resolution of issues.

9. **RESPECT**
   Managers need to treat staff members customers and their own supervisors with the same respect they would expect for themselves.

10. **FLEXIBILITY**
    Good managers show their workers how jobs are best performed then monitor workers and other suggestions and tips.

10. **ETHICS IN BUSINESS COMPETITION**

**COMPETITION**

Competition is the activity or condition of striving to gain or win something by defeating or establishing superiority of others.

**ETHICS IN BUSINESS COMPETITION**
Generally organizations existing in an environment with tough competition from other competitors. The rules concerning the firms’ competition are present in the laws of societies and international laws.

10.1: ETHICAL ISSUES IN BUSINESS COMPETITION

In today’s competitive world every organization tries to secure a competitive advantage against their competitors. Sometimes this behavior goes beyond the ethics that leads to unethical activities. These include.

1. **STEALING CUSTOMERS**
   It involves stealing customers of a company’s competitor by using method like misrepresentation providing false information etc.

2. **STEALING F INFORMATION**
   Generally all organizations collect and use some kind of information of their competitors. It is unethical when it is done by entering competitor offices to steal information, hiring private detectives etc.

3. **ISSUES OF CONFIDENTIAL INFORMATION**
   Every organization maintains confidentially on certain issues, financial matters, its processes etc. An organization wants this data not available to outsiders. Sometimes there is a chance of losing this information.

4. **NEGATIVE ADVERTISING**
   In this issue a firm tries to criticize its competitors by giving fake or negative advertisement about competitor’s products processes and performance.
5. **PUBLIC INTEREST**
   Public interest issues arise when the information gleaned through espionage (the practice of spying) is put to purposes such as anti-competitive behavior, price hikes or monopoly position.

6. **SABOTAGE (THE ACTION OF DESTRUCITNG SOMETHING)**
   This involves direct interference into a competitors business in order to destroy damage or slow down their plans.

7. **PREDATORY PRICING**
   In this prices set very lower than cost in order to create price war thereby force weaker competitors out of market.

**10.2: GUIDELINES FOR ETHICAL BUSINESS COMPETITIONS**

Ethical guidelines related to business competition are as follows,

- The company should not abuse a dominant market position nor use coercion.
- The company should not enter into price-fixing, reduced production agreements with competitors.
- Business activities should be strictly abide by laws and regulations and fair in competition.
- The company should not illegally obtain or use competitor’s trade secrets of confidential data.
- The company should not demand to obtain any advantage detrimental to customer or partner companies.
- Company should strive to contribute to the development of society without corruption.
- In particular not take customers or clients from other competitors employing unethical methods.

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UNIT-2

ETHICAL ASPECTS IN ORGANISATION

1. MARKETING ETHICS

1.1. MARKETING

Marketing is the process of performing a remarkable role in developing and delivering products of great value of the society. It seeks to understand the needs of consumer and delivers a product or service that satisfies the need.

Marketing involves business activities that direct the flow of goods and services from producer or manufacturer to consumer or user. Marketing functions includes;

- Product development
- Pricing
- Distribution
- Promotion
- Sales

1.2. MARKETING ETHICS

1.3 MEANING

Marketing ethics means a standard by which a marketing action may be judged right or wrong, a right marketing action may contribute to the overall societal gain both in the short and long run.

Marketing ethics also defined as how moral standards are applied to marketing decisions, behaviors and institutions.

1.4 DEFINITION

According to AMERICAN MARKETING ASSOCIATION (AMA)

In marketing ethics, marketers shall uphold and advance the integrity, honor and dignity of the marketing profession, by doing honest in serving customer, clients, employees, suppliers, distributors and public.

1.5. UNETHICAL PRACTICES IN MARKETING

To have an idea about unethical practices in marketing, we should consider marketing mix elements i.e., 4Ps of marketing mix-product, price, place and promotions.
A. UNETHICAL PRACTICES IN PRODUCT

1. UNSAFE PRODUCTS
   Unsafe products are those that fail to comply with safety rules, standards or regulations. These products can cause harm, injury or damage to consumers.
   Example: using mono-sodium-glutamate (MSG) in some products cause allergic reactions.

2. DECEPTION OF SIZE AND CONTENT
   It is unethical to show the size and contents of a product in wrong way. By this, customer will be deceived (cheated).

3. SHODDY GOODS
   Shoddy goods are those which are made badly or carelessly. This type of products cannot withstand ordinary wear and tear.

4. ENVIRONMENTAL POLLUTION
   Producing products which are non-biodegradable in nature that leads to the environmental pollution is also unethical.
   Example: plastic products.

5. MISLABELED PRODUCTS
   The label on the products should be made according to the nature of the product. The mislabeled products are unethical in nature.
   Example: flavored sugar water sold as apple juice for babies.

B. UNETHICAL PRACTICES IN PRICES
Price is the amount of money a customer pays for the product or service. The price is very significant as it governs the company's profit. Unethical practices relating to price include:

1. **EXCESSIVE MARK UPS**
   Excessive mark ups involves the amount added by seller to the cost of a commodity to cover expenses and profit in fixing the selling price. It is an unethical activity.

2. **PRICE GOUGING**
   Price gouging refers for a seller pricing much higher than considerable, reasonable or fair price.

3. **PRICE SKIMMING**
   Price skimming is a pricing strategy in which a marketer set a relatively high price for the product or service at first and then lowers the price over time.

4. **VARIABLE PRICING**
   This is a pricing strategy in which the price of a good or service may vary based on region, sales location, date or other factors.
   **Example:** Rs.100 product for Rs.80 due to bargaining.

5. **PREDATORY PRICING**
   Predatory pricing is the practice of selling a product or service at a very low price, intending to drive competitors out of the market or create barriers to entry for new entrants. This is a destroyer pricing.
C. UNETHICAL PRACTICES IN PLACE

Place / distribution are the delivery of products of the right item and at the right place. Along with producing a product, fixing price choosing proper place also important. It also has ethical issues as follows,

UNETHICAL PRACTICES IN

- Dual distribution
- Selling expired products
- Transportation
- Territorial restrictions

Ethical issues in drug stores

1. SELLING EXPIRED PRODUCTS
   It is an unethical activity because many retailers sell products that have crossed expiry dates which leads to injury for consumers.

2. TERRITORIAL RESTRICTIONS
   Firms may be allowed to operate only in select territories, here, competitor also restricts the company not to enter into its territory.

3. ETHICAL ISSUES IN DRUG STORES
   Most of the drug stores would give innumerate drugs without prescription from a qualified doctor. This is also an unethical activity.

4. TRANSPORTATION
   Products are moved in unsafe vehicles that leads to damages. It is unethical.
   Example- cooking gas cylinders are moved in vehicles that are not designed to carry them and often they lack fire safety equipment in case of emergency.

5. DUAL DISTRIBUTION

   A producer can use two different channel to reach target market and put independent distributors out of business.

D. UNETHICAL PRACTICES IN PROMOTION

Promotion is a communication process by which the producers of products or services draw attention of consumers towards their products or services. Ethical issues in promotion include.
1. **EXAGGERATED CLAIMS**
   Spreading exaggerated claims for promoting a product is unethical in nature. *For example*: one blade company claims its razor as the smoothness, comfortable shave known to man. Another company challenges.

2. **DECEPTIVE ADVERTISING**
   At the time of promoting a product or service, an advertisement should be according to the product. Deceptive advertising gives fake information about product. It is unethical in nature.

3. **CAPTIVE AUDIENCES.**
   Mandatory viewing of TV commercials by students in schools. It is also unethical in nature.

2. **MARKETING ETHICS AND CONSUMER ETHICS**

2.1. **MARKETING ETHICS**
   Marketing ethics defined as how moral standards are applied to marketing decisions behaviors and institutions.

2.2. **CONSUMER ETHICS**
   Consumer ethics means looking at ethics from the perspective of consumers. Consumer ethics can be defined as moral rules principles and standards guiding the behavior of individual in the selection, purchase, use or selling of good or service *(ACCORDING TO PENS AND STATIONER)*

   Ethical consumerism means that more customers are choosing to purchase goods that are ethically sourced, ethically made and ethically distributed. It is just about supporting the good companies and products by eliminating bad ones.

2.3: **MARKETING ETHICS AND CONSUMER RIGHTS**

According to consumer protection act, 1986 consumers in India have following rights.

1. **RIGHT TO SAFETY**
   This right is referred as right to be protected against marketing of goods and service which are hazardous to life and property. It is applicable to areas like health care, pharmaceuticals and food processing.

2. **RIGHT TO INFORMATION**
   The right to information is defined as the right to be informed about the quality, quantity, purity, standard and price of goods and services.
3. **RIGHT TO CHOOSE**
   It is the right to be assured wherever possible, to have access to a variety of goods and services of competitive prices.

4. **RIGHT TO REDRESSAL**
   This is the right to seek redressed against unfair trade practice or restrictive trade practices or unscrupulous consumer exploitation.

5. **RIGHT TO CONSUMER EDUCATION**
   Consumer education refer to formal education through college and school curriculum as well as consumer awareness campaigns being run by non-governmental and governmental agencies both.

3. **ETHICAL ISSUES IN ADVERTISING**

   3.1. **ETHICS IN ADVERTISING**
   
   **Ethics in advertising** means a set of well defined principles which govern the ways of communication taking place between the seller and the buyer.
   
   Ethics is important in advertising because by acting ethically with their advertising, a company is being responsible towards the needs of the customer.

   3.2. **ETHICAL ISSUES IN ADVERTISING**
   
   - **Puffery**
   - **Surrogate ads**
   - **Manipulative ads**
   - **Hiding of relevant facts.**
   - **Misleading claims**
   - **Reinforcing stereotypes**
   - **Use of sex appeal**

   1. **MISLEADING CLAIMS**
   In these ads, company claim false information regarding the quality, style, history of product or service etc. many steps taken by **ASCI (advertising standard council of India)** to control this claims.
   
   Example- ads of Gillette, surya lights etc.

   2. **REINFORCING STEREOTYPES**
   A stereotype is a representation of a group that emphasis a trait or group of taints that may or may not communicate an accurate representation of the group. Sometimes, stereotypes helps
in communication by using easily understood symbolic meanings, sometimes these are negative.

Example- life insurance Corporation.

3. USE OF SEX APPEAL
Some advertisements represents women’s in such a way devalues women image and encourage sexual harassment. Main objectives of companies is to attract the mind of viewers especially target to youth.

4. CONCEALMENT OF FACTS
Concealment means hiding something, most of the advertisers conceal important information that is unfavorable i.e., they present only brighter side of the products. They ignore to mention those facts which would make their products less desirable.

Example-Garnier hair color.

5. MANIPULATIVE ADS
Manipulation means the action of manipulating something in a skillful manner. In these manipulative ads, demand is created through emotions of people. Here, advertisers use different kinds of emotions to make their product sell.

Example-Tata salt, desh ka namak.

6. SURROGATE ADS
Surrogate ads involve advertising particular products which are banned by law. Advertisements of products like cigarette and alcohol which are prohibited by law, for this companies come up with several products that might have same brand name and indirectly remained people of cigarette and beer bottles of same brand.

Example-hay wards 5000, packaged drinking water and strong soda.

7. PUFFERY
Puffery refers to promotional statements that express subjective rather than objective views. A company may deliver an entertaining message about its product, compare product to a similar item, or make vague claims about product which cannot be proved or disproved.

Example-ever day battery-nothing outlast an everyday battery.

8. TARGETING KIDS
Targeting kids for the company’s products as they are not able to differentiate between fantasies and realities. It is also unethical activity.

4. CRITICISMS IN MARKETING ETHICS
From a variety of sources, criticisms emanate. These are as follows;
1. **SOCIAL CRITICISM OF MARKETING**
   It includes high prices of products, deceptive practices, high-pressure selling, unsafe products, planned obsolescence (becoming outdated that no longer used) poor service to disadvantageous consumer.

2. **FACTORS OF HIGH PRICES**
   Promoting products at high prices is also criticism in ethical marketing. Factors of high prices are- high costs of distribution, high advertising and promotion caste, excessive markups.

3. **MARKETING IMPACT ON SOCIETY AS A WHOLE**
   False wants and too much materialism (giving importance to physical comfort than spiritual values) too few social goods, cultural pollution, too much political power have impact on society as a whole.

4. **IMPACT ON OTHER BUSINESS**
   Unfair competitive marketing practices like territory restrictions, negative advertisements, predatory pricing etc. Will have impact on other business also. It is a criticism in marketing ethics.

5. **SPAM**
   Spam means irrelevant messages sent over the internet. From sender perspective, spam is an efficient and cost-effective way to distribute a message, but to most recipients, It is just a junk email.
   Example-pay-per-click fraud, duplicate content etc.
6. **PERSONAL SELLING**
   Personal selling also known as face-to-face selling in which one person tries to convince the customer in buying a product even the customer doesn’t have any need.

7. **PACKAGING AND LABELLING PRACTICES**
   It includes,
   - Irregularities of package size and shape
   - Provision of intelligible labeling information
   - Ecological issues

8. **PROMOTION OF BAD VALUES**
   Another criticism in marketing ethics is the promotion of morally bad values, such as the excessive consumption of private rather than public goods and services, devaluing women image etc.,

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5. **ETHICS IN HUMAN RESOURCE MANAGEMENT (HRM)**

5.1. **HUMAN RESOURCE MANAGEMENT**

**MEANING**

Human resource management is a management function involving the recruitment of suitable human resources, training, developing and sustaining their competencies, motivating them, offering rewards, and ensuring their commitment to the organization for achieving its overall objectives.

**MEANING OF ETHICS**

Ethics are those values, which has been imbibed within an individual that help him to distinguish right and wrong and to act accordingly.

**ETHICS IN HRM**

Ethics in HRM indicates the treatment of employees with ordinary decency and distributive justice. Ethics is HRM basically deals with the moral obligations of the employer towards employees to maintain equality and equal justice.

5.2. **AREAS OF ETHICS IN HRM**

The areas of ethics in HRM include;

- Basic human rights civil and employment fight (eg-job security, feedback from tests.)
• Safety in the work place.
• Privacy.
• Justifiable treatment to employees.
• Respect, fairness and honest based process in workplace.

5.3. ROLE OF HR IN PROMOTING ETHICS

The role of HR in promoting ethics are given here as follows,

1. **Improve recruitment and selection tests by**;
   - Follow recruitment policy that is identification of recruitment needs, criteria of selection etc.
   - Selection must be in planned manner
   - Avoid illegal questions
   - Follow situational factors (economic, social, technological factors etc.)

2. **CONDUCT ETHICS TRAINING**
   It is a short term process of training given to the HR of the organization to do their work, in adherence to ethical code of conduct.

3. Maintaining rewards and disciplinary system.
4. Maintain and facilitating two way communication
5. Avoiding any kind of discrimination among employees based on caste, color, religion etc.
6. Providing equal opportunities for all employees.
7. Effective measures should be taken for employee’s safety while working in organization.

6. ETHICS IN SELECTION

**SELECTION: Selection** is the process of interviewing and evaluating candidates for a specific band selecting individual for employment based on certain criteria (like qualification, skills, abilities etc.)

**ETHICS IN SELECTION**

Ethics play a major rule during selection or hiring of employees. To be a successful hiring manager making decisions that are sound and ethical is necessary.

6.1. ETHICAL ISSUES IN SELECTION

Different ethical issues in selection process are explained here under
1. **NEPOTISM OR FAVOURITISM**
   Nepotism means showing discrimination based on relations with candidate, it is unethical. Favoritism is showing favor on particular individual, it is also unethical. At the time of selecting a candidate for a job, skills and qualification should be considered.

2. **SELECTING OVERQUALIFIED PERSON**
   Candidates should be selected as per the given qualification in recruitment notification. By selecting overqualified individual for a normal job, the value of qualification or education get decreased.

3. **EMPLOYING CHILDREN OF EMPLOYEES**
   When government bans providing jobs to the employs children, it is unethical of providing jobs to them. Candidates should be selected based on qualification and eligibility for a particular job.

4. **PRESSURE**
   It is unethical of selecting a candidate for a job because of pressures from top level management or political leader's recommendations etc.

5. **ADJUSTING JOB DESCRIPTION TO PERSON**
   Job description should not be adjusted to a person it should be same for all individuals. Candidates should be selected based on their eligibility for job description.

6. **SELECTING MORE NUMBER OF EMPLOYEES**
   It is ethical of selecting only required or appropriate employees for a job. By selecting more number of employees, it will leads to wastage, increased salaries etc. To avoid this planning should be done to determine vacancies position in organization.
7. **DISCRIMINATION**
   Showing discrimination while selecting a candidate for a job due to gender, age, caste, religion, language, factors, is unethical.

6.2. **GUIDELINES FOR ETHICS IN SELECTION**

The guidelines for maintaining ethics in selections are as follows:

- Candidates should be given opportunity to express themselves so that enough information is generated.
- Before selection, a study of the application form should be done by the panel.
- Criteria for selection should be clearly set out by the human resource manager.
- All members of the panel should be given training in asking questions and drawing conclusions from answers.
- Ratings of performance of candidates should be done independently by the panel.

7. **ETHICS IN TRAINING AND DEVELOPMENT**

7.1. **TRAINING**

It is the format and systematic modification of behavior through learning which occurs as a result of education, instruction, development and planned experience.

- It is a short term process
- Targeted in most cases for non-managerial personnel
- Specific job related purpose.

7.2. **DEVELOPMENT**

It is any learning activity, which is directed towards future needs rather than present needs and which is concerned with career growth rather than immediate performance.

- It is a long term educational process
- Targeted managerial personnel
- General knowledge purpose.

7.3. **ETHICAL ISSUES IN TRAINING & DEVELOPMENT**

Ethical issues in training and development are given as follows.
1. IDENTIFICATION OF TRAINING NEEDS
   Providing training in inappropriate areas of organization may lead to loss for an organization. So training needs should be identified before training programs get implemented.

2. SELECTION OF TRAINERS
   Trainers should not be selected based on nepotism or favoritism; it is unethical. Always trainers should be selected based on how well they train employees, how expertise they are etc.

3. TRAINER PERCEPTIONS
   Sometimes, trainers' own personal perceptions will affect the process of training. Trainer should keep all his perceptions aside and training should be provided without any discrimination.

4. SELECTING TRAINING METHODS
   Training methods also should be selected based on the needs. By selecting inappropriate training methods, it leads to wastage.

5. LESS QUALIFIED TRAINERS
   Always trainers should be qualified and experienced then only they train employees effectively. If not it will lead to ineffective training process.

6. OTHERS
   - Violation of confidences.
   - Abuse of trainees.
   - Ineffective training.
   - Forcing employee to attend program against religious belief.
   - Lack of access to training programs.
   - Reproducing and using copyrighted material.
8. ETHICS AT WORKPLACE

8.1. WORKPLACE

Workplace is a place where people work such as an office or factory, it is a location where someone works for his or her employer, a place of employment.

ETHICS IN WORKPLACE

The application of moral principles standards of behavior, or set of values regarding proper conduct in the workplace as individuals and in a group of setting is ethics in workplace.

Every company is different but they all should take the following into consideration.

- Trust worthiness
- Respect
- Responsibility
- Fairness
- Caring

8.2: ETHICAL ISSUES IN WORKPLACE

<table>
<thead>
<tr>
<th>Ethical issues in workplace</th>
<th>Illegal activities</th>
<th>Ignoring procedures</th>
<th>Poor customer services</th>
<th>Gossiping</th>
<th>Rationalization of wrong doer</th>
<th>Sexual harassment</th>
</tr>
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</table>

1. **Illegal Activities**

   Illegal activities in work place takes many shapes. These activities are forbidden by law and includes

   - Accounting irregularities
   - Improper dealing with customers
   - Breaking rules

2. **Ignoring Procedures**
Procedures and policies are important in work place as it helps to clarify the standards of employees and help employers to manage staff effectively and defines what is acceptable and not in work place so ignoring policies is unethical.

3. **POOR CUSTOMER SERVICES**
   It is unethical when the organization provide poor services to customers like deceptive products, breaking promises on warranty services etc.

4. **GOSSIPING**
   Gossiping is a form of informal communication among colleagues focused of others. Spreading gossips on others is unethical.

5. **RATIONALIZATION OF WRONG DOER**
   Rationalization of wrongdoer is the action of attempting to explain or justify behavior with logical reasons, even if these are not appropriate. It is unethical.

6. **SEXUAL HARASSEMENT**
   Showing harassment on other employees either physically or mentally is unethical activity.

**8.3: CONSEQUENCES (RESULT) OF POOR ETHICS IN WORKPLACE**

The consequences of poor ethics in workplaces are,

- Stricter rules
- Fewer privileges
- An undesirable work environment
- Potential job loss to individuals
- Potential closing of organization.

**8.4: GUIDELINES FOR MANAGING ETHICS AT WORKPLACE**

Following are some of the guidelines for managing ethics at workplace.

1. **COMMITMENT FROM TOP MANAGEMENT**
   As the top executives are the leaders, so if they take an ethical initiation it would be easy to spread it downside.

2. **COMMUNICATING ETHICS**
   The best ethics programmed in the world is the one that is communicated well. By communicating ethics ,code of ethics will spread throughout the organization.

3. **ETHICS TRAINING**
   Ethics training also have major importance because communicating ethics is not sufficient to convert values into practice. Along with that ethics training also needed.
4. **RESPONSE**
A consistent response to ethical issues involves so any criteria like rewards system, built in incentives etc.

5. **AUDITS**
Audits should establish to reveal whether the communicated ethics works well or not. The experts in audit committee would be the executive of the organization or can be hired from outside.

9. **ETHICS IN PERFORMANCE APPRAISAL**

9.1. **PERFORMANCE APPRAISAL**

Performance appraisal is a method by which the job performance of an employee is evaluated. It is also called as performance evaluation or employee appraisal.

9.2. **ETHICAL ISSUES IN PERFORMANCE APPRAISAL**

1. **DISCRIMINATION**
This refers to the unfair act of favoring the interests of some employees at the expense of others. While carrying out evaluation of performance, the employee who ranks at a junior level might be subjected to this.

2. **TORT LIABILITY ISSUES**
Tort means civil wrong. The junior employees are viewed as having tort liability means that the top level management in these companies view them as having no power and authority to express any form of tort subjected towards them.

3. **GIVING FEEDBACK**
Some bosses are afraid of saying anything that might hurt an employee’s feeling they offer an employee too much positive feedback and not enough negative feedback.

4. **RATING ERRORS:**
Rating errors is one of the ethical issue in performance appraisal, rating should be accurate for the employees performance, inaccurate rating leads to rating errors.

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(17E00301) BUSINESS ETHICS AND CORPORATE GOVERNANCE

Objective: The objective of the course is to make students aware of ethical and moral issues concerning business both in Indian and International context and develop sensitivity of students for right ethical practices in conduct of business, to understand the principles of corporate governance, to know the social responsibility of the corporate.


4. **Corporate Governance:** Purpose – Theories and Philosophies of Corporate Governance


Textbook:

- Business Ethics and Corporate Governance – A.C. Fernando, Pearson Education.

References:

- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
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UNIT-3

ETHICAL ASPECTS IN ORGANISATION-II

1. ETHICS IN FINANCE

1.1 MEANING OF FINANCE

- Finance involves the management of large amount of money, especially by governments or large companies. Finance is a study about how people business and groups make and use money.
- Finance is a field that deals with the allocation of assets and liabilities over time.

MEANING OF ETHICS

Ethics are those values, which have been embedded within an individual’s that help him to distinguish what is right and wrong and to act accordingly.

ETHICS IN FINANCE

Ethics in finance refers to following ethical values in financial activities like organizing and maintaining accounts, issuing stocks or bonds, arranging loans etc.

Ethics in finance is one of the important things which everyone has to follow from small medium and big level company. Ethics in finance may vary from industry to industry.

1.2 CODE OF ETHICS IN FINANCE

- Act with honesty and integrity, avoiding real or clear conflicts of interest in personal and professional relationships.
- Providing information which is full, fair, accurate, complete, timely and understandable, including in reports and documents that company files.
- Act accordance with all applicable laws, rules and regulations of governments and other appropriate private and public regularity agencies.
- Avoid misrepresenting material facts
- Act in good faith responsibility and carefulness
- Respect the confidentially of information except when authorized. It should not be used for person advantages.
- Promoting ethical behavior among our associates.

1.3 ROLE OF FINANCE MANAGER

The finance manager heads the finance department. The finance manager today wears many hats depending on the task. The role of finance manager involves the following activities.

- Providing and interpreting financial information
• Business modeling and forecasting
• Monitoring financial performance and efficiency.
• Analyzing change, risk assessment
• Strategic planning
• Pricing, competitor analysis
• Developing financial models
• Preparing accounts
• Budgetary control
• Monitoring cash flow

1.4 ETHICAL ISSUES IN FINANCE

(i) DECEPTION
• Deception is the act of deceiving (cheating). It is the act of misrepresentation of information.
• A person is deceived when that person is unable to make a rational choice as a result of holding a false belief that is created by some claim made by another.
  FOR EXAMPLE – the agents of insurance company represent life insurance policies as retirement plans and referred to the premium as deposits.

(ii) CHURNING
• Churning is the act of making butter in dictionary.
• Churning is defined here as excessive or inappropriate trading for a clients account by a broker who has control over the account with the intent to generate commissions rather than to benefit the client.
• Churning is a rare occurrence as per brokerage industry contention.
• Churning can be easily detected by firms as well as clients.

(iii) UNSUITABILITY
• Not all investments are suitable for every investor. Investments are most often deemed to be unsuitable since they involve excessive risk.
  EXAMPLE – the risk investments area not suitable for retired or conservative investors.

(iv) UNFAIRNESS IN MARKETS
• The gain of one may equal loss of other, though market exchanges are appropriate for both the parties. The unfairness in markets occurs due to,
  a. Fraud – fails to report proper information
  b. Manipulation – selling of securities for creating false misleading information about price to induce investors to buy or sell.
  c. Unequal information
  d. Inefficient pricing – volatility in pricing have impact on the market.

(v) INSIDER TRADING
• Insider trading is the buying and selling of a company stock on the basis of inside information of about the company. Insider information about the company is confidential information that is not available to the general public outside the company.
• Individuals inside the organization (bankers and managers etc) steal this information and thereby gain an unjust or unfair advantage over the member of general public.

(vi) FINANCIAL STATEMENTS
Financial statement is one which contains information about financial accounts debits and credits balance sheet etc. These statements should be fair and accurate ethical issues include,

- Under reporting income
- Falsifying documents
- Engaging in fraud
- Illegally evading income taxes

(vii) GREEN MAIL
- Green mail is the action of purchasing enough shares in a firm to challenge a firm’s leadership with the threat of a hostile takeover force the target company to buy the purchased shared back at a premium.
- Like blackmail, greenmail is money paid to an entity to stop or prevent aggressive behaviors. In merger and target company pays a premium, known as greenmail to purchase its own stock shares back at inflates prices from a corporate raider.

2. INSIDER TRADING
2.1 MEANING OF INSIDER TRADING
- Insider trading is the act of buying and selling a company's stock on the basis of inside Information Company is confidential information that is not available to the general public outside the company.
- Insider trading is the practice of using information that has not been made public to execute trading decisions. It gives traders an unfair advantage over others and most forms of insider trading are illegal. Insider trading is routinely investigated by the SEC (security and exchange commission.)

2.2 FORMS OF INSIDER TRADING

Members of organization
- Professionals
- Friends, family
- Government officials
- Hackers, corporate spies and thieves.

i) MEMBERS OF ORGANISATION PURCHASING A SECURITY
- Employees or members of publicity traded companies are in key position to information that would not be available to general public.
- Some of those employees buy and sell securities based on the accessed information and hope to profit from it.
- It is a form of insider trading done by the employees in an organization.

ii) PROFESSIONALS
• Professionals who do business with the corporation also perform insider trading activities.
• Bankers, lawyers and brokers who have access to confidential document of their corporate clients.
• These professionals abuse this privilege (special right) as an opportunity to make a quick profit.

iii) FRIENDS AND FAMILY
• Corporate employees often share information within their own circles (friends and family) that is not shared with general public.
• These disclosures sometimes made innocently.
• Sometimes, corporate employees disclose information with intention to allow their friends to trade securities.
• This form of insider trading is performed by employees as the friends and family of employees are less likely to be scrutinized by SEC than employees themselves.

iv) GOVERNMENT OFFICIALS
• Officials of government agencies can gain access to confidential information through execution of their duties. These government officials conduct insider trading with this information.

v) HACKERS/CORPORATE SPIES/THIEVES

Clever criminals find a number of ways to gain access to corporate information which they can use to conduct securities fraud.

3. ETHICAL INVESTMENT

3.1 MEANING
• Ethical investment is also known as sustainable investment and socially responsible investment (SRI). The term ethical investment describes an investment process that incorporates environmental and social factors when selecting investments in addition to the objective of achieving a competitive financial return.
• In other words ethical investment is the practice of investing in companies whose business is not considered harmful to the society or environment according to CAMBRIDGE BUSINESS ENGLISH DICTIONARY.
• The ethical investment can be made by individuals as well as private companies, governments and so on.

3.2 TYPES OF ETHICAL INVESTEMENT

Ethical investors or social responsible investors have a wide range of investments to choose some of them are as follows,

Types of ethical investment

- Mutual funds and ETFs
- Alternative investments
- Community investments
- Micro finance
1. MUTUAL FUNDS AND ETFs
   - There are number of mutual funds and ETFs (exchange-traded funds) on the market.
   - On its website, US SIF (forum for sustainable and responsible investment in Washington DC), publishers a list of more than 200 socially responsible mutual funds.
   - In addition, US SIF’s 2010 report on social inverting trends identifies 26 exchange traded funds (ETFs) that use social and environmental screens.

2. ALTERNATIVE INVESTMENTS
   - Alternatives to traditional investments such as hedge funds and property funds, are also into social responsible investment.
   - According to US SIF, alternative investment funds for SRI are growing at dramatic rate in 2014 the number is 336 funds with 224 billion in assets.

3. COMMUNITY INVESTMENT
   - Social responsible investors can also directly lend money into the community organizations.
   - One way to do this is to place money into community development financial institutions (CDFI’S) including banks, credit unions and loan funds, which provide credit and other financial services in low-income areas.

4. MICROFINANCE
   - Another way for investors to invest money where it can do the most good is through microloans, small loans made directly to startup businesses.
   - KIVA AND ZIDISHA are two organizations that offer microloans to entrepreneurs in developing countries.
   - KABBAGE focuses on small business in the U.S.

3.3 REASONS FOR ETHICAL INVESTMENT
(i) AVOID NEGATIVES
   - With ethical investment, negatives area avoided ethical investment ensure that money that is investing isn’t supporting companies which engage in activities like deforestation arms manufacture, animal testing etc.
(ii) FOR SUPPORTING POSITIVES
   - Ethical investment makes individuals to choose actively to support companies or projects which have positive social and environmental policies such as, renewable energy, poverty reduction etc.
(iii) TO KNOW HOW MONEY IS INVESTED
   - With the help of ethical investment one will able to know how money is being invested.
   - Social responsible investment allows you to choose exactly how your cash is being invested and what difference it’s making.
(iv) PLENTY OF CHOICE
One can choose to invest directly into companies which meet ethical criteria, invest in specific projects over the short, medium or long term or look at the ethical funds which can be growth or income generated.

(v) **GREEN ISSUES CAN BE WINNERS**
- Global warning, an ageing population and resource scarcity are some of the issues the world is facing.
- According to UKSIF, the sustainable investment and finance association, companies which are managing environmental social and governance issues well could be the star performers of the future.

3.4 **GUIDELINES TO CHOOSE ETHICAL INVESTMENTS**
Guidelines for choosing ethical investments include,

i) **FOCUS ON EFFECTS OF COMPANY’S PRODUCTS AND SERVICES**
- If the company product/service cause people to be healthy, improve the environment, and empower people, company is considered as highly ethical.
- Investment in a company should be done only on the basis of its ethics in combination with its financial performance.

ii) **BENEFITS OF INVESTING IN A COMPANY**
Another guideline is how might the money invested support ethical causes?
**FOR EXAMPLE** – If the investment in an agriculture based company is likely to improve the standard of living of the farmers of the place where the company operates, one might want to invest in that company.

4. **COMBATING FRAUDS**

4.1 **MEANING OF FRAUD**
- Legal authorities define fraud as a crime that involves the use of dishonest or deceitful conduct in order to obtain some unjust advantage over someone else.
- Above definition of fraud implies that the fraudster commits a crime intention to cheat other persons or institutions.
- There are different types of frauds related to the telecommunication, securities and the computer.
- In finance sector, frauds can be seen in areas like,
  - Financial services sector that is fraud in credit cards, cheques and other types of identity-related services.
  - Insurance sector, that is internal fraud committed by employees against insurer, fraud by policy holder and claims fraud, and frauds committed by intermediaries such as independent brokers/agents.

4.2 **BANK FRAUDS**
- A bank fraud refers to the fraudulent activity takes place in banking business.
A study of bank fraud brings to light several types of frauds. Authorities identify four elements responsible for commission of bank frauds.

- ACTIVE INVOLVEMENT OF THE STAFF – both supervisory and clerical-either independent of external elements or in connivance with them.
- FAILURE on the part of the bank staff to follow the instructions and guidelines laid down by regulators like the reserve bank of India. (RBI)
- EXTERNAL ELEMENTS perpetrating frauds on banks by forgeries or manipulation of cheques, drafts and other negotiable instruments.
- COLLUSION among businessmen, top bank executives, civil servants and politicians in power to flout rules and regulations, and to throw banking norms to the winds.

TYPES OF BANK FRAUDS

There are different types of bank frauds that take place and bank frauds can be classified as,

a. Insider frauds
b. Outsider frauds

A. INSIDER FRAUDS

Frauds done by the members outside the bank referred as outsider frauds or external frauds. External fraud is a fraud committed by outsiders it involves any scheme in which the perpetrator is not an employee manager, officer or owner of the company.

- Fraudulent loans
- Identity theft
- Card skimming
- Phishing
- Vishing
- Unscrupulous traders
- False title deeds.

(i) FRAUDULENT LOANS

- In fraudulent loans, fraudsters take out money from banks in the name of loans.
- Banks always come forward granting loans if they believe that the money will be repaid with interest.
- In case of fraudulent loans a borrower is a business entity, after availing a loan, the borrower declares bankruptcy and the loan will not be repaid or the borrower may be a non-existent entity and the loan will be availed just to steal large amount of money from banks.

(ii) IDENTITY THEFT

- In case of identity theft, fraudsters steal the identity of individual and use it to apply for a personal loan two wheeler loan or a credit card with a bank.
- After fraudsters have availed a loan in particular individual name whose information is stolen the responsibility of repaying credit report frequently helps to be away from identify theft.
DUPLICATION OR CARD SKIMMING

- Card skimming is a type of bank fraud where a small electronic device called skimmer is used by fraudsters to steal card information.
- The skimmer is usually installed in ATM. When a card gets run through a skimmer, the device captures and stores key information from the magnetic strip of credit/debit card.
- This information is copied to the magnetic strip of a blank card and used by fraudsters to steal money from bank account.

PHISHING

- Phishing is in the form of e-mail stating you are eligible for an interest free loan, avail a loan without checking credit score and soon.
- All these emails are not genuine; they are called as phishing mails.
- The intention of sending these emails is to steal bank details.
- Many people believe these emails to be genuine and provide their bank details that leads finally to losing of money.

VISHING

- Vishing is also called as voice phishing.
- In this fraud, fraudsters pose saying they are from a reputed organization and ask individuals for personal details.
- After collecting individuals personal banking information they use it for stealing money from bank account.
- EXAMPLE – Fraudsters will call posing as executives from Airtel or Jio and tell you that they will help link Aadhar with mobile number and collect personal information to conduct fraudulent banking transactions.

UNSCRUPULOUS TRADERS

Unscrupulous traders (disconnect traders), businessman obtain undue credit facilities against hypothecation of a useless goods, which are not of the desired quantity and/or quality.

FAKE TITLE DEEDS

- Title deeds are the legal deeds or documents constituting evidence of a right especially to ownership of property.
- Fake title deeds are submitted cleverly or impersonation (the act of pretending to be another person for the purpose of fraud) resorted (adopted) to as land/building owners while offering the land/building for equitable mortgage as collateral security.

CHEQUES FRAUD

There is variety of ways to commit cheque fraud. The basic premise is that a cheque is forged or deposited and then withdrawn before the cheque can be returned for non-sufficient funds. Stolen cheques are also a fraud.

CREDIT CARD FRAUD

- Credit cards can be stolen or created with a fake identity. Thousands of dollars are fraudulently spent before the bank.
- Credit cards fraud manifest in number of ways like,
Genuine cards are manipulated
Genuine cards are altered
Fraudulent telemarketing done with credit cards.

B. INSIDER FRAUDS

Insider/internal bank frauds are done by someone who works inside the bank. Some of the most common forms of insider frauds are as follows,

- Illegal insider trading
- Forged documents
- Wire fraud
- DD (demand draft) fraud
- Fraudulent institutions
- Identity theft

i) ILLEGAL INSIDER TRADING
- Illegal insider trading occurs when an insider has authority to make investments on behalf of the bank and engages in high risk trades without the bank being aware of it.
- A series of illegal trades gone wrong can cause damage to the bank.

ii) FORGED DOCUMENT
- A forged document is a false document that involves false signature or other imitation of an object of value used with the intent to deceive other.
- Those who commit forgery are often charged with crime of fraud.
- Forged documents include contracts, identification cards, and legal certificates.

iii) WIRE FRAUD
- Wire fraud is common for banks to wire large sums of money on a daily basis.
- An insider can fraudulently wire money to a personal account at an offshore bank.
- A bank takes months or even longer to notice the missing funds.

iv) DEMAND DRAFT FRAUD
- Demand draft fraud is usually done by one or more dishonest bank employees that are BUNKO BANKER.
- These bankers remove few DD brocks from stock and write them like a regular DD.
- Since they are insiders they know the coding, punching of a demand draft.
- These DD's will be issued payable at distant town/city without debiting an account. Then it will be cashed at the payable branch. For the payable branch it is just another DD.

v) FRAUDULENT INSTITUTIONS
- This is a form of fraud, where an entire bank is fraudulently created.
- The bank is illegal and uninsured.
- The scam revolves around the people making uninsured deposits to the bank, only to have the bank, along with their money eventually disappear.

vi) IDENTITY THEFT
When a bank employee steals personal information from customers in order to sell the information or to make fraudulent purchases using a stolen identity.

4.3 **INSURANCE FRAUD**

- Insurance fraud is any act committed with the intent to obtain a fraudulent outcome from an insurance process. This may occur when a claimant attempts to obtain some benefit or advantage to which they are not otherwise entitled.
- Types of insurance fraud are diverse and occur in all the areas of insurance.
- Insurance crimes also range in severity from slightly exaggerating claims to deliberately causing damage or accidents.

**EXAMPLE**

- Getting into an accident on purpose so that one can claim the insurance money.
- Soft fraud is usually unplanned and arises when the opportunity presents itself. It is more prevalent form of fraud.

**EXAMPLE**

- Getting into a car accident and claiming for injuries are worse than they really are,

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**Types of insurance fraud**

- Life insurance fraud
- Automobile insurance fraud
- Arson for profit
- Property fraud
- Health insurance fraud
- Travel insurance fraud

(i) **LIFE INSURANCE FRAUD**

- Majority of individuals take up a life insurance policy so that their families will be provided for financially should anything happen to them.
- However there are some people whose intention is to fraud the life insurance company.
- **FOR EXAMPLE** – if a death occurs in a car accident and the person goes missing after that he may be declared dead sooner. In this case, the person doesn’t die in reality. It is a scam to fraud insurance company.

(ii) **AUTOMOBILE INSURANCE FRAUD**

- The most common type of car insurance fraud is planned accidents or collisions where the person intentionally collides with an innocent driver making it look like a genuine accident.
- In this way the insurance is claimed as the insurance companies cannot detect the fraud as it appears genuine.
(iii) **ARSON FOR PROFIT**
An owner of a property or someone hired by an owner deliberately burns a business, home or vehicle to collect insurance money.

(iv) **PROPERTY FRAUD**
An owner buys multiple policies on the same property or vehicle then purposely damages or destroys the property or vehicle and collects insurance money from all the policies which is a fraud.

(v) **HEALTH INSURANCE FRAUD**
- Health insurance plans like workers compensation plans, Medicare insures a person so that they have access to health care if anything toward happens.
- Many individuals take advantage of this plan by complaining about aches and pains that are difficult to diagnose to claim insurance for that.

(vi) **TRAVEL INSURANCE FRAUD**
- Travel insurance can protect a person if he/she has lost his luggage, or if he is sick while on a holiday or if the flight is delayed. These reasons are enough for fraudsters to claim insurance.
- With the help of dishonest physician a person feigns an illness and shows the evidence of his illness to the travel insurance companies and claim money.

4.4 **COMBATING FRAUDS**
Following are some of the measures to combat frauds in banks and insurance sectors,

<table>
<thead>
<tr>
<th>In banks</th>
<th>Monitoring cheques</th>
<th>Annual review of financial statements</th>
<th>Payroll safeguarding</th>
<th>review of sensitive documents</th>
<th>Protect accounts</th>
<th>Checking employee references</th>
</tr>
</thead>
</table>

1. **MONITORING THE CHEQUES**
- Reviewing and monitoring he cheques using pre numbered cheques enables to audit for missing cheques.
- Cheques clearing out of sequences can be spotted more easily.

2. **ANNUAL REVIEW OF FINANCIAL STATMENTS**
- Annual review of financial statements gives a clear picture of annual transactions in a year.
- An audit will not discover al fraud within an organization but it will give an opportunity to keep an eye in financial report of organization.

3. **PAYROLL SAFEGUARDING**
- Small business owners and managers should take extra time to review review every payroll check personally.
- This provides a monitor to assure employees are being paid appropriately.
- This is important when a business has temporary and part time staff.
4. **REVIEW OF SENSITIVE DOCUMENTS**
   - Small business owners should control who first receives the bank statements and other sensitive documents.
   - There is no separate post office box for the purpose of receiving bank statements, customer receipts, or any other sensitive documents.

5. **PROTECT ACCOUNTS**
   - Ask the bank to set up dual controls on one’s account so that each transaction requires the approval of two people.
   - By establishing a daily limit on how much money can be transferred out of account etc, prevents fraud in transactions.

6. **CHECKING EMPLOYEE REFERENCES**
   - When hiring new employees into bank check references and background that include employment credit licensing and criminal history.
   - This prevents selection of dishonest employee thereby controlling the fraud.

IN INSURANCE SECTOR

<table>
<thead>
<tr>
<th>Need for regulation</th>
<th>Building consumer awareness</th>
</tr>
</thead>
<tbody>
<tr>
<td>In insurance sector</td>
<td>rewards whistle-blowers</td>
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<tr>
<td></td>
<td>Collection of proper evidence</td>
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<tr>
<td></td>
<td>Effective legislation and judicial action</td>
</tr>
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</table>

1. **NEED FOR REGULATION**
   - Regulation is an important aspect to combat a fraud in insurance sector.
   - The insurer has to be equipped with sufficient legal recourses for collection of evidence from external parties like hospitals, government departments, revenue authorities etc.

2. **BUILDING CONSUMER AWARENESS**
   - Building consumer awareness regarding the evils of insurance fraud and ways to prevent it.
   - This would sensitize the average insured towards this issue so that the fraud will be controlled.
   - It is important in case of shameful and criminal insurance fraud.

3. **REWARDS WHISTLE-BLOWERS**
   - Whistle blower is a person who informs on a person or organization regarded as engaging in an unlawful or immoral activity.
   - By rewarding whistle blowers insurance fraud gets prevented. Example, an employee of the fraudster or even a neighbor.

4. **COLLECTION OF PROPER EVIDENCE**
   - Insurance need to collect all proper evidence of fraud that is capable of succeeding judicial scrutiny.
• Since the courts will take a strict view against the insurance it is extremely important to collect proper evidence before arriving at a decision.

5. **EFFECTIVE LEGISLATION AND JUDICIAL ACTION**

• Insurance fraud deserves effective legislation and judicial attention a few quick high profile are probably the strongest medicine for potential fraudsters.

• Without legislation and judicial support all the activities of insurance and regulators will be ineffective.

5.0 **ETHICAL ISSUES IN INFORMATION TECHNOLOGY**

5.1 **INFORMATION TECHNOLOGY**

• Information technology deals with aspects of managing and processing information especially in large organizations it can be considered as a sub discipline of computing.

• Information technology is considered to be a subset of information and communication technology (ICT). It is the use of computers to store retrieve transmits and manipulates data or information often in the context of business or other enterprise.

• The devices of information technology includes,
  - Computers
  - storage networking and physical devices
  - Infrastructure and processes to create process store secure and exchange all forms of electronic data.

5.2 **DEFINITION FOR IT**

Information technology is the study design development implementation support or management of computer based information systems particularly software applications and computer hardware.

**INFORMATION TECHNOLOGY ASSOCIATION OF AMERICA (ITAA)**

5.3 **ETHICS**

Ethics area the principles of behaviors that distinguish between the right from the wrong. Ethics refers to the code of conduct that guides an individual while dealing in a situation.

5.4 **ETHICS IN INFORMATION TECHNOLOGY**

• Gaining competitive advantage by the use of information technology may involve ethical actions.

• The diversity of IT applications and the increased use of the technology have created many ethical issues.

• It is used in the companies.
  - To monitor the activities of other companies
  - May invade the privacy of individuals.

• Ethics in information technology refers to the adoption of ethical principles in using information technology thereby to control unethical actions.
In the rapidly changing technological environment in which we live ethical issues are increasingly being raised, demanding attention efforts towards resolution. These ethical issues of information technology include, here as follows:

1. **PLAGIARISM**
   - Plagiarism is one of the ethical issues in IT.
   - Plagiarism is where the work of others is copied but the author presents it as his or her own work. This is highly unethical practice but happens quite frequently.
   - All the information that is now available on the internet is much easier to do and is happening more often.

**EXAMPLE**
1. Plagiarism is seen in education sector where students make copy and paste of information and some authors.

2. PRIVACY
   - Privacy concerns collection and use of data about individuals which are collected and stored in a computer system.
   - All personal information should not be divulged (make known private or sensitive information) and should be treated confidentially.
   - But information technology today makes it quite easy to monitor individual behaviors with or without the user’s awareness.
   - It can also be used to try into personal lives of customers and employees. The data collected are often sold to other companies again without individual awareness.
   EXAMPLE
   - In USA a magazine columnist wrote an article basting hackers. To make revenge a hacker broke into one of the credit databases and posted the columnists card number on a national bulletin board so that other hackers could use it to make illegal charges.

3. ACCURACY
   - Another important ethical issue in adaption of information technology is accuracy.
   - Accuracy relies more on information in computerized databases and mentoring/control systems, the potential for individuals to be harmed by in accurate data increases.
   - Many individuals have been victimized because of inaccurate data in databases.
   - The widespread existence of information in electronic form in different media makes property rights for information and software difficult legal and ethical questions.
   EXAMPLE
   - a. Incorrect data in credit history files deny credit and to correct; this it is complicated.
   - b. Admission to school or employment has been denied because of inaccurate data.

4. HACKING
   - Hacking means gaining unauthorized access to data in a system or computer.
   - Hacking can be undertaken a system or the wish to understand how a system works so that money can be made out of it.
   - Hacker is an individual who is knowledgeable enough to gain access without authorization to computer system.
   EXAMPLE
   - KEVIN MITNICK is the world’s most famous hacker. He hacked into 40 major corporations just for the challenge.

5. MALICIOUS CODES
   - Malicious codes are those codes which are characterized by malice intending or intended to do harm.
   - Malicious codes attacks include a number of types of computer programs that were created with the intention of causing data loss or damage.
   - Malicious codes attacks are of 3 forms like,
   a. TROJAN HORSE – is different only in that the entire application was written to look like something else when in fact it is an attack tool.
b. VIRUS is malicious software that is attached to another program to execute a particular unwanted function on a workstation.

c. Works are self-contained programs that attack a system and try to exploit vulnerability in the target.

6. ACCESS
- The issue of access concern is the ability of individuals to gain entry to information systems and to the information they hold.
- It involves,
  a. The extent of access individuals should have information stored about them in the database available to prevent unwarranted access to personal or confidential data.
  b. The extent to which appropriate safeguards are available to prevent unwarranted access to personal or confidential data.

EXAMPLE
If a company has a credit history database on past customers who should have access or modification privileges is it right for a company to sell data about customers to another firm.

7. COMPUTER CRIME
- Computer crime or cybercrime is crime that involves a computer and a network.
- In computer-oriented crimes, the computer may have been used in the commission of a crime.
- Cyber crime may threaten a person or a nation’s security and financial health.

EXAMPLE
Using imaging and desktop publishing to create copy or alter official documents and graphic images.

8. JOB DISPLACEMENT
- Computers are changing the face of work scene. For some people their jobs are becoming redundant or they have to play quite different roles.
- Others are suffering increasing level of stress from work pressures.
- Others are reaping the benefits of having more rewarding jobs.
- However all the above conditions clearly poses various ethical issues like,
  a. Should those that lose their jobs be compensated?
  b. How can the pressure be eased on those that are suffering stress?
  c. Is it acceptable for computer programmers to be made redundant on the spot etc.

6. INFORMATION SECURITY AND THREATS
6.1 INFORMATION SECURITY
- Information security sometimes shortened to infuses.
- Information security is the practice of preventing unauthorized access use disclosure disruption modification recording or destruction of information.
- In information security, the information or data any take any form eg: electronic or physical.
- The main focus of information security is on the balanced protection of the confidentiality integrity and availability of data (CIA triad)
• The field of information security has grown and evolves significantly in recent years. It offers many areas for specialization including,
  ➢ Securing networks and allied infrastructure.
  ➢ Securing applications and databases
  ➢ Security testing
  ➢ Information systems auditing
  ➢ Electronic record discovery
  ➢ Digital forensics
  ➢ Business continuity planning

6.2 PRINCIPLES OF INFORMATION SECURITY
• A principle is a core requirement of information security for the safe utilization flow and storage of information. Three basic principles of information security represented as CIA triad.
• CIA triad includes principles as follows,
  (i) Confidentiality
  (ii) Integrity
  (iii) Availability

Prevents unauthorized
Disclosure of systems &
Information

Prevents disruption of service and productivity
CIA TRIAD

1. CONFIDENTIALITY
• In information security confidentiality is the property that information is not made available or disclosed to unauthorized individuals entities or processes.
• Confidentiality is similar to privacy the two words aren’t interchangeable.
• Confidentiality is a component of privacy that implements to protect out data from unauthorized viewers. Examples of confidentiality of electronic data being compromised include laptop theft password theft or sensitive emails being sent to incorrect individuals.
2. **INTEGRITY**
   - In information security data integrity means maintaining and assuring the accuracy and completeness of data over its entire lifecycle.
   - This means that data cannot be modified in an unauthorized or undetected manner.
   - Information security systems typically provide message integrity in addition to data confidentiality.

3. **AVAILABILTIY**
   - For any information system to serve its purpose the information must be available when it is needed.
   - This means the computing systems used to store and process the information the security controls used to protect it.
   - High availability systems aim to remain available at all times, preventing service disruptions due to power outages, hardware failure and system upgrades.
   - In information security availability can be viewed as one of the important parts of a successful information security programs.

6.3 **TREATS**

Information security threats come in many different forms. Some of the most common threats today are given here under,

1. **INFORMAITION EXTORTION**
   - Information extortion is one of the thefts posed to information systems.
   - Information extortion consists of theft of a company’s property or information as an attempt to receive a payment in exchange for returning the information or property back to its owner.

2. **WORMS**
   - A computer worm is a standalone malware computer program that replicates itself in order to spread to other computers.
• Worms uses a computer network to spread itself relying on security failures on the target computer to access it.
• Worms almost always cause at least some harm to the network.
• Example – MORRIS worm and MYDOOM (computer worm)

3. **VIRUSES**
• A computer virus is a type of malicious software that when executed replicates itself by modifying other computer programs.
• When this replication succeeds the affected areas are then said to be infected with a computer virus.
• Computer viruses currently cause billions of economic damage each year due to,
  ➢ Causing system failure
  ➢ Wasting computer resources
  ➢ Corrupting data
  ➢ Increasing maintenance costs etc.

4. **PHISHING ATTACKS**
• Phishing is the fraudulent attempts to obtain sensitive information such as user names password and credit card details for malicious reasons.
• Phishing is carried out by email spoofing (creation of email messages) or instant messaging and it often directs users to enter personal information at a fake website.
• Phishing emails may contain fake links to websites that distribute malware.

5. **TROJAN HORSES**
• In computing a Trojan horse or Trojan is a malicious computer program which misleads users of its true intent.
• Trojan horse is one in that the entire application was written to look like something else, when infect it is an attack tool.

6. **THEFT OF INTELLECTUAL PROPERTY**
• An intellectual property infringement is the violation or infringement of an intellectual property right.
• There are several types of intellectual property rights such as,
  ➢ Copyrights
  ➢ Patents
  ➢ Trademarks
• Therefore an intellectual property infringement may for instance be a,
  ➢ Copyright infringement
  ➢ Patent infringement
  ➢ Trademark infringement

7. **SABOTAGE**
• Sabotage usually consists of the destruction of an organizations website in an attempt to cause loss of
  ➢ Confidence on the part of its customers.
  ➢ One who engages in sabotage is a saboteur
➢ Sabotage is sometimes called tampering meddling tinkering malicious pranks malicious hacking etc.
➢ Sabotage is a deliberate action aimed at weakening an organization through obstruction disruption or destruction.

8. **IDENTITY THEFT**
- Identity theft is the attempt to act as someone else usually to obtain those persons personal information or to take advantages of their access to vital information.
- Identity theft includes theft of person’s information like their name identifying number or credit card number without their permission to commit fraud or other crimes.
- NOTE: the term identity theft was coined in 1964.

**EXAMPLE**
Theft of persons name data of birth social security number, driver’s license number, bank account or credit card numbers PIN numbers electronic signatures passwords etc

7. **INTELLECTUAL PROPERTY RIGHTS**

7.1 **MEANING**
- Intellectual property rights are a category of property that includes intangible creations of the human intellect, and primarily encompasses copyright patents and trademarks.
- It also includes other types of rights such as trade secrets publicity rights moral rights and rights against unfair competition.
- Artistic works like music and literature, as well as some discoveries inventions words phrases, symbols and designs can all be protected as intellectual property.
- The main purpose of intellectual property law is to encourage the creation of a large variety of intellectual goods. To achieve this the law gives people and business property rights to the information and intellectual rights to the information and intellectual goods they create usually for limited period of time

7.2 **FORMS OF INTELLECTUAL PROPERTY RIGHTS**
Some of the intellectual property rights include the following forms,

1. Patents
2. Copyrights
3. Trademarks
4. Industrial design rights
5. Trade secrets
1. **PATENTS**
   - A patent is a form of rights granted by the government to an inventor or their successor title giving the owner the right to exclude others from making using, selling, offering to sell and importing an invention for a limited period of time.
   - An invention is a solution to a specific technological problem, which may be a product or a process and generally has to fulfill three requirements.
     - Invention has to be new
     - Not obvious
     - There needs to be an industrial applicability
   
   **EXAMPLE**
   Pen with scanner, rubber shoes for horse’s health etc.

2. **COPYRIGHT**
   - A copyright gives the creator of original work exclusive rights to it usually for a limited time.
   - Copyright may apply to a wide range of creative intellectual or artistic forms or works.
   - The copyright in the work of authorship immediately becomes the property of the author who created the work. Only the author or those deriving their rights through the author can fully claim the copyright.

**EXAMPLE OF WORKS ELIGIBLE FOR COPYRIGHTS**
Literacy, musical graphic and sculptural works, motion pictures and other audio visual works derivatives of protected works (sequel) i.e. star wars movies etc.

3. **TRADEMARKS**
   - A trademark is a recognizable sign, designer expression which identifies products or services of particular sources from those of others.
   - Trademarks used to identify services are usually called service marks.
   - The trademarks owner may be an individual business organization or any legal entity.
   - A trademark may be located on a package, label, a voucher (bond of redeemable transaction) or on the product itself.
   - For the sake of company identity trademarks are often displayed on company buildings.

**TYPES**

- **BRAND NAMES** – like apple, MC Donald’s etc.
- **PRODUCT NAMES** – like iPod and big mace
- **COMPANY LOGOS** – like golden arches at MC Donald’s
- **SLOGANS** – like MC Donald’s I am lovin it.
- **WORDS** – in a stylized font like COCA-COLA
- **PRODUCT SHAPES** – like the coca-cola bottle and apple iPod
SYMBOLS- like the Nike shoes symbol.

4. **INDUSTRIAL DESIGN RIGHTS**
   - Industrial design rights are a form of intellectual property right.
   - These industrial design rights protect the visual design of objects.
   - An industrial design consists of the creation of a shape configuration or composition of pattern or color containing aesthetic (concerned with beauty) value.
   - Industrial design applied to products that are to be manufactured through techniques of mass production.

5. **TRADE SECRETS**
   - A trade secret is a formula, practice process design pattern commercial method that are not generally known by others by which a business can obtain advantages over competitors or customers.
   - Such trade secrets also referred as confidential.

7.3 **THREATS TO INTELLECTUAL PROPERTY RIGHTS**

Intellectual property is not a physical asset if can be easily overlooked. Some of intellectual property rights threats are given here under.

1. **RISK OF TRADE SECRET THEFT**
   Every business with employees is at risk of trade secret theft internal functioning confidential information and trade secrets.
   EXAMPLE – recipe of a product fall into trade secrets category.

2. **RISK OF BEING REPLICATED**
   This kind of risk is dependent on the type of business.
   EXAMPLE
   Software companies creative companies (involved in film photography, marketing and advertising) and technology companies are potential prey for being copied.

3. **RISK OF ACCOUNTS TRESPASSING**
   - In today’s world, ecommerce is a vital part of sales and advertising strategies for many companies.
   - Establishing and protecting a distinctive internet presents can be valuable.
   - Allowing employees to control the accounts can lead to various problems if these individuals will become disappear.

4. **THREAT FROM SOCIAL MEDIA**
   - Any intellectual property advantage can be affected by social media.
   - Some issues at stake include disclosure of confidential information in social media that lead to erosion of competitive advantage, infringement of trademarks by third parties infringing
posts of creative works (affecting copy rights) and inappropriate comments on product reviews.

8.0 CYBER CRIME
- The term cyber refers to something relating to or characteristic of the computers information technology. Cyber crime or computer oriented crime network. The computer may have been used in the commission of a crime or it may be the target.
- Cyber crimes can be defined as offences that are committed against individuals or groups of individuals with a criminal motive to intentionally harm the reputation of the victim or cause physical mental harm or loss to the victim directly or indirectly using modern telecommunication networks such as internet and mobile phones (Bluetooth/SMS etc)
- Cyber crime may threaten a persons or nations security and financial health.

8.1 FORMS OF CYBER CRIME
Different forms of cyber crime are explained here as follows,

1. SALAMI SLICING
- A salami slicing or salami fraud is a technique by which cyber criminals steal money or resources a bit at a time so that there’s no difference in overall size.
- Attackers insert a program into the system to automatically carry out the task.
• Stealing money electronically is the most common use of salami slicing technique.
• This technique works on the assumption that if small quantities of money are shaved (here steeled) form a lot of balances that are not closely checked and these shavings (stolen money) are combined in a central account which would swell to a large amount over time.

2. **IDENTITY THEFT**
• Identity theft is another form of cyber crime done by the cyber criminals.
• Identity theft occurs when someone steals identity of individual and pretends to be that particular individual to access resources such as credit cards bank accounts and other benefits in individual’s name.
• Credit card fraud is a wide range term of crimes involving identity theft where the criminal uses others credit card to fund his transactions.

3. **TRAPDOOR ROUTNES**
• Trapdoor routines are those which are used in program development to allow developers to access to various parts of the computer system in order to see that program is performing correctly.
• A trapdoor might be used in a systems program to view various sections of RAM as check that the program is storing data correctly.
• Trapdoors are supposed to be removed before the program is put into general use.
• As a part of cyber crime criminals accessed passwords through trapdoor that was not removed and later the passwords to break into the system.

4. **VIRUS DESSEMINATIONS**
• Viruses are computer programs that attach themselves to or in fact a system or files and have a tendency to circulate to other computers on a network.
• Virus disrupts the computer operation and affects the data stored either by modifying it or by deleting it altogether.
• Computer viruses usually spread via media or the internet. A flash disk CD-ROM, magnetic tape or other storage device that has been infected computer infects all future components in which it’s used.
• Viruses are of 2 types,
  a. Those that only disseminate and don’t cause any intentional damage.
  b. Those which are programmed to cause damage.

5. **LOGIC BOMBS**
• A logic bomb also known as slag code.
• Logic bomb is a malicious code which is intentionally inserted into software to execute a malicious task.
• Malicious software such as viruses and worms often contain logic bombs which are triggered at a predefined time.
• Logic bombs are usually employed by disgruntled (angry or dissatisfied) employees working in IT sector. Disgruntled employee syndrome wherein angry employees who have been fixed use logic bombs to delete the databases of their employers.
6. **PHISHING**
   - Phishing is a technique of extracting confidential information such as credit card numbers and username password by sending phishing mails.
   - Phishing is carried out by emails spoofing.

   ![Diagram]

   Send out thousands of phishing
   Emails with link to fake website
   
   Phishing
   
   Build fake site
   
   Fraudster’s
   
   Victims click on link in email believing
   it is legitimate. They enter personal information.
   
   Fraudsters compile the stolen data and sell it online or use it themselves.

7. **EMAIL BOMBING AND SPANNING**
   - Email bombing is characterized by an abuser sending huge volumes of email to target address resulting in victims email account crashing.
   - Such mails arriving frequently in inbox can be easily detected by spam filters.
   - Email bombing is carried out using bonnets (private internet connected computers whose security has been compromised by malware and under attackers control)
   - On the other hand spamming it is a variant of email bombing. Here unsolicited bulk messages are sent to a large number of user’s indiscreetly.
   - A large amount of spam is sent to invalid addresses.

8. **WEB JACKING**
   - Web jacking derives its name from HIJACKING
   - In web jacking the hacker takes control of a website fraudulently.
   - Hacker may change the content of the original site or even redirect the user to another fake similar page controlled by him.
   - The purpose of web jacking is to harvest the user names passwords and account numbers of users by using a fake web page with a valid link.

9. **CYBER STALKING**
   - Cyber stacking is a new form of internet crime in our society
   - A cyber stalker doesn’t physical follow his victim he does it by following victim’s online activity to harvest information and harass him or her and makes threats. Cyber stalkers harass their victims via email websites open publishing websites (eg, blogs)
With the increased use of social media like face book, twitter YouTube... profile photos and status updates are up for the world to see which leads to increased cyber crimes.

Most victims of this crime are women. Cyber stalkers thrive on inexperienced web users who are not well aware of internet rules.

10. DATA DIDDLING
- Data diddling is the unauthorized altering of data before or during entry into a computer system.
- Under this crime the attacker may modify the expected output and is difficult to track.
- In other words the original information to be entered is changed either by a person typing in the data, virus that’s programmed to change the data etc.
- This is one of the simplest methods of committing a computer related crime.

8.2 PREVENTION OF CYBER CRIME
Following are the important steps to prevent cyber crime,

1. HIRE CAREFULLY
- The most logical way to prevent cyber crime is by hiring trustworthy people.
- However criminals cannot be spotted easily at the time of hiring.
- To prevent cyber crimes, trustworthiness is to check references and for people required to work in sensitive environments conduct background checks.

2. USING STRONG PASSWORDS
- To protect system or mobiles etc, from cyber crime, use different user ID/password combinations for different accounts and avoid writing them down.
- These passwords should be complicated by combining letters, numbers, special characters (minimum 10 characters in total) and change them on a regular basis.

3. BEWARE OF MALCONTENTS
- Crime experts put at the top of their lists is the disgruntled employee.
- This disgruntled employee may steal disks containing the company’s most important financial records by using his afterhour’s access to a computer installation and locating the same.
- To prevent cyber crimes one should be aware of the malcontents.

4. OTHER PREVENTIONS INCLUDE
- Restrict system use
- Conduct frequent audits
- Monitor system transactions
- Encrypt data and programmes (it is the process of disguising data or programmes in coded form so they cannot be recognized)
- Securing system by activating firewall, with antivirus/malware software by blocking spyware attacks.
- Protecting e-identity by enabling privacy settings.
Objective: The objective of the course is to make students aware of ethical and moral issues concerning business both in Indian and International context and develop sensitivity of students for right ethical practices in conduct of business, to understand the principles of corporate governance, to know the social responsibility of the corporate.


4. Corporate Governance: Purpose – Theories and Philosophies of Corporate Governance


Textbook:

- Business Ethics and Corporate Governance—A.C. Fernando, Pearson Education.

References:

- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
- Ethical Management, Satish Modh, Mcmillan.
1. **PURPOSE:**

1.1 **MEANING AND DEFINITION:**

The term ‘corporate governance’ includes two words ‘corporate’ and ‘governance’. Corporate means legal entity united into a body so as to act as an individual. Governance refers to the set of governing rules and regulations in control or direction. Both corporate and governance put together it gives a meaning that it brings together many different groups for the purpose of conducting business.

Corporate governance deals with “problems that result from the separation of ownership and control”. From this perceptive, corporate governance would focus on:

- Internal structure
- Rules of the board of directors
- The creation of independent audit committees
- Rules for disclosure of information to shareholders and creditors.
- Control of management

The figure below explains how a corporation is structured,
DEFINITION

Corporate governance is defined “as holding the balance between economic and social goals and between individuals and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources”.

SIR ADRIAN CADBURY, CHAIRMAN OF CADBURY COMMITTEE.

Corporate governance is defined as “the system by which business corporations are directed and controlled”.

ORGANISATION OF ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

OECD’s definition incidentally is consistent with the definitions of Cadbury committee.

1.2 REQUIREMENTS (DESIDERATE) OF CORPORATE GOVERNANCE

The organization of economic cooperation and development (OECD) emphasized the following requirements of corporate governance.

- Right of shareholders
- Equitable treatment of shareholders
- Role of stakeholders in corporate governance
- Disclosure and transparency
- Responsibilities of the board
1. **RIGHTS OF SHAREHOLDERS**
   - The rights of shareholders stressed as important for ensuring better corporate governance by all organizations.
   - These rights of shareholders includes secure ownership of their shares, voting rights, the right to full disclosure of information participation in decision sale or any change in corporate assets and new share issue.
   - Shareholders have the right to know the capital structures of their corporation and arrangements that enable certain shareholders to obtain control disproportionate to their holding.

2. **EQUITABLE TREATMENT OF SHAREHOLDERS**
   - Another important requirement for good corporate governance is that equitable treatment of share holders.
   - All shareholders including minority and foreign share holders should get equitable treatment and have equal opportunity for redressed of their grievances and violation of their rights.
   - Shareholders should not face undue difficulties in exercising their voting rights.

3. **ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE**
   - The OECD guidelines recognize the fact that, there are other stakeholders in corporation apart, from shareholders.
   - Apart from dealers consumer government who constitute stakeholders group there are others too that include banks, bondholders, workers etc.
   - Corporate governance framework should recognize the rights of shareholders allow employee representation on the board of directors, profit sharing, creditor’s involvement in insolvency proceedings etc.
   - Where there is such stakeholders participation it should be ensured that they have to access to relevant information.

4. **DISCLOSURE AND TRANSPARENCY**
   - OECD lays down a number of provisions for the disclosure (action of spreading something) of key information about company to all those who are entitled for such information.
   - These information may be from, company objective to financial details,
     - Operating results
     - Governance structure and polices
     - The board of directors their remuneration
     - Significant risk factors
     - Material issue regarding employees and other stake holders

5. **RESPONSIBILITIES OF THE BOARD**
   - The OECD guidelines explain in detail the responsibilities of the board in protecting the company, its shareholders and also its other stakeholders.
   - These responsibilities of the board includes concerns about
a. Corporate strategy  
b. Risk  
c. Executive compensation and performance  
d. Accounting and reporting systems  
e. Monitoring effectiveness and changing them if needed.

- All the above are important requirements for achieving corporate governance.

1.3 PURPOSE OF CORPORATE GOVERNANCE

The existence and success of any company largely depends upon its governance system. It is not limited to the rules and laws of the company. Corporate governance has various other purposes that include,

1. **STRENGTHENS CONFIDENCE**
   Good corporate governance system ensures high profits to its investors which increase their confidence and reliability for the company.

2. **TRANSPARENCY**
   - Besides the fulfillment of legal policies effective governance system gives equal importance to transparency between the stakeholders and company’s management.  
   - This transparency helps in increasing the trustworthiness of the company and creates greater profit for the investors.
3. **BALANCED BOARD**
   Corporate governance ensures that the board consist of equal number of non-executive and independent directors so that the decisions taken by them are unbiased and in the interest of investors.

4. **VISION OF THE BOARD**
   Good governance system observes the long-term vision of the board in the interest of the company and the steps taken buy them to make wealth for its stakeholders.

5. **INVESTMENT TOOL**
   Good governance system encourages the investors for long term investment by making capital markets more efficient and profitable.

6. **RESOLVING TOOL**
   Governance system is an effective tool to resolve any conflict or clashes that may arise between the stakeholders and the members of the company especially, when the conflict are related to their personal interest.

7. **RESOURCES UTILISATION**
   - Good governance system focus at proper utilization of resources available within the company
   - Efficient use of company’s assets helps in increasing the productivity which is turn benefits the stakeholders to maximum degree.

8. **DEVELOPING TRUST**
   Corporate governance is an effective way of building the trust of the stakeholders in the capabilities of the company.

9. **CLARITY**
   Good governance system takes care that the policies and procedures followed by the board area transparent enough so that each and every transaction carried out is clear to both the company as well as the investors.

10. **RELEVANT INFORMATION TO SHAREHOLDERS**
    It ensures that all the relevant information regarding the growth and development of the company is provided to the stakeholders by the board.

2. **THEORIES AND PHILOSOPHIES OF CORPORATE GOVERNANCE**
    The theories and philosophies of corporate governance are given here as follows,
1. **AGENCY THEORY**
   - Adam smith proposed agency theory
   - Agency theory is defined as the relationship between the principals and agents. Principals are the shareholders and agents are company executives and managers.
   - In this theory shareholders are the real owners or principles delegate the running of business to the directors or managers, who are the shareholders agents.
   - In agency theory the agent may be succumbed of self-interest opportunistic behavior and falling short of congruence between the aspiration of principles and agents pursuits.
   - Shareholders expect the agents to act and make decisions in the principal’s interest.
   - DALY ET AL argued that two factors influence the prominence of agency theory.
     a. The theory is conceptually simple theory that reduces the corporation to two participants of managers and shareholders.
     b. Agency theory suggests that employees or managers in organizations can be self-interested.

![Diagram of Agency Theory](image.png)
2. **STEWARDSHIP THEORY**
   - Stewardship theory has its roots from psychology and sociology
   - Davis, schoorman and Donaldson (1997) defined stewardship theory as a steward protects and maximizes shareholders wealth through firm performance because by doing so the steward’s utility functions are maximized.
   - In this perspective, stewards are company executive and managers working for the shareholders and mangers working for the shareholders protect and make profits for the shareholders.
   - Unlike agency theory stewardship theory stresses not only on the perspective of individualism but rather on the role of top management being as stewards, integrating their goals as part of the origination.
   - Stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attached.

![Empower and trust]

Shareholders profits
And returns

Shareholders
Stewards

Protects and maximize
Shareholders wealth

intrinsic and extrinsic motivation

3. **STAKEHOLDER THEORY**
   - Stakeholder’s theory was embedded in the management discipline in 1970 and gradually developed by freeman (1984) incorporating corporate accountability to a broad range of stakeholders.
   - Stakeholder’s theory can be defined as any group or individuals who can affect or is affected by the achievement of the organizations objectives.
   - Unlike agency theory in which the managers are working and serving for stakeholders stakeholder theorist suggest that managers in organizations have a network of relationships to serve this include the suppliers employees and business partners.
   - Stakeholder theory also considered as descriptive normative theory as it plays both descriptive and normative functions for an organization.
• Being descriptive, this theory describes the formation of organization and the way it is managed and controlled being normative it suggests the strategies to be followed for proper functioning of the organization.

**Resource Dependency Theory**

- While stakeholders theory focuses on relationship with many groups for individual’s benefits. Resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm.
- Resource dependency theory focuses on the role of board directors in providing or security essential resources to an organization through their linkages to the external environment.
- In resources dependency theory it has been argued that provision of resources enhances the organizational functioning, firm’s performance and its survival.
- According to HILLMAN CANELLA and PAETZOLD (2000), those directors bring resources to the firm, such as information, skills, access to key constituents such as supplier’s buyer’s public policy makers, social groups etc.
- Directors include insiders, business experts support specialists and community influential’s (political leader, university faculty, leaders of social or community organization.)
- Support specialists (lawyers, bankers, insurance company representatives etc.)

**Transaction Cost Theory**

- Transactions cost theory was first initiated by March (1963) and later exposed by Williamson (1996).
- Transaction cost theory was an interdisciplinary alliance of law, economics and organizations.
- This theory attempts to view the firm as an organization comprising people with different views and objectives.
- The underlying assumption of transaction theory is that firms have become so large they in effect substitute for the market in determining the allocation of resources.
• In other words, the organization and structure of a firm determine price and production. The unit of analysis in transaction cost theory is transaction.
• Therefore the combination of people with transaction suggests that transaction cost theory managers are opportunists and arrange firm’s transactions to their interests.

6. **POLITICAL THEORY**

• Political theory brings the approach of developing voting support from shareholders rather by purchasing voting power.
• Hence having a political influence in corporate governance may direct corporate governance within the organization.
• Public interest is much served as the government participants in corporate decision making taking into consideration cultural challenges.
• Political model highlights the allocation of corporate power, profits and privileges are determined via the government’s favors.

2.1 **PRINCIPLES OF CORPORATE GOVERNANCE**

A principle of corporate governance is that stakeholders should be informed about the company’s activities what is plans to do in the future and any risks involved in its business strategies. The principles of corporate governance are as follows,

1. **FAIRNESS**
   • Fairness refers in equal treatment for example; all shareholders should receive equal consideration for whatever shareholdings they hold. It UK, this is protected by companies act, 2006 (CA 06)
   • In addition to shareholders there should also be fairness in the treatment of all stakeholders including employee’s, communities and public officials.
• The fairness the entity appears to stakeholders the more likely it is that it can survive the pressure of interested parties.

2. **ACCOUNTABILITY**
   • Cooperative accountability is another important principle in corporate governance.
   • Corporate accountability refers to the obligation and responsibility to give an explanation or reason for the company’s actions and conduct brief.
   • The board should present a balanced and understandable assessment of company’s position and prospects.
   • The board should maintain sound risk management and internal control systems.
   • The board should communicate with stakeholders at regular intervals a fair balanced and understandable assessment of how the company is achieving its business purpose.
   • The board is responsible for determining the nature and extent of the significant risk it is willing to take.
   • The board should establish formal and transparent arrangement for corporate reporting and risk management.

3. **RESPONSIBILITY**
   • The board of directors is given authority to act on behalf of the company. They should refer accept full responsibility for the power and authority.
   • The board of directors is responsible for overseeing the management of the business affairs of the company appointing the chief executive and monitoring the performance of the company.
   • Accountability goes hand in hand with responsibility. The board of directors should be made accountable to the shareholders for the way in which the company has carried out its responsibilities.

4. **TRANSPARENCY**
   • Transparency means openness a willingness by the company to provide clear information to shareholders and other stakeholders.
   • Transparency is a principle of good governance in which stakeholders should be informed about the,
   • Company activities what is plans to do in the future
   • Any risks involved in its business strategies.
   • For example – transparency refers to the opens and willingness to disclose financial performance figures organizations performance and activities etc, should be timely and accurate.

2.2 **OBJECTIVES OF CORPORATE GOVERNANCE**

The objectives of corporate governance are given here as follows,

Corporate governance aims,
• To create social responsibility
• To create a transparent working system
• To create a management accountable for corporate functioning
• To protect and promote the interest of shareholders
• To develop an efficient organization culture.
• To aid in achieving social and economic goals
• To improve social cohesion
• To minimize wastages corruption etc.

2.3 FUTURE OF CORPORATE GOVERNANCE IN INDIA

Although India has a long way to go to be ranked among the best in the world in corporate governance, the driver is exactly right. A large number of CEO’s now realize that their companies need financial and human capital in order to grow to scales necessary to survive international competition. CEO’s also understand that such capital will not be available in a non-transparent corporate regime. It is precisely this realization which drivers the corporate governance movement in India.

• It is important to note that there are still some lacunae (gap) in different aspects of corporate governance.
• Indian accounting standards still do not mandate consolidation-although this is slated to change.
• Indian stock markets still in effectively run, and do not have adequate depth or width to give share holders greater comfort.
• The Indian bond market is in its infancy. Pension funds need to invest much more in equity and play an activist role. Mutual funds need to walk the talk in corporate governance.
• Even so, it is necessary to recognize that corporate India has gone a long way in business of governance, especially in the last decade.

IMPETUS (DRIVES) FOR THE GROWTH OF CORPORATE GOVERNANCE IN INDIA

Although corporate governance has been slow in making its mark in India the next few years will see a growth of activity. This will be driven by following factors.

1. COMPETITION
• Most important is the force of competition with the dismantling of licenses and controls reduction of import tariffs and quotas virtual elimination of public sector reservations etc, Indian companies have faced more competition in second half of 1990’s.
• Competition has forced companies to restructure their ways of doing business.
2. **NEW PLAYERS PROFESSIONALISM**
   - Many companies and business groups that were in the top in 1991 have been relegated (assign a lower rank) to the bottom. Simultaneously new aggressive companies have clawed their way to the top.
   - Therefore, new companies were willing to have professional boards and voluntarily follow disclosure standards.

3. **FOREIGN PORTFOLIO INVESTORS**
   - One cannot exaggerate the impact of well-focused well researched foreign portfolio investors.
   - These investors have steadily raised their demands for better corporate governance, more transparency and greater disclosure.
   - Over the last two years investors have increased their exposure in well governed firms.

4. **MEDIA INFLUENCES**
   - India has a strong financial press, which will get stronger over the years.
   - In the last five years the press and financial analysts have induced a level of disclosure that was inconceivable a decade ago. This increase and force companies to become more transparent.

5. **INFLUENCE OF BANKS AND FINANCIAL INSTITUTIONS**
   - Despite serious gap in Indian bankruptcy provisions neither banks nor financial institutions will continue to support managements irrespective of performance.
   - Already the more aggressive and market-oriented financial institutions have started converting outstanding debt to equity and setting up merger and acquisition subsidiaries to sell their shares in under performing companies to more dynamic entrepreneurs and managerial groups.
   - This intensifies over time, especially with advent of universal banking.

6. **GROWTH IN MARKET CAPITALISATION**
   - There has been a phenomenal growth in market capitalization. This growth has triggered one of appropriating larger slices of a small pie, to doing at that is needed to let the pie grow.

7. **REALIZATION OF THE BENEFITS OF CORPORATE GOVERNANCE**
   - Ultimately Indian corporations have appreciated the fact that good corporate governance and internationally accepted standards of accounting and disclosure can help them access the US capital markets.

### 2.4 IMPORTANCE OF CORPORATE GOVERNANCE

The importance of corporate governance is listed below,
1. **CHANGING OWNERSHIP STRUCTURE**
   - In recent years the ownership structure of companies has changed a lot.
   - Public financial institutions mutual funds etc are the single largest shareholders in most of the larger companies so they have effective control on the management of companies.
   - These institutions put pressure on the management to become more efficient transparent accountable etc, with the use of corporate governance.
   - They also ask management to make consumer friendly policies to protect all social groups environment.
   - So changing ownership structure resulted in corporate governance.

2. **IMPORTANCE OF SOCIAL RESPONSIBILITY**
   - Today social responsibility is given a lot of importance.
   - The board of directors have to protect the rights of customers employees shareholders suppliers local communities etc. this is possible only if they use corporate governance.

3. **GROWING NUMBER OF SCAMS**
   - In recent years many scams frauds and corrupt practices have taken place.
   - Misuse and misappropriation of public money are happening everyday in India and worldwide. It is happening in the stock market, banks, financial institute companies and government offices.
   - In order to avoid these scams and financial irregularities many companies have started corporate governance.
4. **INDIFFERENCE ON THE PART OF SHAREHOLDERS**
   - In general shareholders are inactive in the management of their companies. They only attend the annual general meeting.
   - Shareholders associations are not strong. Therefore, directors misuse their power for their own benefits. So, there is a need for corporate governance to protect all stakeholders of the company.

5. **GLOBALISTION**
   - Today most big companies are selling their goods in the global market. So they have to attract foreign investor and foreign customers.
   - These companies also have to follow foreign rules and regulations.
   - All this requires corporate governance without corporate governance it is impossible to enter survive and succeed the global market.

6. **TAKEOVERS AND MERGERS**
   - Today there are many takeovers and mergers in the business world.
   - Corporate governance is required to protect the interest of all the parties during takeovers and mergers.

7. **SEBI**
   - SEBI stands for securities exchange board of India.
   - SEBI has made corporate governance compulsory for certain companies.
   - This is done to protect the interest of the investors and other stakeholders.

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KADAPA.
(17E00301) BUSINESS ETHICS AND CORPORATE GOVERNANCE

Objective: The objective of the course is to make students aware of ethical and moral issues concerning business both in Indian and International context and develop sensitivity of students for right ethical practices in conduct of business, to understand the principles of corporate governance, to know the social responsibility of the corporate.

4. Corporate Governance: Purpose – Theories and Philosophies of Corporate Governance

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UNIT-5
CORPORATE GOVERNANCE STRUCTURES

1. DIRECTORS

1.1 MEANING OF CORPORATE GOVERNANCE STRUCTURES

- Corporate governance has also been more narrowly defined as a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors thereby mitigating agency risks.
- Corporate governance structure refers to the arrangement of CEO and board of directors composed of directors of each department. There are also company president’s vice president and chief financial officers.
- Corporate governance is the system by which companies are directed and controlled. Board of directors is responsible for the governance of their companies. The shareholders role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

1.2 DIRECTOR

A. WHO IS A DIRECTOR?

- Section 2 (13) of the companies act defines a director as follows,
- A director includes only person occupying the position of director by whatever name called. The important factor to determine whether a person is or is not a director is to refer to the nature of the office and its duties. It does not matter by what name he is called if he performs the functions of a director.
- Section 2 (6) of companies act states that directors are collectively referred to as the board of directors or simply the board.

B. BOARD OF DIRECTORS

- The board of directors of a company which includes all the directors elected by shareholders to represent their interests is rested with powers of management.
- The board has extensive powers to manage the company, delegate its power and authority to executives and carry on all activities to promote the interests of the company and its shareholders, subject to certain restrictions imposed by public authorities.
- The board of directors of a company is authorized to exercise such powers and to perform all such acts the company is entitled to subject to two conditions,
  1. The board shall not do any act which is to be done by the company in the general meeting of shareholders, and
  2. The board shall exercise its powers subject to the provisions contained in the articles or the memorandum of companies or any regulations made by the company in any general meeting.
1.3 **QUALIFICATIONS AND DISQUALIFICATIONS OF DIRECTORS**

- Nobody corporate association or firm can be appointed directors of a company to appoint a director he/she must have qualifications like a director must,
  a. Be an individual
  b. Be competent to enter into a contract
  c. Hold a share qualification if so required by the articles of association.

- The following persons are disqualified for appointment as directors.
  a. A person of unsound mind
  b. An undercharged insolvent or one whose petition for declaring himself so is pending in a court.
  c. A person who has been convicted by a court for any offence.
  d. A person who is disqualified for appointment as director by an order of the court on grounds of fraud.
  e. A person whose calls in respect of shares of the company held for more than six months have been in arrears (outstanding payment)

Directors can be removed from office by
  a. The shareholders
  b. The central government
  c. The company law board

1.4 **DUTIES AND RESPONSIBILITIES OF DIRECTORS**

The duties and responsibilities of directors of a company are given here under,

A. **DUTIES OF DIRECTOR**

The directors are effectively the agents of the company appointed by the shareholders to manage its day-to-day affairs. Under the companies act, 2006 a director should follow duties as given below.

- Act within powers
- Duty of promoting success
- Independent judgement
- Duty of care, skill and diligence
- Duty of avoiding conflict of interest
- Not accept benefits from third parties.

Duties of directors
1. **ACT WITHIN POWERS**
   - A director must act in accordance with the company’s constitution and only exercise powers for the purpose for which they were given.
   - The company constitution includes its articles of association and resolutions and agreements of a constitutions nature (e.g. – shareholders or joint venture agreements)

2. **DUTY OF PROMOTING SUCCESS**
   - Director must act in the way he/she consider in good faith would be most likely to promote the success of the company for the benefit of its members as a whole.
   - Success will generally mean a long term increase in value but in director point of view it is the decision whether it is appropriate to take a particular course of action.
   - When promoting the success of company a director must consider.
     - The likely consequences of any decisions in long term.
     - The interests of the company’s employees
     - The need to faster the company’s business relationships with suppliers customers and others.
     - The impact of company operations on the community and the environment.
     - The need to act fairly as between members of the company.

3. **DUTY OF EXERCISING INDEPENDENT JUDGEMENT**
   - Directors must exercise independent judgment and make their own decisions.
   - This doesn’t prevent a director from acting in accordance with the company’s constitution or an agreement which the company has entered into

4. **DUTY OF CARE, SKILL AND DILIGENCE**
   - Director must exercise the care skill and diligence that would be exercised by a reasonably diligent person with
     - The general knowledge skill and experience that may reasonably be expected of a person carrying out the same functions as a director in relation to the company.
     - The general knowledge skill and experience that director actually possess.

5. **DUTY OF AVOIDING CONFLICTS OF INTEREST**
   - As a director he/she must avoid a situation in which they have or could have, an interest that conflicts or may conflict with the interests of the company.
   - This applies to the exploitation (misuse or unfair treatment) of any property information or opportunity regardless of whether the company could take advantage of it.
   - Following are the factors that lead to conflict situation.
     - Personal interest’s director is a major shareholders a competitor a customer or supplier of the company or directors own property adjacent to the company’s property which could be affected by company’s activities.
     - Using company’s information for personal benefits.
• Multiple directorships etc.

6. **NOT ACCEPT BENEFITS FROM THIRD PARTIES**
• A director must not accept the benefit from a third party because a director is a director.
• This duty is not infringed (break the law/rules) if directors acceptance cannot reasonably be regarded as likely to give rise to a conflict of interest.

B. **RESPONSIBILITIES OF A DIRECTOR**
• Directors look after the affairs of the company and are in a position of trust.
• Directors are responsible for ensuring that proper books of account are kept.
• In some circumstances a director can be required to help pay the debts of his company even though it is a separate legal person.
• Directors must consider the interests of employees of the company.
• Directors must act in good faith in what they honestly believe to be the best interests of the company.
• Directors must always exercise their powers for a proper purpose that is the reason for which they were given those powers by the shareholders.

2. **COMMITTEES**
2.1 **COMMITTEES ON CORPORATE GOVERNANCE**
• Corporate governance committees are an established mechanism in both the UK and the US for ensuring that best practices are followed by listed companies.
• These committees are responsible for ensuring that the corporate governance requirements are satisfied and for preparing corporate governance compliances statements for inclusion in annual reports.
• Committees on corporate governance given here as follows,

<table>
<thead>
<tr>
<th>S.NO</th>
<th>COMMITTEES</th>
<th>COUNTRY</th>
<th>DATE OF SUBMISSION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cadbury</td>
<td>England</td>
<td>1992</td>
</tr>
<tr>
<td>2</td>
<td>King committee</td>
<td>South Africa</td>
<td>1994 &amp; 2002</td>
</tr>
<tr>
<td>3</td>
<td>CLL</td>
<td>India</td>
<td>1996</td>
</tr>
<tr>
<td>4</td>
<td>Hampel</td>
<td>England</td>
<td>1998</td>
</tr>
<tr>
<td>5</td>
<td>Kumar mangalam Birla</td>
<td>India</td>
<td>2000</td>
</tr>
<tr>
<td>6</td>
<td>SEBI</td>
<td>India</td>
<td>2000</td>
</tr>
<tr>
<td>7</td>
<td>Narayana murthy</td>
<td>India</td>
<td>2000</td>
</tr>
</tbody>
</table>

1. **CADBURY COMMITTEE REPORT**
• Cadbury committee published in December 1992.
• In response to the occurrence of financial standards in the 1980’s involving UK listed companies which led to a fall in investor confidence.
As in the Cadbury code the green bury code recommended the establishment of a remuneration committee comprising entirely of non executive directors to determine the remuneration of the executive directors.

However in terms of service contracts green bury recommended a maximum notice period of 12 months rather than three years as suggested by Cadbury.

RECOMMENDATIONS OF CADBURY COMMITTEE

The following are the recommendations of Cadbury committee.

- Retain full and effective control over the company and monitor the executive management.
- Clearly accepted division of responsibilities.
- No individual has unfettered (restricted/not confined) powers of decision.
- Include non executive directors of sufficient caliber.
- An agreed procedure for directors
- Removal of company secretary should be a matter for the board as a whole.

2. KING COMMITTEE REPORT

- The king committee report on corporate governance is a ground breaking code of corporate governance in South Africa issued by the king committee on corporate governance.
- Three reports were issued in 1994 (king 1), 2002 (king 2), and 2009 (king 3). Compliance with the king reports is a requirement for companies listed on the Johannesburg stock exchange.

RECOMMENDATIONS OF KING COMMITTEE

Recommendations of king committee include,

- Board of director’s makeup and mandate including the role of non executive directors and guidance on the categories of people who should make up the non executive directors.
- Appointments to the board and guidance on the maximum term for executive directors
- Determination and disclosure of executive and non executive director’s remuneration.
- Board meeting frequency
- Balanced annual reporting
- Requirement for effective auditing
- Affirmative action programs.

3. CII (CONFEDERATION OF INDIA INDUSTRY) COMMITTEE

- The thrust of this committees report therefore is to suggest certain voluntary recommendations for industry to adopt
Good corporate governance involves a commitment of a company to run its business in a legal, ethical, and transparent manner. This dedication must come from the very top and permeate throughout the organization.

**CII RECOMMENDATIONS**

These include the following recommendations,

- No single person should hold directorships in more than 10 listed companies.
- Non-executive directors should be competent and active and have clearly defined responsibilities.
- Directors should be paid a commission not exceeding 1% of net profits for a company without an MD over and above sitting fees. Stock options may be considered too.
- Attendance record of directors should be made explicit at the time of re-appointment. Those with less than 50% attendance shouldn’t be re-appointed.
- Key information that must be presented to the board is listed in the code.

**4. REPORT OF HAMPEL COMMITTEE**

- The Hampel committee was established in 1996 to review and revise the earlier recommendations of the Cadbury and greenbury committees.
- This report emphasized principles of good governance rather than explicit rules.
- Hampel did not believe that director’s remuneration should be a meter for shareholder approval in general meeting.
- The sponsor of the Hampel committee were,
  a. London stock exchange (LSE)
  b. Confederation of British industry (CBI)
  c. National association of pension funds (NAPF)
  d. Association of British insurance (ABI)

**RECOMMENDATIONS**

Hampel committee recommended that,

- The auditors should report on internal control privately to the directors.
- The directors maintain and review all (and not just financial) controls.
- Companies that do not already have an internal audit function should from time to time review their need for one.

**5. KUAMRA MANGALAM BIRLA COMMITTEE**
• This committee was established on 7\textsuperscript{th} May 1999, with 18 members under the chairmanship of Kumar Mangalam Birla with a view to promoting and raising the standards of corporate governance.

• This report deals with,
  a. Contiguous disclosure of material information.
  b. Draft a code of corporate best practices.
  c. Safeguards to deal with insider information and insider trading.

**Birla Committee’s Recommendations**

**Mandatory Recommendations**

- Applicability
- Board of directors
- Audit committee
- Remuneration committee
- Remuneration committee
- Board procedures
- Management
- Shareholders

**Non-Mandatory Recommendations**

- Chairman of the board
- Remuneration committee
- Shareholders rights
- Postal ballot

6. **SEBI Corporate Governance Committee Report**

This report is a recent addition to the listing agreement and was inserted as late as 2000 consequent to the recommendations of the Kumar Mangalam Birla committee on corporate governance constituted by the Securities Exchange Board of India (SEBI) in 1999.

**Recommendations**

These include,

- At least so percent of the board should comprise independent directors
- In corporate hierarchy two types of managements are,
  a. Managed by board of directors
  b. Managing director
- Clause 49 requires companies to submit a quarterly compliance report to stock exchange in the prescribed form.
• Directors is required to be financially literate
• Mandatory certificate either from auditors or practicing company secretaries.

7. **NARAYANA MURTHY COMMITTEE REPORT**

• Narayana murthy reports were submitted to SEBI it praised him by saying the suggestion contained in the narayana murthy committee’s report is more elaborate and this would encourage a meaningful discussion at the board level periodically and the company will have benefit of advice from board members.

• SEBI issued a circular dated August 26th, 2003 to all the stock exchanges in this regard.

**RECOMMENDATIONS**

Training of board members suggested,

• There shall be no nominee directors. All directors to be elected by shareholders with same responsibilities and accountabilities.
• The board should be informed every quarter of business risk and risk management strategies.
• The board report of a parent company should have access to minutes of board meeting in subsidiaries and should affirm reviewing its affairs.
• Performance evaluation of non executive directors by all his fellow board members should inform a re-appointment decision.
• Non-executive director compensation to be fixed by board and ratified by shareholders and reported.
• Independent directors should be treated the same way as non-executive directors.
• While independent and non-executive directors should enjoy some protection from civil and criminal litigation, they may be held responsible of the legal compliance in the company’s affairs.

3. **INSTITUTIONAL INVESTORS**

Institutional investors are organizations which pool large sums of money and invest those sums in securities real property and other investment assets.

Institutional investors also include operating companies which decide to invest its profits to some degree in investments assets real property etc. their role in the economy is to act as highly specialized investors on behalf of others.

3.1 **TYPES OF INSTITUTIONS INVESTORS**

Types of institutional investors are given as follows,
1. **INVESTMENTS BANK**
   - An investment bank is a financial institution that assists corporations and governments in raising capital by underwriting and acting as the agent in the issuance of securities.
   - An investment bank also assists companies involved in mergers and acquisitions, derivatives, etc. Further, it provides ancillary services such as trading of derivatives, foreign exchange, commodity, and equity securities.

2. **MUTUAL FUND**
   - A mutual fund is a professionally managed type of collective investment scheme that pools money from many investors and invests typically in securities (like stocks, bonds, other mutual funds, commodities such as precious metals.)

3. **PENSION FUND**
   - A pension fund is a pool of assists forming an independent legal entity that are bought with the contribution to a pension plan for the exclusive purpose of financing pension plan benefits.
   - Pension funds are of 2 forms: open pension funds and closed pension funds.
   - Open pension funds support at least one pension plan with no restriction on membership.
   - Closed pension funds support only pension plans that are limited to certain employees.

4. **HEDGE FUND**
   - A hedge fund is an investment fund open to a limited range of investors that undertake a wider range of investment and trading activities.
   - Every hedge fund has its own investment strategy that determines the type of investments and the method of investment it undertakes.
   - Hedge funds as a class invest in a broad range of investments including shares, debt, and commodities.
3.3 GUIDELINES FOR INSTITUTIONAL INVESTORS

1. INVESTORS SHOULD HAVE A CLEAR POLICY ON VOTING AND DISCLOSURE OF VOTING ACTIVITY

- The provision seeks to make voting mandatory for institutional shareholders on all shares held by them in portfolio companies, along with public disclosure of their voting records and reasons for non-disclosures.
- They cannot automatically support the board in passing resolutions and if they are unsuccessful in reaching a positive outcome then they should register a vote against resolution.

2. INSTITUTIONAL INVESTORS TO BE WILLING TO ACT COLLECTIVELY WITH OTHER INVESTORS

Institutional investors should disclose their policy on collective engagement with other investors especially during significant corporate or wider economic stress, or when the risks posed threaten the ability of the company to continue.

3. INVESTORS TO HAVE A ROBUST POLICY ON MANAGING CONFLICTS OF INTEREST

Institutional investors should formulate and regularly review a policy for managing conflicts of interest which may include voting on meters affecting a parent company or a client.

4. INSTITUTIONAL INVESTORS TO REPORT PERIODICALLY ON THEIR RESPONSIBILITIES AND VOTING ACTIVITIES

Like U.S funds, Indian assets management funds are now required to disclose their general policies and procedures for exercising their voting rights in respect of the shares held by them on their websites as well as in annual report distributed to the unit holders.

3.4 ADVANTAGES OF INSTITUTIONAL INVESTORS

Investments through institutional investors are important because they offer following advantages,

- Safe involvement owing to their vast domain knowledge.
- Lower risk than that faced by non-institutional investors
- Active involvement and influence in corporate governance.
- Ability to influence a company’s solvency (computability to meet financial obligations)
- Encourages the development of capital markets
- Influencing the conduct and capital requirements of listed companies.

4. AUDITORS
4.1 **MEANING OF AUDIT**
- The institute of character accountants of India (ICAI) has defined audit as the independent examination of any entity whether profit oriented or not and irrespective of its size or legal form when such an examination is conducted with a view to expressing an opinion thereon.
- Auditing is the process by which a competent independent person objectively obtains and evaluates evidence regarding assertions about an economic activity or event.
- The purpose of auditing is for forming an opinion about and reporting on the degree to which the assertion conforms to an identical set of standards.
- The objectives of audit of financial statements are to enable auditor to express an opinion on financial statements which are prepared within a framework of recognized accounting policies and practices and relevant statutory requirements.

4.2 **MEANING OF AUDITORS**
- An auditor is a person appointed by a company to perform an audit. An auditor is required to certify that the accounts produced by his client companies have been prepared in accordance with normal accounting standards and represent a true and fair view of the company. Usually chartered accountants are appointed as auditors.
- An auditor is a representative of the shareholders forming a link between the government agencies, stockholders, investors, and creditors.

4.3 **TYPES OF AUDITORS**
Auditors are of three types here as follows,
- **Independent auditor’s**
- **internal auditors**
- **Government auditors**

1. **INTERNAL AUDITORS**
- Internal auditors are those auditors who are employed by an organization for which they perform audits.
- Internal auditor’s responsibilities vary and may include financial statement audits, compliance audits, and operational audits.
- These internal auditors may assist the external auditors in completing the financial statement audit or perform audits for use by management within the entity.
• An organization may have a small or very large internal audit staff. They cannot be independent as long as the employer employee relationship exists.

2. **INDEPENDENT AUDITORS**
   • Independent auditors are usually members of CPA (certified public accountants) firms.
   • The opinion of independent auditors about financial statements makes the statements more credible to investor’s banker’s labor unions, government agencies and the general public.

3. **GOVERNMENT AUDITORS**
   • Government auditors work in various local state and federal or central government agencies performing financial compliance and operational auditors.
   • Local and state governments for example employ auditors to verify that business collect and remit sales taxes and excise duties as required by law.

### 4.4 RIGHTS OF AUDITORS

According to section 227 (1) of the companies act, 1956, a company auditors has the following rights,

- Right to access books of accounts
- Right to obtain information and explanations
- Right to correct any wrong statement
- Right to visit branches
- Right to signature on audit report
- Right of being indemnified
- Right to have legal and technical advice

1. **RIGHT TO ACCESS BOOKS OF ACCOUNTS**
   • Every auditors of a company has a right of access at all times to the books of accounts and vouchers of the company.
   • Thus the auditor consult all the books vouchers and documents whenever he so likes. This is his statutory right.

2. **RIGHT TO OBTAIN INFORMATION AND EXPLANATIONS**
   • Auditors have a right to obtain from the directors and officers of the company any information and explanations he thinks necessary for performance of his duties as an auditor.
• If the directors or officers of the company refuse to supply some information he has a right to mention the fact in his report.

3. **RIGHT TO CORRECT ANY WRONG STATEMENT**
   • The auditor is required to make a report to the members of the company on the accounts examined by him and on every other document.
   • The auditor can advice the directors to change their system of maintaining accounts if it is faulty.
   • If the method of accounting is inadequate he must state the fact in his report that proper books of accounts have not been kept by the company.

4. **RIGHT TO VISIT BRANCHES**
   • According to section 228, if a company has a branch office the accounts of the office shall be audited by the company’s auditor appointed under section 224.
   • Where the branch accounts are not audited by a duly qualified auditor the auditor has a right to access at all tie to the books accounts and vouchers of company thus may visit the branch if necessary.

5. **RIGHT TO SIGNATURE ON AUDIT REPORT**
   Under section 229, only the person appointed as auditor of the company or where a firm is so appointed only a partner in the firm practicing in India, may sign the auditor’s report or sign any other document of the company required by law to be signed by the auditor.

6. **RIGHT TO BEING INDEMNIFIED**
   Under section 633, an auditor (being officer of a company) has a right to be indemnified out of the assets of the company against any liability incurred by him defending himself against any civil and criminal proceedings by the company if it is proved that the auditor has acted honestly.

7. **RIGHT TO HAVE LEGAL AND TECHNICAL ADVICE**
   • Auditor has a right to seek the opinion of the experts and thus, take legal and technical advice. This is necessary to give his opinion in his report.
   • An auditor has a right to receive his remuneration provided he has completed the work which he undertook to do.

4.5 **DUTIES AND RESPONSIBILITIES OF AUDITORS**

A. **DUTIES OF AUDITORS**
   The duties of auditors are defined under companies act, 1956. These duties include,

1. **DUTY TO ENQUIRE**
   Duty to enquire says that an auditor can enquires,
   • Whether loans and advances made by the company on the basis of security have been properly secured.
   • Whether transactions of the company which are represented by book entries or not.
• Whether loans and advances made by the company have been shown as deposits and
• Whether personal expenses have been charged to revenue accounts

2. **DUTY TO REPORT**
   The auditor shall report to the shareholders on the accounts examined by him. The report contain following,
   • Whether in his opinion the profit and loss accounts referred to in his report exhibits a true and fair view of the profit or loss.
   • Whether he has obtained all the information and explanations which to the best of his knowledge and belief.
   • Whether the company’s balance sheet and profit and loss accounts dealt by the report are-e in agreement with the books of accounts and returns.

3. **OTHER STATUTORY DUTIES**
   • Under section 229, it is the duty of an auditor to sign the report prepared by him.
   • Under section 56 (1), the prospectus issued by an existing company shall contain a report from the auditor of company regarding
     - Profits and losses
     - Assets and liabilities of company and its subsidiaries.
     - Rate of dividends paid by the company.
   • It is the duty of an auditors that he should verify investments himself while certifying such investments.
   • It is the duty of auditor to satisfy his self that the securities of the company in fact exist and are in the safe custody.

B. **RESPONSIBILITIES OF AUDITORS**
   As per the standard auditing practices (2) of the ICAI an auditor
   • Is responsible for forming and expressing his or her opinion on the financial statements. He or she assesses the reliability and sufficiency of the information contained in accounting records.
   • Determines whether the relevant information is properly disclosed in the financial statements by comparing financial statements with underlying accounting records and other source data.
   • Has to ensure that his or her work involves exercise of judgment.
   • An auditor is not expected to perform duties which fall outside the scope of his or her competence.
   • For example – the professional sill required of an auditor does not include that of a technical expert for determining the physical conditions of certain assets.

5. **CORPORATE SOCIAL RESPONSIBILITY SHATEHOLDERS-ENVIRONMENT-SOCIAL DEVELOPMENT**
5.1 MEANING OF CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) also referred as corporate sustainable responsibility, corporate sustainability, sustainable business, corporate responsible business.

Corporate social responsibility is a type of international private business self regulation. Corporate social responsibility is titled to aid an organization’s mission as well as serve as a guide to what the company represents for its customers. At the organizations level corporate social responsibility is an organizational policy. As such it must align with and be integrated into a business model to be successful. Corporate social responsibility includes actions that appear to some social good, beyond interests of the firm.

5.2 DEFINITION OF CORPORATE SOCIAL RESPONSIBILIV

Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

- WORLD BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT

Corporate social responsibility is defined as the purpose of business to do as much good as can everywhere for everybody concerned and incidentally to make money.

- ACCORDING TO HENRY FORD

Corporate social responsibility is no philanthropy, it is not charity. It is an investment in our collective future.

- Dr. MANMOHAN SINGH, PRIME MINISTER OF INDIA

Corporate social responsibility is the wealth created from society has to be ploughed back into society.

- MAHATMA GANDHI

5.3 WHAT CSR MEANS?

Corporate social responsibility means,

- It is an attempt made by companies to be voluntarily responsible to ethical and social consideration.
- CSR is not a legal binding for the company, unlike corporate accountability (which make company adhere to legal and social norms)
- CSR is a set of obligations to pursue those policies to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society.
- The social responsible firm should strive to,
  - Make a profit
  - Obey the law
  - Be ethical and
  - Be a good corporate citizen
- Social responsibility of business is temporal and society based i.e.,
  a. It differs from society to society
  b. It changes over time.
- The corporate social responsibility covers the economic legal ethical and environmental expectations society has placed on organizations at a given point of time.

Total corporate social responsibility = \text{economic responsibilities + legal responsibilities + ethical responsibilities + philanthropic responsibilities}.

- The concept of corporate social responsibility for business organizations is probably most advanced in the United States and in western societies than in the developing and emerging economies.
- CSR is the set of obligations an organization has to project enhance and otherwise work with to the betterment of the society in which it functions.

5.4 MODELS FOR IMPLEMENTATION OF CSR

A model for implementation of corporate social responsibility is one that enables organizations to apply a particular concept as a work base proposition. The models for implementing CSR are given here under,
## Corporate Governance Structures

<table>
<thead>
<tr>
<th>MODEL</th>
<th>PROPONENT</th>
<th>EMPHASIS</th>
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<tbody>
<tr>
<td>Ethical</td>
<td>Mahatma Gandhi</td>
<td>• Voluntary commitment by companies to public welfare.</td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Statist</td>
<td>Jawaharlal Nehru</td>
<td>• State ownership and legal requirements determine corporate responsibilities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liberal</td>
<td>Milton Friedman</td>
<td>• Corporate responsibilities limited to private owners (shareholders)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>stakeholders</td>
<td>R. Edward freeman</td>
<td>• Companies respond to the needs of stakeholders.</td>
</tr>
</tbody>
</table>

### 1. ETHICAL MODEL
- In the ethical model there is a voluntary commitment to public welfare. In India it has its roots in the Gandhi philosophy of trusteeship.
- Examples of this model are found in TATOS, BIRLAS, Infosys, Dr. Reddy labs and reliance industries who have provided cash for social welfare projects, community investment trusts and schools.
- Many companies particularly family run business continue to engage in philanthropic activities based on this model.

### 2. STATIST MODEL
- Statist model is based on the state owned public sector units (PSU). It is based on the socialist and Nehruvian mixed economy format that India adopted for its economy.
- The public sector units provide housing and schools to workers. The inspiration has been drawn from the labor laws and management principles. But this model is now being challenged by the trend of disinvestment and privatization.

### 3. LIBERAL MODEL
- This is the liberal approach where the belief is that the free market would take care of corporate responsibility
- It is drawn from Milton Friedman’s view which states that a company’s responsibility lies mainly in improving the economic bottom line and increasing the wealth of the shareholders.
- This model is sufficient for the corporate to obey the law and generate wealth, which can be directed forwards social ends through fiscal policy and charitable choices.
4. **STAKE HOLDERS MODEL**
   - Since the late 1980’s and through the 1990’s there has been an increasing realization that business has a social responsibility.
   - This model is generating understood that a stakeholders in an organization is an individual or a group of individuals who can affect or is affected by the objectives and activities of the organization.
   - Corporate responsibility means ethical and environment friendly practices.
   - Companies are expected to stick to the triple bottom-line of economic social and environmental responsibility towards workers, the shareholders and the community.

5.5 **EVOLUTION OF CSR**
Corporate social responsibility in India has evolved in four phases which are as follows,

**PHASE – 1 CSR FOR CHARITY**
Concept of CSR was first evolved during 19th century. During that time industrialists contribute towards society due to feeling of charity or religions purpose. Another purpose was to serve particular caste or political party.

**PHASE – 2 CSR FOR GROWTH OF SOCIETY**
Freedom movement led the beginning of new phase of CSR. To make freedom movement more powerful leaders focuses on making society economically developed. During that time industrialists were required to give more benefits to society.

**PHASE – 3 CSR FOR COMPLYING WITH LAWS AND ACTS**
Third phase of evolution of CSR started after gaining independence in India. Most companies were owned by government. Various laws and acts were introduced to safeguard labor and environment. Thus, to comply with the laws ad acts framed by government companies mostly PSUs follow activities related to CSR.

**PHASE – 4 CSR FOR COMPLYING WITH INTERNATIONAL NORMS AND STANDARDS**
Fourth phase of CSR started during 1980’s. During that time companies should integrate ethics into their activities. Indian companies believed that to remain profitable in global market it was essential to follow standards and norms that are contributing to society employees and environment.

5.6 **NEED FOR CSR**
Corporate social responsibility is needed for the following reasons.
1. **IT IS ORGANISATIONS RESPONSIBILITY**
   All existing companies owe the embodiment of their respective character to society. The very existence of the institution of business called company provides is attributable to the services a company provides to the society. These services can be considered to be offered to the society in return for what the company has received from the society. This is said to be corporate social responsibility of company.

2. **TO ENHANCE REPUTATION**
   Social welfare activities undertaken by an organization enhance its reputation in the society. Enhanced reputation translates into more customers who mean higher sales and profitability.

3. **TO AVOID GOVERNMENT REGULATION OR CONTROL**
   Those companies that do not fulfill their social responsibilities are liable to face governmental intervention which may be in the form of imposition of regulations or controls and these mean additional cost to such companies. These can be avoided by companies by fulfilling their CSR.

4. **TO MINIMIZE ENVIRONMENT DAMAGE**
   Effluent gases and chemicals from industrial organizations are detrimental to the environmental such organizations should neutralize the damaging effects of these environmental violations and restore normally. It is a prime responsibility of such organizations.

5. **TO AVOID MANAGEMENT WORKER CONFLICTS**
   Just like the welfare of the community welfare of the workers of the company is also a vital responsibility of a company. Workers of a company constitute its backbone and hence their welfare is not only the responsibility of the company but is also in its interest. By avoiding management worker conflicts all workers will be happy and thereby contribute to increased productivity.

6. **TO CONVERT RESISTANCES INTO RESOURCES**
   Social problems offer resistance to the progress of a company. A company can transform many of its social problems into utilizable resources.

7. **TO USE NATIONAL RESOURCES**
   Organizations have substantial access to the productive resources of communities in which they operate national resources though provided by government at subsidized rates are actually meant to benefit the community because national resources are ultimately the property of the community the government being the elected representation of public. Such economic benefits that companies enjoy must be used for the benefits of community.
5.7 CSR FOR STAKEHOLDERS ENVIRONMENT AND SOCIAL DEVELOPMENT

1. **STAKEHOLDERS**

   Stakeholders are those individuals or groups inside or outside the organization who have capacity to influence directly or indirectly the activities of the organization. Various stakeholders and corporate social responsibility towards then are explained below,

   (i) **SHAREHOLDERS (OWNERS)**

   The shareholders are the real owners of the company there are thousands of shareholders of a large company who appoint individuals as directors on the board of directors which constitute the management of the company.

   The management is responsible for the protection of rights of shareholders especially regard to the return on investment. These responsibilities include,

   **REASONABLE DIVIDEND**

   The interests of shareholders lie in a good dividend. A responsible company takes care of these interests.

   **SOUNDNESS**

   A responsible management sees to it that its financial status is sound and it has a promising growth record.

   **PROTECTION OF ASSETS**

   The management of a company is responsible to protect the assets of company which constitutes responsible behavior of towards shareholders.

   (ii) **EMPLOYEES/WORKERS**

   Employees are the human resources of a company following are the responsibilities towards employees,

   **PAY FAIR WAGES**

   A company should regularly pay reasonable wages to its employees. This enables employees to enjoy a satisfactory standard of life.

   **PROVIDE GOOD WORKING CONDITIONS**
A responsible management provides good working conditions for its employees. This is a necessity to maintain sound physical and mental health.

**PROVIDE OPPORTUNITIES FOR GROWTH**

The management should provide to its employees opportunities for growth by providing training and by holding continuous learning programs.

**RECOGNISE EMPLOYEES RIGHTS**

A responsible management recognizes and protects the rights of its employees the right to fair wages right to basic facilities like paid leave the right to form unions etc.

(iii) **CUSTOMERS**  
A company stands high because of a large number of satisfied customers. For being satisfied a customer needs the best possible quality at a lowest possible price. Management responsibility towards customers include,

**REGULAR FLOW OF GOODS**

The management should ensure regular supply of quality goods at affordable prices.

**COURTEOUS SERVICE**

Courteous service while selling i.e. courteous salesmanship and effective after sales services are vital factors to achieve.

**FAIR TRADE PRACTICES**

There are guidelines regarding fair trade practices. A company should stop unfair trade practices like adulteration providing false information etc.

(iv) **SUPPLIERS**

Suppliers supply materials as raw material input to manufactures and traders mostly on credit terms. A company that buys these from suppliers has responsibility to pay the agreed amount within the agreed time. Business has following responsibilities towards suppliers.

- Being precise about specification of goods ordered.
- Contacting with the suppliers on fair terms and conditions.
- Informing about changes in specifications fairly in advance.
- Paying agreed amount within agreed time.
- Keeping the suppliers informed about future plans.
(iv) CREDITORS
- Creditors are those who provide loans to a business like banks and financial organizations. Business have responsibilities like,
  - A company should furnish accurate information about its financial status.
  - A company should repay loans promptly within due date.

(v) GOVERNMENT
All business should fulfill the following responsibilities towards government,
- To obey the laws of the countries in which business operate.
- Honestly pay all government taxes.
- Stoop all corrupt practices while dealing with government.
- Act in conformity with fair trade practices
- Avoid monopolization.

(vi) SOCIETY
A society is a large social grouping that shares same geographical territory shares common responsibilities of business towards society.
- It is the responsibility of companies to meet socio economic objectives like social welfare and economic welfare of under privileged individuals.
- Creating employment opportunities to reduce unemployment.
- Responsible management should ensure that,
  - Its operations should not pollute the environment.
  - It helps create a health-promoting environment
  - It develops gardens recreational facilities etc, to enhance quality of life its staff and general public.

2. ENVIRONMENT
The environment contains air, water, food and sunlight etc. environment affects all the living creatures including the plants and trees. Corporate social responsibility towards environment includes,

(i) RECYCLE
- Business can help the environment by promoting recycling programmes.
- Simple business recycling tasks such as accumulating used plastics papers butteries and even mobile phones can go a long way in helping the environment.

(ii) REDUCE
- It should be noted that the best approach to reduce the proliferation of waste materials is not produce them in the first place.
- Manufacturing methods that are specifically designed to reduce the amount of toxic waste materials can pave the way for less pollution in the landfills.
(iii) **BE SMARTER WITH PAPER**
- One way that corporate can definitely reduce a lot of clutter in office is by making better choices when it comes to paper usage.
- Buy recycled paper print on both sides of it. Create scratch pads from used paper. Save files on a cloud rather than making hard copies and eliminate the junk mail that comes to office.

(iv) **BE SMART WITH ELECTRICITY**
- Office should use natural light as much as possible choose to turn laptop more than desktop (laptops use about 60% less energy). At the end of the day, unplug whether doesn’t need an electrical charge throughout the night.

(v) **RE-THINK SHIPPING**
- Most business has items that need to be shipped out on regular basis.
- Corporate can reduce shipping waste by using returnable containers, insulating package with shredded paper rather than bubble wrap.

3. **SOCIAL DEVELOPMENT**
Social development is a process which results in the transformation of social structures in a manner which improves the capacity of the society to fulfill its operations. Development is a process not a programme. Thus social development is a process not a programme. Thus social development is the process of developing active and sustainable communities based on social justice and mutual respect. The role of corporate social responsibility in social development include,
- Through CSR the existence of corporations in the social system is felt beyond a perception that corporation is a place just to get employment and producers of goods and services. By doing so corporations and community would stay in peace and harmony.
- Organizations with a reputation for CSR can take advantage of their status and strengthen their appeal as an attractive employer by making their commitment part of their value for potential candidates. It also found that when employees view their organizations commitment to socially responsible behaviors more favorably.
- Some of the worlds’ largest companies have media highly visible commitment to CSR with initiatives aimed at reducing their environment problems. These companies take the view that financial and environmental performance can work together to drive company’s growth and social reputation.
- Corporations also create employment opportunities to disadvantaged individuals thereby improving their standard of living.
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