BALAJI INSTITUTE OF I.T AND MANAGEMENT KADAPA

BUSINESS ETHICS AND CORPORATE GOVERNANCE

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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.

1. **Business Ethics and Corporate Ethics – Meaning, Importance, Functions, Unethical Practices and Ethical dilemma, Ethical theories and Approaches, Modern Decision making - Ethical Models for Decision Making, Indian Ethos, Ethics for Managers, Ethics in Business Competition.**
2. **Ethical Aspects in Organization – I:** Marketing ethics and Consumer ethics – Ethical issues in Advertising, Criticisms in Marketing ethics, Ethics in HRM: Selection, Training and Development – Ethics at work place – Ethics in Performance Appraisal.
3. **Ethical Aspects in Organization – II:** Ethics in Finance: Insider trading - Ethical investment - Combating Frauds. Ethical issues in Information Technology: Information Security and Threats – Intellectual Property Rights – Cyber crime.
4. **Corporate Governance:** Purpose – Theories and Philosophies of Corporate Governance
5. **Corporate Governance Structures:** Directors, Committees, Institutional investors – Auditors. Corporate Social Responsibility: Stakeholders – Environment – social Development.

Textbook:

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

References:

- “Perspectives in Business Ethics”, Laura P Hartman, Tata McGraw Hill.
- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
- Business Ethics -Concepts and Cases, Weiss,Cengage.
- Business Ethics, Himalaya, C.S.V.Murthy.
- Ethical Management, Satish Modh, Mcmillan.

UNIT 1
BUSINESS ETHICS AND CORPORATE ETHICS

1.1. MEANING:

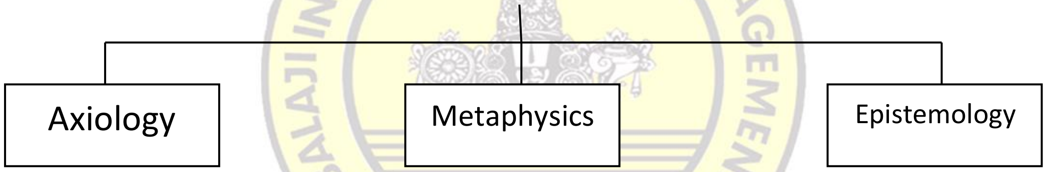
WHAT IS ETHICS AND BUSINESS ETHICS?

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.

Ethics attempts to find out the nature of morality, and to define and distinguish what is right from what is wrong. Ethics is also called "**moral philosophy".**

BRANCHES OF ETHICS



- **Axiology** means study of value
- **Metaphysics** deals with the first principles of things, including abstract concepts such as being, knowing, identity, time, and space.
- **Epistemology** deals with methods, validity, and scope, and the distinction between justified belief and opinion.

Ethics is a conception of right and wrong behavior defining for us when our actions are moral and when they are immoral.

Business ethics on the other hand is the application of general ethical ideas to business behavior. The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility.

Ethical business behavior is expected by the public, it facilitates and promotes good to society, improves profitability, fosters business relations and employee productivity, reduces criminal penalties from public authorities and regulators, protects business against unscrupulous employees and competitors, protects employees from harmful actions by their employer and allows people in business to act consistently with their personal ethical beliefs.

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

1.1.1. WHAT NOT BUSINESS ETHICS IS?

It is also equally important to clarify what not ethics is.

i. **ETHICS IS DIFFERENT FROM RELIGION:**

- Though all religions preach high ethical/moral standards generally, they do not address all types of problems people confront today.
- For instance, cyber crimes and environment related issues are totally new in the context of most religions.

ii. ETHICS IS NOT SYNONYMOUS (SIMILAR) WITH LAW:

- Generally a good legal system may incorporate many moral/ethical standards.
- However, there are also several instances where law deviates from what is ethical. Legal systems may vary from society to society depending upon its social, religious and cultural beliefs. For instance the United States law forbids companies from paying bribes either domestically (within the country) or overseas (foreign countries). However in other parts of the world bribery is an accepted way of doing business.
- Sometimes law could be unreasonable and even stupid as for instance, it is illegal in Israel for a hen to lay an egg on Friday or Saturday.

iii. ETHICAL STANDARDS ARE DIFFERENT FROM CULTURAL TRAITS:

- Some cultures may be ethical but many of them are not. They may be quite oblivious (not conscious of something) to ethical concerns.
- For example, our system of castes reflex an unethical streak (trait) in as much as it tends take for granted that some people are superior to others in god's creation.

iv. ETHICS IS DIFFERENT FROM FEELINGS:

- Our ethical choices are based on our feelings.
- Most of us feel bad when we include in something wrong. But many, especially hardened criminals may feel good even when they do something bad.
- Most people when they do something wrong for the first time may feel bad but, if they find it to be beneficial or if it brings them pleasure, they may make it a habit without feeling any remorse (deep regret or guilt for a wrong committed).

v. **<u>ETHICS IS NOT JUST A COLLECTION OF VALUES</u>:**

- Values are almost always oversimplifications which rarely can be applied uniformly.
- Values tend to be under-defined, situational by nature and subject to flawed (not perfect or containing mistakes) human reasoning such that by themselves they cannot assure true ethical conduct.

Basis	Ethical	Unethical
Definition	The branch of knowledge that deals with the moral principles per which a person should or may lead their life.	Something that does not get considered as right in the society or an act that may create confrontation among people becomes known as unethical.
Type	A person who follows the rules and abides by the ethics gets considered as a person with healthy habits.	An individual who does not abide by the rules and has an unethical nature gets viewed as people with bad habits.
Relation	Antonym for unethical.	Antonym for ethical.
Synonyms	Moral; social, behavioral	Dishonorable, illegal, dishonest

1.2. IMPORTANCE OF BUSINESS ETHICS:

Ethics in business and business activities have major importance which is as follows;

Importance of business ethics

- **Attracting customers**
- **Protection of consumer rights**
- **Reduced labor turnover**
- **Social responsibility**
- **Reduced takeover**
- **Promotes socialism**
- **Relation with society**
- **Long run survival/sustainability**
- **Controlling fraud**
- **Credibility with Employees**
- **Better decision-making**

A. ATTRACTING CUSTOMERS:

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

B. PROTECTION OF CONSUMER RIGHTS:

- Consumer rights are the rights of a consumer (who uses firm's 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:

- Labour 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 the 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, discrimination 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 activities 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.

J. CREDIBILITY WITH THE EMPLOYEES:

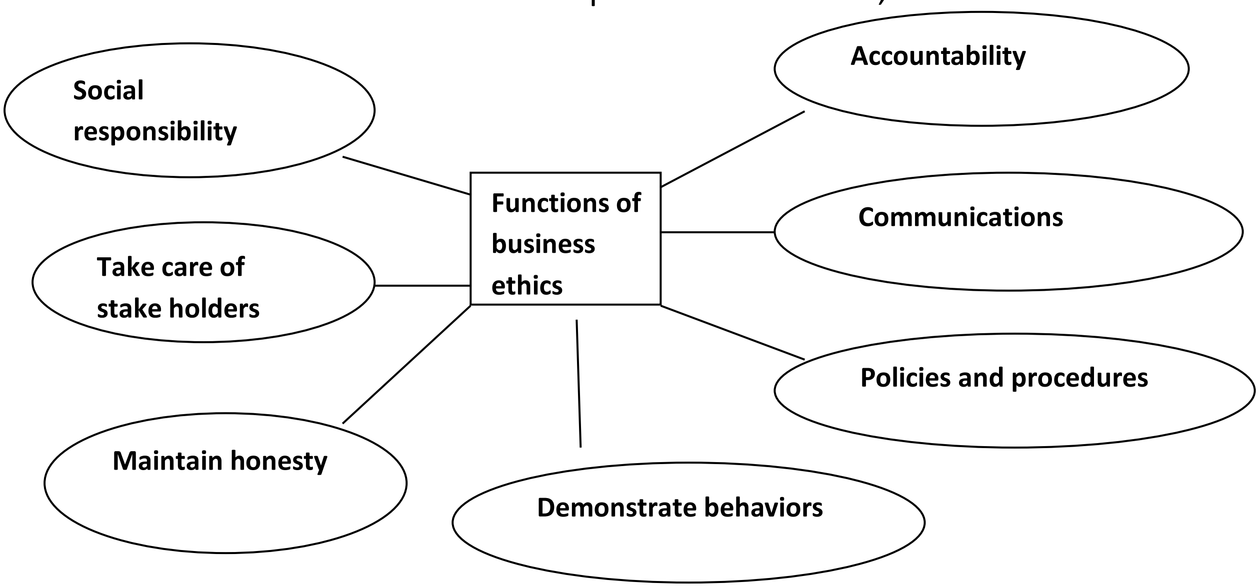
- When employees are convinced of the ethical values of the organization they are working for, they hold the organization in high esteem.
- It creates common goals, values and language. The HR manager will have credibility with the employees just because, the organization has creditability in the eyes of the public.
- Perceived social uprightness (being morally correct) and moral values can win the employees more than any other incentive plans.

K. BETTER DECISION MAKING:

- Respect for ethics will force a management to take various economic, social and ethical aspects into consideration while taking the decisions.
- Decision making will be better, if the decisions are in the interest of the public, employees and company's own long term good.

1.3. 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 become in-appropriate in later years.

E.POLICIES AND PROCEDURES:

- Business ethics 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 behavior.
- In ethical organization, all employees will know how to act in business.

G.<u>ENSURE GOOD EFFECT OF POWER</u>:

- As a business expands, opportunities for corruption also grow.
- In some cases, these expansions can destroy valuable elements in community.
- With good code of conduct/power, a company calls a work to repair possible damage caused.

1.4. 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 very 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. **RELEASING 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 (COMPULSION/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 is also unethical.

5. **DELAY IN PAYMENT:**

Delay in payment of salaries in time is also unethical.

6. **DISCRIMINATION :**

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

7. THEFT OR FRAUD:

Personal use of company property or expense account misrepresentations also unethical.

8. TERMINATION:

Termination is 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.

1.4.1: REASONS FOR UNETHICAL PRACTICES IN INDIA:

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

1.4.2. ETHICAL DILEMMA:

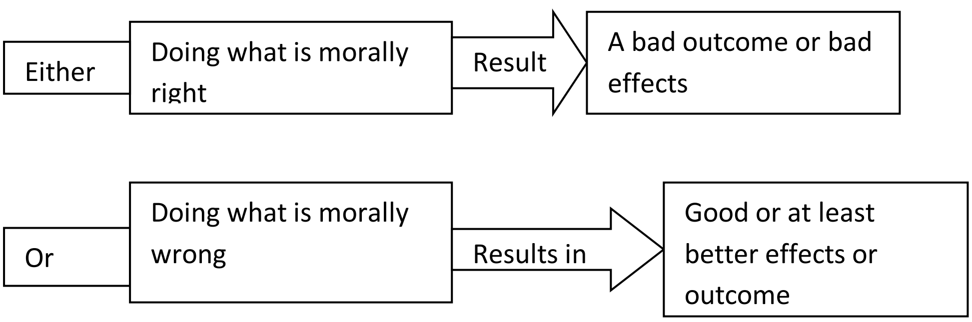
An ethical dilemma also referred as **moral dilemma or ethical paradox**. It is a situation in which choice has to be made between two equally undesirable alternatives.

Dilemma may arise out of various sources like, failure of personal character, conflict of personal values and organization goals etc.

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

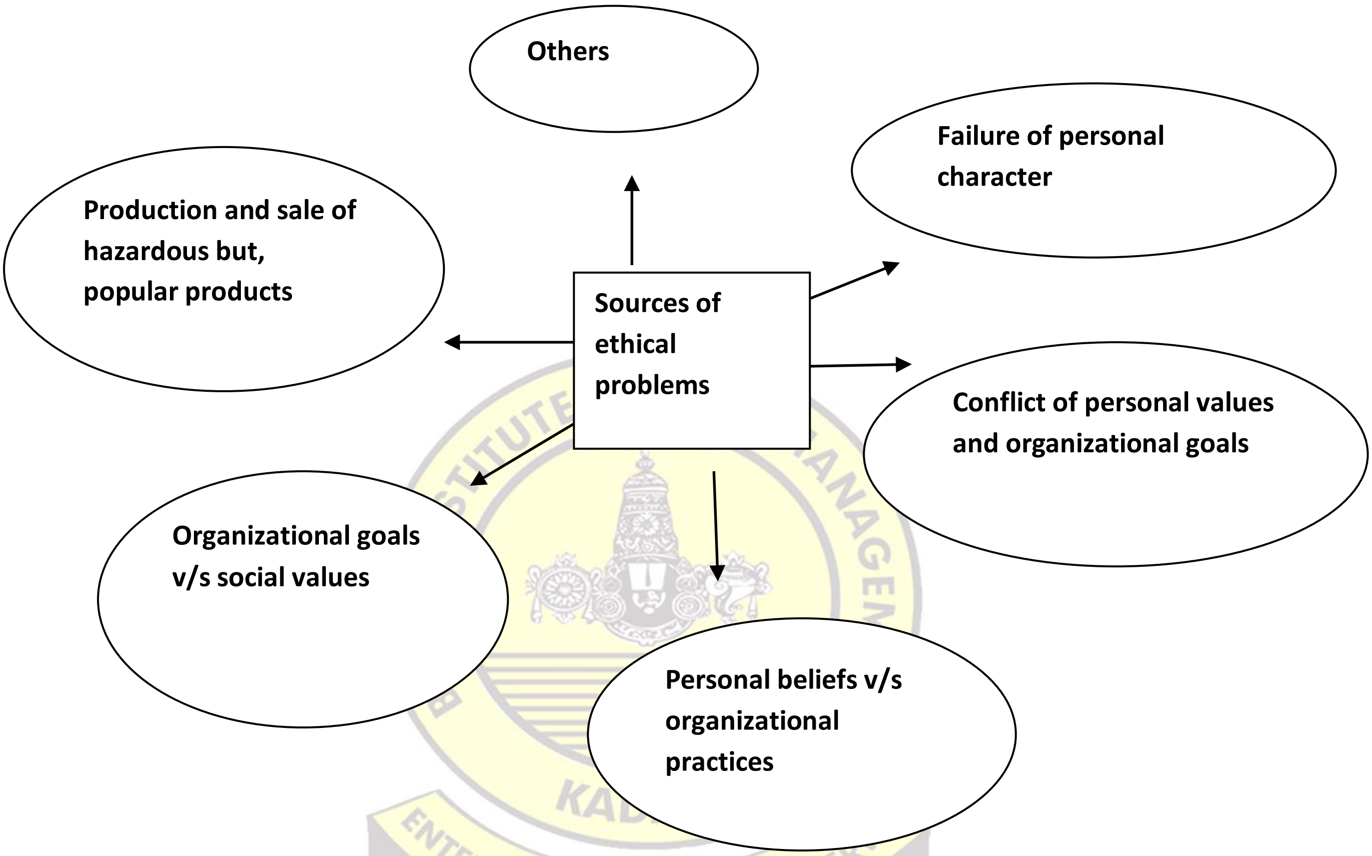
For example: Stealing to feed a family: Stealing is legally and ethically wrong but, if a family is starving it might be morally justified.

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 business persons do commit ethical mistakes while deciding business issues.



1.4.3. 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,



I. 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.

II. CONFLICT OF PERSONAL VALUES AND ORGANIZATIONAL GOALS:

To achieve objectives in effective 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.

III. <u>ORGANIZATIONAL GOALS VERSUS SOCIAL VALUES:</u>

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.

IV. <u>PERSONAL BELIEFS VERSUS ORGANIZATIONAL PRACTICES:</u>

Ethical dilemmas may arise in organizations when they employ multi-racial and multi-religious employees.

V. <u>PRODUCTION AND SALE OF HAZARDOUS BUT POPULAR PRODUCTS:</u>

There is an ethical dilemma regarding production and sale of hazardous but, popular products like cigarettes, drugs etc., and 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.

VI. <u>OTHERS:</u>

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

1.4.4. <u>RESOLVING ETHICAL DILEMMAS IN BUSINESS</u>:

Following are the steps to resolve ethical dilemmas business,

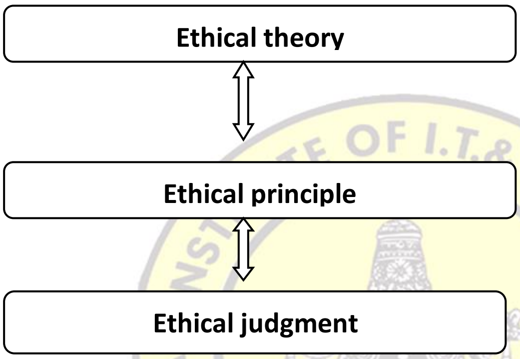
- Establishing corporate code of conducts for employees.
- Employ highly skilled people in the top level of the corporation who have standard ethical behavior.
- Rewarding employee who has good ethical conducts.
- Follow personal code of ethics for employees.
- Effective and open communication with every employee.
- Avoid conflict creating situations.
- Create an ethical working environment.

- A manager must judge his actions by characteristics like honest, transparency, impartiality, fairness & equality.

1.5. ETHICAL THEORIES AND APPROACHES:-

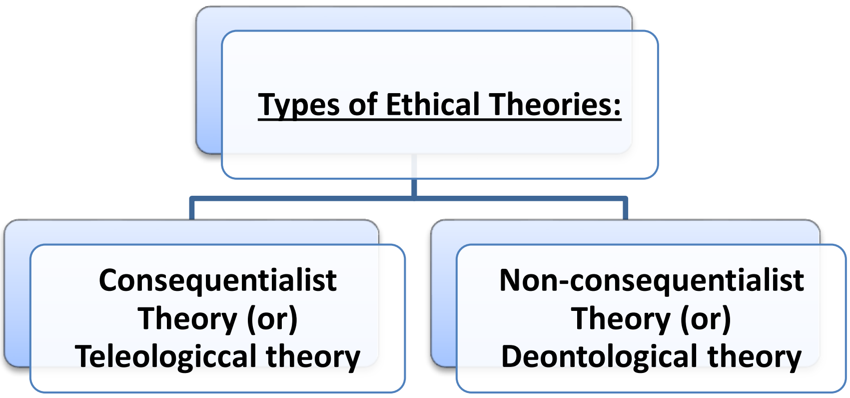
1.5.1. ETHICAL THEORY:

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.



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.

1.5.2. TYPES OF ETHICAL THEORIES:-



CONSEQUENTIALIST THEORY:-

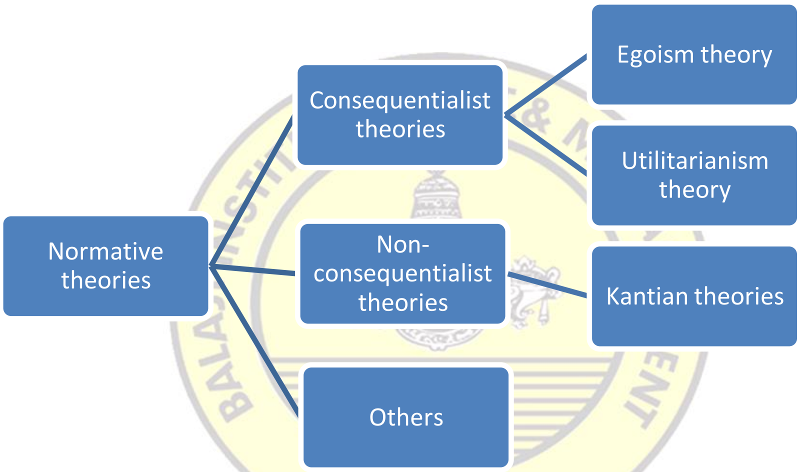
The theory which is based on moral judgments or consequences is called "**Consequentialist theory"** (or) "**Teleological moral theory**".

(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 "**Non Consequentialist"** 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.

CRITICISMS:-

- 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;

a. KANTIANISM THEORY:- ETHICS OF DUTY.

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.

Salaries →

Owners **Perform activities** **Managers**

←

ii. STAKEHOLDER THEORY:

A stake holder 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 daily 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.

1.6. MODERN DECISION-MAKING:

Modern ethical decision-making process involves following steps,

Moral awareness → **Moral judgment** → **Moral motivation** → **Moral behavior**

a. 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.

b. 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.

c. 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.

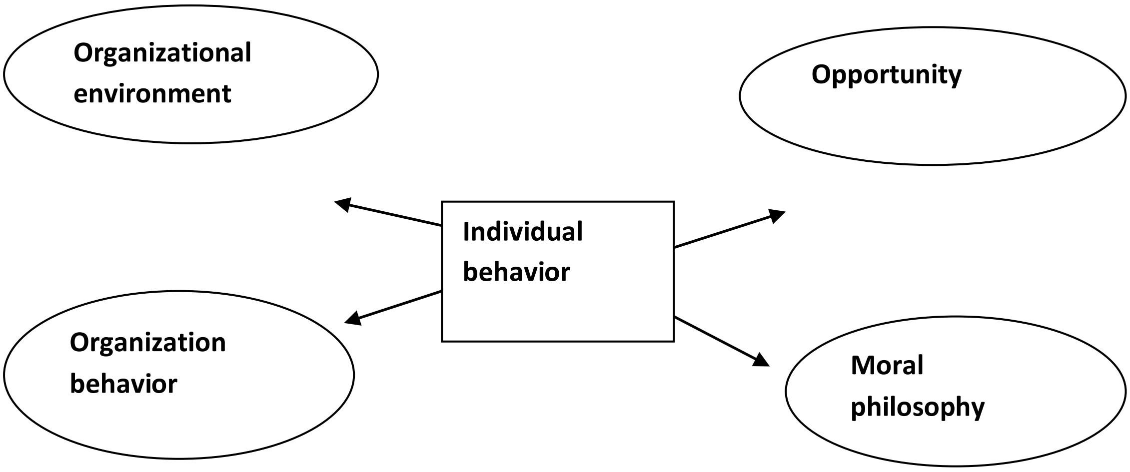
d. MORAL BEHAVIOUR:

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.

1.7. ETHICAL DECISION MAKING:

Generally managers, 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;



1.7.1. <u>ETHICAL DECISION</u>:

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.

1.7.2. <u>MODELS FOR DECISION –MAKING:</u>

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 an ethical way, they are,

Ethical models
- **Rights**
- **Utilitarian**
- **Fairness & justice**
- **Virtue**
- **Common goods**

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.

1.7.3. ETHICAL DECISION-MAKING PROCESS:

The process of ethical decision-making involves series of steps which are given as follows,

Define problem
↓
Consult resources & seek assistance
↓
Think about lasting effects
↓
Consider regulations in other industries
↓
Decide decision
↓
Implement & evaluate

a) **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.

b) **CONSULT RESOURCES AND SEEK ASISTANCE:**

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.

c) **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.

d) CONSIDER REGUALTIONS 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.

e) 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.

f) IMPLEMENT AND EVALUATE:

Once the decision is decided, it should be implemented i.e., put into action and then evaluation is needed for implemented decisions to correct any deviations.

1.8. INDIAN ETHOS:

1.8.1. ETHOS:

Ethos is a discipline that examines ones 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 (to imagine or expect that something is a likely or desirable possibility in the future) 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.

DEFINITION:

Oxford defines ethos as "The characteristic Spirit and Beliefs of community/people" which distinguishes one culture from the other. Indian ethos is drawn from THE VEDAS, THE RAMAYANA, MAHABHARATA, THE BHAGAVAD-GITA, and UPANISHADS.

THE MAIN FEATURES OF INDIAN ETHOS ARE AS FOLLOWS:

1) Divinity of human beings is not merely a notion but a truth which can be experienced.
2) Indian ethos lays special emphasis on values be it human or ethical.
3) Indian ethos is based on Indian scripture and it provides eternal knowledge.

INDIAN ETHOS IS RELEVANT IN OUR SOCIETY FOR FOLLOWING PURPOSES:

1) To work for the welfare of society and individual
2) Today we'll of unique work culture
3) To promote self development
4) To provide concentration
5) To establish ethical value system.

1.8.2: NEED OF INDIAN ETHOS:

Indian ethos are needed because of following reasons,

Need of Indian ethos

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

a) 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.

b) **HUMANIZING ORGANIZATION:**

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

c) **INTERIORIZING (SELF) MANAGEMENT:**

Self management are management by consciousness .when the soul manages 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.

d) **SELF INTROSPECTION:**

It concentrates on self study, self analysis and self critics to locate areas of frictions (disagreement) and disharmony. A self examination of one's thoughts emotions, sensation, passion and desire helps to reduce and subdue the ego.

e) **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.

f) **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.

1.8.3: 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.

1.8.4: EXAMPLES OF INDIAN ETHOS

a) **TRIKARANASUDDHI**-Purity and unity of thought, word and deed.
b) **PAROPAKARARDHAM IDA SHAREERAM**-the body is meant for serving others. By this everyone serves others.
c) **YAGNAYA CHARATHA**-treating job as a sacred offering. Don't treat job as useless one.
d) **PARASPAR DEVOBHAV**-respect the others person as a divine being.

1.9. 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 is 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.

1.9.1: 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.

1.9.2: 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,

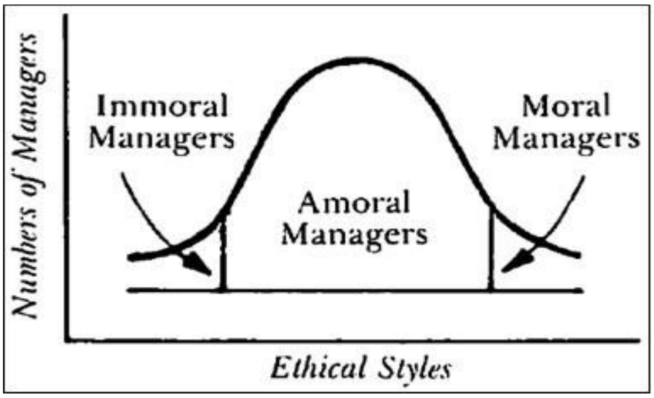
- Concern for company gains
- Emphasis on profits
- Emphasis on company success at any price.

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 unintentional.



1.9.3: ETHICAL PRINCIPLES FOR MANAGERS:

ethical principles

Law abiding	**honesty**
Commitment to excellence	**accountability**
Common good	**integrity**
Fairness	**respect**
Loyalty	**flexibility**

i. **LAW ABIDING:**

Managers should abide by laws, rules and regulations relating to their business.

ii. **COMMITMENT TO EXCELLENCE:**

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

iii. **COMMON GOOD:**

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

iv. **FAIRNESS:**

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

v. **LOYALITY:**

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

vi. **HONESTY:**

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

vii. **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.

viii. **INTEGRITY (MEANS QUALITY OF BEING HONEST):**

Managers who possess integrity are often consistent in their decisions-making and resolution of issues.

ix. **RESPECT:**

Managers need to treat staff member's customers and their own supervisors with the same respect they would expect for themselves.

x. **FLEXIBITIY:**

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

1.10. ETHICS IN BUSINESS COMPETITION:

COMPETITION:

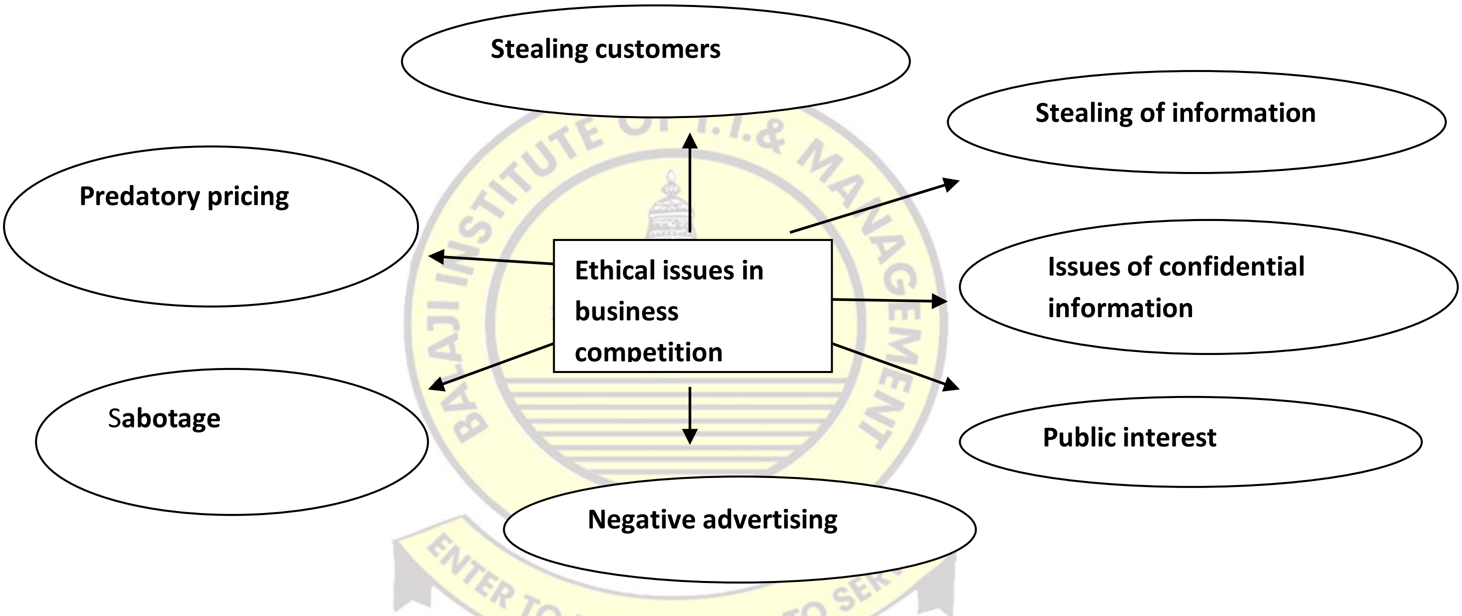
Competition is the activity or condition of striving to gain or win something by defeating or establishing superiority of others.

ETHICS IN BUSINESS COMPETITION:

Generally organizations are 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.

1.10.1: 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 methods like misrepresentation, providing false information etc.

2. **STEALING 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 (to gather slowly) 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 DESTRUCTING 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.

1.10.2: 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 should be 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.

IMPORTANT QUESTIONS:

UNIT-1

1. What is the importance of business ethics and corporate ethics?
2. Write about the ethical models for decision making process.
3. Critically comment your views on ethics in business competition.
4. What do you mean by business ethics? Explain the functions of business ethics.
5. Write about Ethical theories.

CASE STUDY:

ETHICAL DILEMMA:

A mining company plans to open a gold mine in the area. You are hired by the company to acquire the land. Your commissions and bonuses on the multi-million-dollar deal will be substantial. A large tract of land in the centre of the proposed mine is owned by an uneducated farmer who has lived on this land all of his life. He has no knowledge of the plans for the mine.

A smaller tract, near the site, but not part of the proposed land purchase, is owned by an influential member of the country council. He knows about the upcoming development. You know you can acquire the farmer's land for a fraction of its value. The council member has already started raising objectives to the mine.

QUESTIONS:

A) ANALYSE THE ETHICAL DILEMMA INVOLVED IN THIS CASE.

One Possible solution

A managerial ethical dilemma is a problem, situation or opportunity that requires an individual, group or organization to choose among several wrong or unethical actions at work place. There is not simply one right or ethical choice in a dilemma, only less unethical or illegal choices as perceived by any and all stakeholders.

Ethical dilemma involved in this case is related to make choice between two unsatisfactory alternatives as a solution of a problem. The acquisition of fertile agricultural land to set-up a gold mine that can generate large-scale employment may be morally justifiable in India, especially taking into consideration the provision of law in particular and the benefits to society in general. The acquisition act may be backed by legal approval as well as the moral argument that it benefits a large number of people. yet, one may argue the ethicality of non-voluntary acquisition of such fertile agricultural land considering the loss and damage caused to the interest of helpless farmers of that locality-who have no other skill except farming for their traditional livelihood- and who are thus uprooted form society – despite good financial compensation.

Here, the moral issue may focus on the farmer's uncertain future in an industrial society for which they are ill-equipped. Ethics will try to ascertain if the long-term well-being and continuation of livelihood of the farmers have been taken care of by the act, i.e., outcome of the solution or act. The non-voluntary acquisition of land-without guaranteeing long-term well-being and continuation of livelihood of a similar quality for those farmers who lost their land-may not allow the acquirer (the doer) feel good and satisfied about the outcome of the act. Therefore, ethical dilemma is related to what to follow – consequences of the act or rightness of the act as per legal provisions and practices.

B) UNDER THE GIVEN CIRCUMSTANCES WHAT DO YOU DO?

One Possible Solution

While dealing with ethical dilemmas, one cannot resolve all dilemmas to the satisfaction of all parties or address all aspects of the issue involved. Sometimes one may have to choose the best among the worse. The idea is one should feel good and satisfied for having taken that decision under the given circumstances and environment he is placed into. At times, one may have to seek ways and means to mitigate the harm or loss to the involved parties arising from an ethical dilemma.

This case of land acquisition for gold mine in the country gave rise to conflicts that pitted the law versus ethics, the interest of the nation versus displaced farmers, compensation versus sustenance, and rights (of farmers) versus force (of the organization). Ethical considerations arising from adverse consequences of land acquisition on the farmers prohibit the forcible acquisition (through that might be legal as per law).

In this case, I will not by stick to the law of the land or by going against it due to ethical imperatives, but resolve the issues of dilemma by checks and balances that would do good to both the interests. I would provide handsome amount of money to the farmers and explain the benefits of opening gold mine to the council member so that he would not protest against it.

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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.

1. **Business Ethics and Corporate Ethics** – Meaning, Importance, Functions, Unethical Practices and Ethical dilemma, Ethical theories and Approaches, Modern Decision making - Ethical Models for Decision Making, Indian Ethos, Ethics for Managers, Ethics in Business Competition.
2. **Ethical Aspects in Organization – I: Marketing ethics and Consumer ethics – Ethical issues in Advertising, Criticisms in Marketing ethics, Ethics in HRM: Selection, Training and Development – Ethics at work place – Ethics in Performance Appraisal.**
3. **Ethical Aspects in Organization – II:** Ethics in Finance: Insider trading - Ethical investment - Combating Frauds. Ethical issues in Information Technology: Information Security and Threats – Intellectual Property Rights – Cyber crime.
4. **Corporate Governance:** Purpose – Theories and Philosophies of Corporate Governance
5. **Corporate Governance Structures:** Directors, Committees, Institutional investors – Auditors. Corporate Social Responsibility: Stakeholders – Environment – social Development.

Textbook:

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

References:

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- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
- Business Ethics -Concepts and Cases, Weiss,Cengage.
- Business Ethics, Himalaya, C.S.V.Murthy.
- Ethical Management, Satish Modh, Mcmillan.

UNIT-2
ETHICAL ASPECTS IN ORGANISATION I

2.1. MARKETING ETHICS:

2.1.1. 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

2.1.2. MARKETING ETHICS:

2.1.3. 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.

2.1.4: 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.

2.1.5. UNETHICAL PROCTICES 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 promotion.

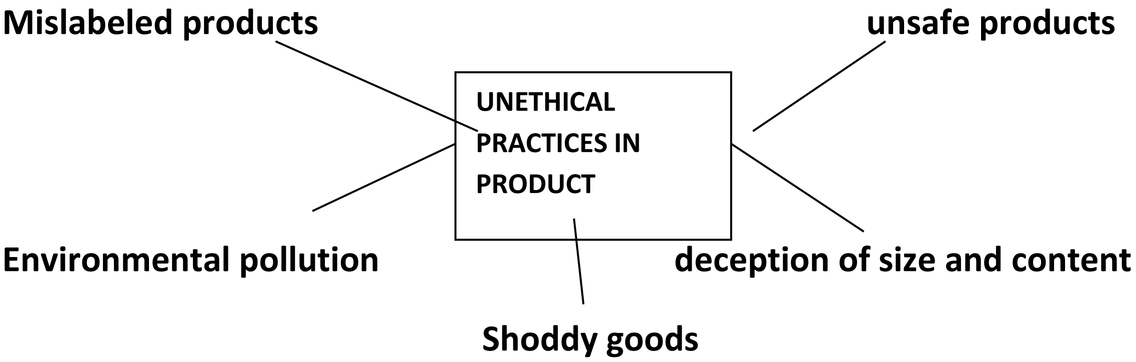
4Ps of marketing

- **Product**
- **Price**
- **place**
- **Promotion**

Marketing Mix

Product	Price	Promotion	Place	People
Functionality	Selling Price	Sponsorships	Distribution Channels	Service Provided
Appearance	Discounts	Advertising	Logistics	Attitude
Warranty	Payment Arrangements	Public Relations Activities	Service Levels	Customer Service
Quality	Price Matching Services	Message	Location	Appearance
Packaging	Credit Terms	Media	Market Coverage	Employee Portrayal

A. UNETHICAL PRACTICES IN PRODUCT:



I. 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.

II. DECEPTION OF SIZE AND CONTENT:

It is unethical of showing the size and contents of a product in wrong way. By this, customer will be deceived (cheated).

Example: Lays

III. SHODDY GOODS:

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

Example: A fabric of inferior quality.

IV. ENVIRONMENTAL POLLUTION:

Producing products which are non-biodegradable in nature that leads to the environmental pollution is also unethical.

Example: plastic products.

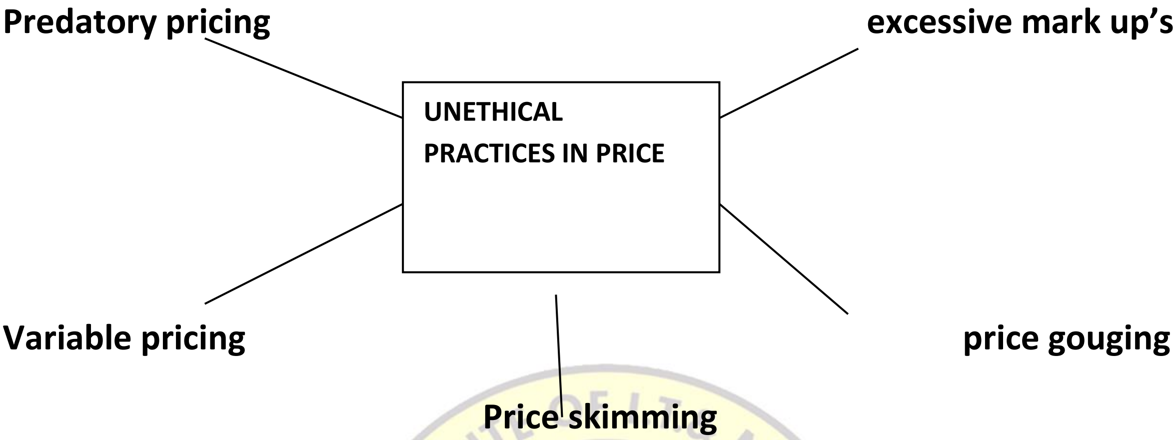
V. MISLABELED PRODUCTS:

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 an apple juice for babies.

B.UNETHICAL PRACTIVES 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.

EXAMPLES: Movie theater popcorn/candy.
Prescription drugs.
Diamonds.
Bottled water.
Eyeglass frames.
Furniture and mattresses.

2. PRICE GOUGING:

Price gouging refers for a seller pricing much higher than considerable, reasonable or fair price. Price gouging is a term that refers to the practice of raising the price of goods, services, or commodities, to an unreasonable or unfair level.

Such an increase in price is often a result of a sudden increase of demand and shortage of goods, such as in the event of a natural disaster or other crisis, and it is illegal in most jurisdictions.

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.

Good **examples of price skimming** include innovative electronic products, such as the Apple iPhone and Sony PlayStation 3. **For example**, the Play station 3 was originally sold at $599 in the US market, but it has been gradually reduced to below $200.

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. **PREDATARY 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 involve 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

I. SELLING EXPIRED PRODUCTS:

It is an unethical activity because many retailers sell products that have crossed expiry dates which lead to injury for consumers.

II. TERRITORIAL RESTRICTIONS:

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

III. 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.

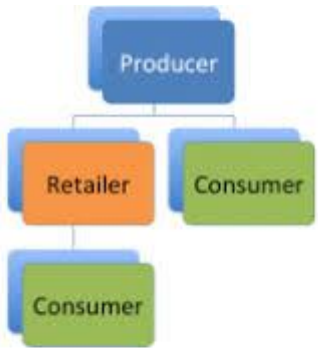
IV. TRANSPORTATION:

Products are moved in unsafe vehicles that lead 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.

V. DUAL DISTRIBUTION:

A producer can use two different channels 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: (Listeners or onlookers who have no choice but to attend.)

Mandatory viewing of TV commercials by students in schools. It is also unethical in nature.

2.2. MARKETING ETHICS AND CONSUMER ETHICS:

2.2.1. MARKETING ETHICS:

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

2.2.2. 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)**

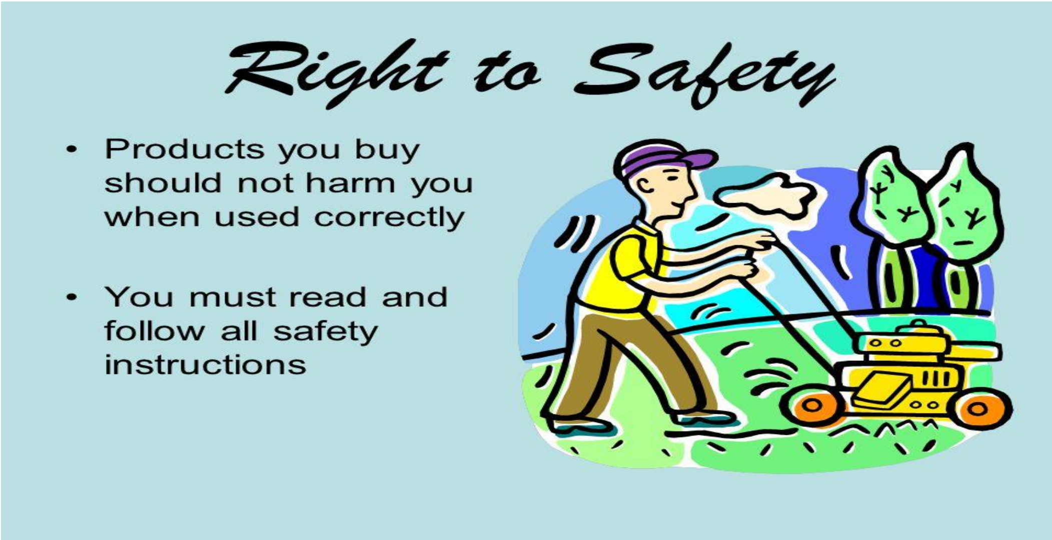
Ethical consumerism means that more customers are choosing to purchase goods that are ethically sourced, ethically made and ethically distributed. It is just about supporting the good companies and products by eliminating bad ones.

2.2.3: MARKETING ETHICS AND CONSUMER RIGHTS:

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

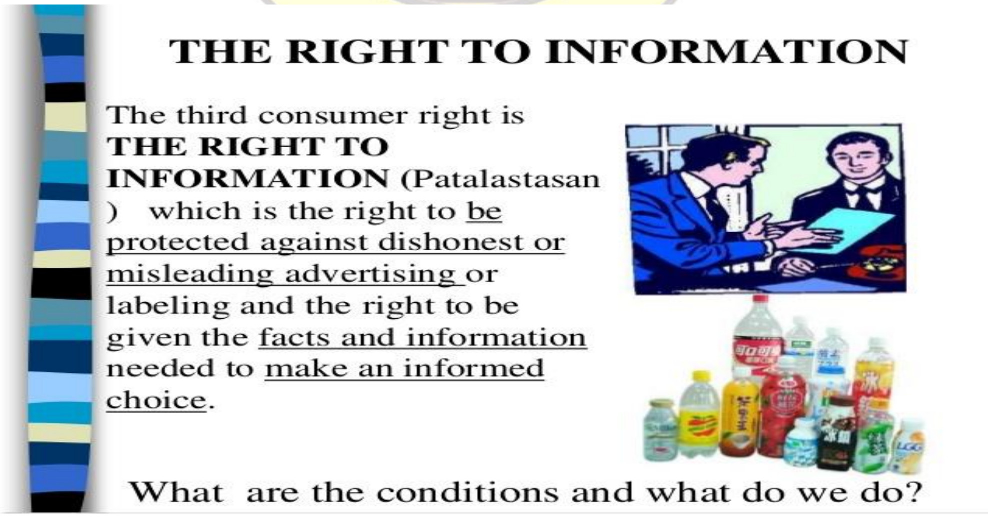
a) RIGHT TO SAFETY:

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.



b) 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.

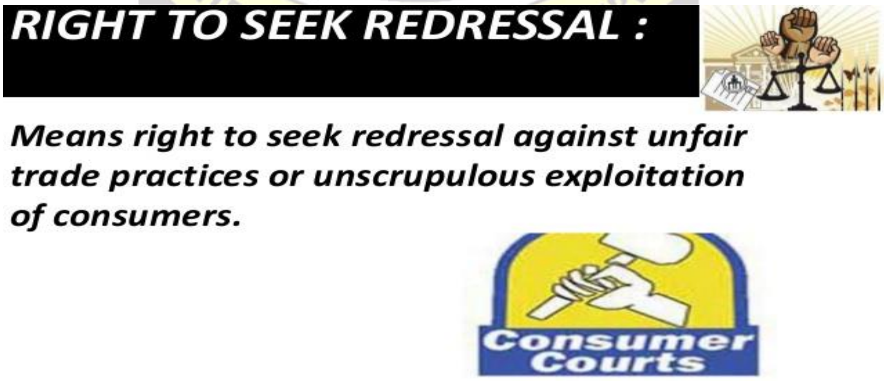


c) RIGHT TO CHOOSE:

It is the right to be assured wherever possible, to have access to a variety of goods and services of competitive prices.

d) RIGHT TO REDRESSAL:

This is the right to seek redressed against unfair trade practice or restrictive trade practices or unscrupulous consumer exploitation (**Consumer exploitation** refers to the act of taking advantage of buyers. This occurs because of limited information about the product, such as guarantees and terms of purchase).



e) 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.

RIGHT TO CONSUMER EDUCATION :

Means the right to acquire the knowledge and skill to be an informed consumer throughout life.

Ignorance of consumers, particularly of rural consumers, is mainly responsible for their exploitation.

2.3. ETHICAL ISSUES IN ADVERTISING:

2.3.1. 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:

ETHICAL ISSUES IN ADVERTISING

- **Puffery**
- **misleading claims**
- **Surrogate ads**
- **reinforcing stereotypes**
- **Manipulative ads**
- **use of sex appeal**
- **Hiding of relevant facts.**

i) 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.

ii) 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 theses are negative.

Example- Life insurance Corporation.

iii) 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.

iv) 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.

v) 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.

vi) 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-Haywards 5000, packaged drinking water and strong soda.

vii) 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.

viii) TARGETING KIDS:

Targeting kids for the company's products as they are not able to differentiate between fantasies (imagine the occurrence of; fantasize about) and realities. It is also unethical activity.

2.4. CRITICISMS IN MARKETING ETHICS:

From a variety of sources, criticisms emanate. These are as follows;

Criticisms of Marketing ethics

- **Social criticism of marketing**
- **Factors of high prices**
- **Impact on society**
- **Impact on other business**
- **Spam**
- **Personal selling**
- **Packaging and labeling practices**
- **Promotion of bad values.**

A. 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.

B. 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 costs, excessive markups.

C. 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.

D. 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.

E. 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.

F. 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.

G. PACKAGING AND LABELING PRACTICES:

It includes,

- Irregularities of package size and shape.
- Provision of intelligible labeling information.
- Ecological issues.

H. 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, devaluating women image etc.,

2.5. ETHICS IN HUMAN RESOURCE MANAGEMENT (HRM):

2.5.1. 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.

2.5.2. 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.

Areas of HRM Ethics

- Cash & Compensation Plans
- Performance Appraisals
- Race & Disability
- Safety & Health in the workplace
- Restructuring & Lay-offs
- Privacy Issues
- Employment Issues
- Employee Responsibility

5.3. ROLE OF HR IN PROMOTING ETHICS:

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

a. 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).

b. 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.

c. Maintaining rewards and disciplinary system.
d. Maintain and facilitating two way communication
e. Avoiding any kind of discrimination among employees based on caste, color, religion etc.
f. Providing equal opportunities for all employees.
g. Effective measures should be taken for employee's safety while working in organization.

Need of Ethics in HR

- Public image
- Values: the cementing force
- Facilitates decision making
- Ethics and profits walk hand in hand
- Low limits, Ethics stimulate
- Contribution to human welfare
- Protection of social interest
- Recognition of neighbors and competitions
- Respect to Employees
- Balancing all stake holders' interests

2.6. ETHICS IN SELECTION:

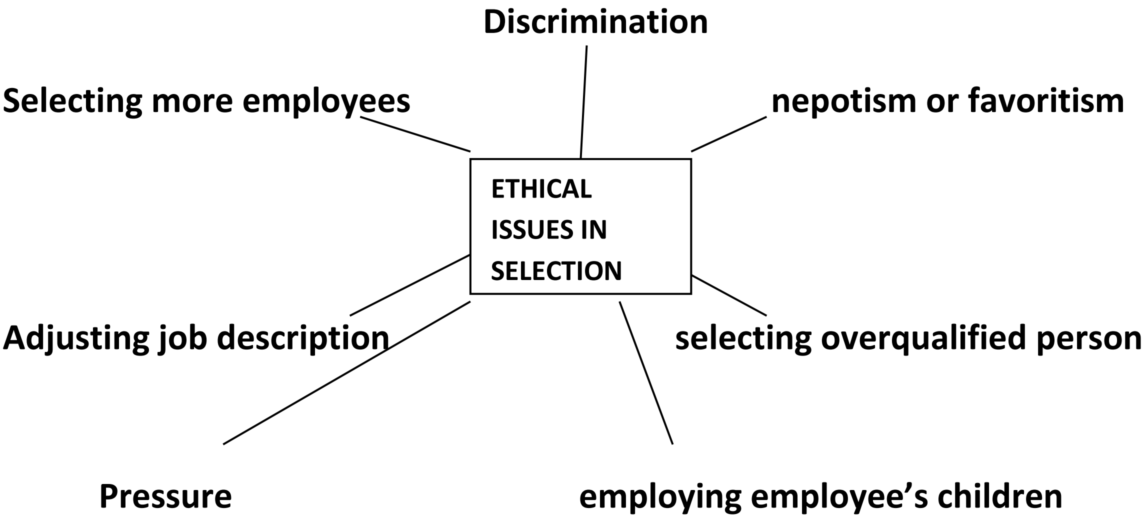
SELECTION: Selection is the process of interviewing and evaluating candidates for a specific band, selecting individual for employment based on certain criteria (like qualification, skills, abilities etc.)

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.

2.6.1. ETHICAL ISSUES IN SELECTION:

Different ethical issues in selection process are explained here under;



1. <u>NEPOTISM OR FAVOURITISM</u>:

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. <u>SELECTING OVERQUALIFIED PERSON</u>:

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 employee's 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.

2.6.2. 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 Cleary set out by 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 panel.

2.7. ETHICS IN TRANING AND DEVELOPMENT:

2.7.1. TRAINING:

It is the formal 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.

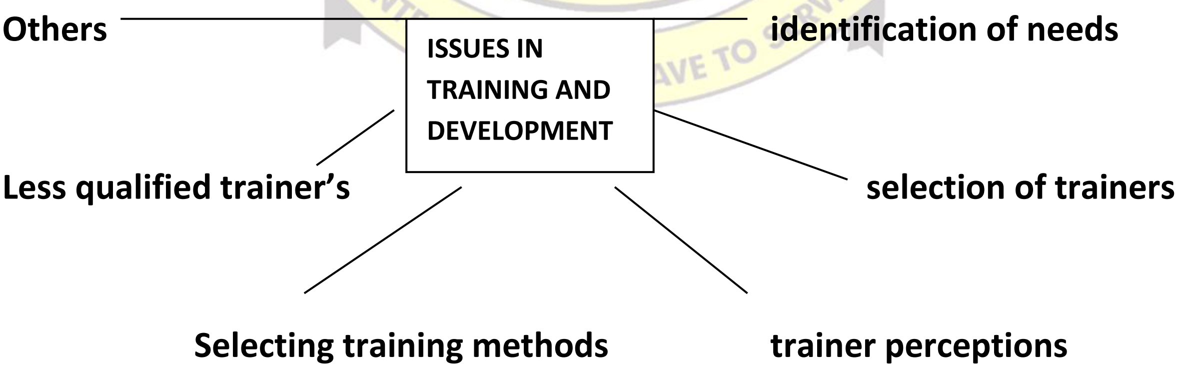
2.7.2. DEVELOPMENT:

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

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

2.7.3. ETHICAL ISSUES IN TRAINING & DEVELOPMENT:

Ethical issues in training and development are given as follows;



a) **IDENTIFICATION OF TRAINING NEEDS:**

Providing training in inappropriate areas of organization may leads to loss for an organization. So training needs should be identified before training programs get implemented.

b) 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.,

c) 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.

d) SELECTING TRAINING METHODS:

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

e) LESS QUALIFIED TRAINERS:

Always trainers should be qualified and experienced then only they train employees effectively. If not, it will leads to ineffective training process.

f) 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.

2.8. ETHICS AT WORKPLACE:

2.8.1. 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

2.8.2: ETHICAL ISSUES IN WORKPLACE:

Ethical issues in work place

- **Illegal activities**
- **Ignoring procedures**
- **Poor customer services**
- **Gossiping**
- **Rationalization of wrong doer**
- **Sexual harassment**

i) ILLEGAL ACTIVITIES:

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

- Accounting irregularities
- Improper dealing with customers
- Breaking rules

ii) 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.

iii) <u>POOR CUSTOMER SERVICES:</u>

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

iv) <u>GOSSIPING:</u>

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

v) <u>RATIONALIZATION OF WRONG DOER:</u>

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.

vi) <u>SEXUAL HARASSEMENT:</u>

Showing harassment on other employees either physically or mentally is unethical activity.

2.8.3: <u>CONSEQUENCES (RESULT) OF POOR ETHICS IN WORKPLACE:</u>

The consequences of poor ethics in work places are,

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

8.4: <u>GUIDELEINES FOR MANAGING ETHICS AT WORKPLACE:</u>

Following are some of the guidelines for managing ethics at work place.

1. **<u>COMMITMENT FROM TOP MANAGEMENT:</u>**

   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 many criteria like reward 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.

2.9. ETHICS IN PERFORMANCE APPRAISAL:

2.9.1. 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 PERFORAMANCE 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 views 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 issues in performance appraisal, rating should be accurate for the employee's performance, and inaccurate rating leads to rating errors.

IMPORTANT QUESTIONS:

UNIT-2:

1. How the ethics in HRM helps the management for smooth running of an organization?
2. What are the ethical issues in selection process?
3. Explain role and importance of ethics in performance appraisal?

CASE STUDY 2:

ETHICS IN ADVERTISING:

Bharti Airtel Limited (BHARTI), India's largest mobile –phone operator, posted a worse-than-estimated 31 percent drop in fourth-quarter profit after higher network costs and advertising expenses eroded margins. Net income in the three months ended in March was 14 billion rupees ($314 million), New Delhi-based Bharti said in a statement today. That lagged behind the 16.3 billion rupees average of 10 analysts' estimates compiled by Bloomberg. Bharti, controlled by billionaire Sunil Mittal, more than doubled advertising spending after the introduction of third-generation mobile-phone services and number portability lifted competition in a country with 15 service providers. Slowing growth in the world's second –largest cellular market prompted Bharti to expand overseas with its purchase of the African assets of Kuwait's Mobile Telecommunications Co. last year.

"All the operators have been increasing their spending, and that is one thing that will keep margins under pressure for now. "Said Archil Singhal, an analyst at Jaypee capital Services Limited in Mumbai. He rates Bharti's shares "neutral". The shares fell as much as 4.8 per cent, the biggest intraday drop since Feb 10, to 352.20 rupees. The stock traded down 1.8 per cent at 10.02 am, poised for a third consecutive day of decline, Spending on sales and marketing more than doubled to 18.3 billion rupees in the quarter from 7.57 billion rupees a year earlier, the company said. Access and interconnection charges jumped 85 per cent to 21.4 billion rupees.

Sales rose 52 per cent to 163 billion rupees after Bharti's acquisition in Africa. "In India, we have been focusing on building a robust 3G network to meet the increasing data needs of a young populating". Mittal said in the statement. In Africa, the company is “rapidly expanding network coverage, improving distribution width and increasing efficiency and productivity standards,”. Average revenue per user, a key metric of performance in the telecommunications industry, fell 12 per cent in India to 194 rupees a month.

In Africa, the figure was $7.20, the company said without providing a comparative number. Bharti started the roll-out of third-generation wireless services in India this year that will allow it to boost revenue if data use and smartphones catch on among users.

Mobile-phone service providers are betting on the faster network to lure consumers to use more profitable services after call rates in India tell to half-penny a minute. Japan’s NTT DoCoMo Inc. and Norway’s Telenor ASA (TEL) set-off a tariff war when they entered India with lower rates to win customers in a market that is forecast by research Gartner Inc. to exceed 993 million users by the end of 2014. India had 812 million mobile-phone accounts in March, according to the nations’ telecom regulator, lagging behind only china. Bharti had 162 million subscribers in India as of March 31, according to the nation’s telecommunications industry regulator. Debt exceeded cash and cash equivalents by 600 billion rupees as of March31, up from 12.8 billion rupees a year earlier, the company said in its quarterly report. The company, part owned by Singapore Telecommunications Limited, plans to invest in expanding new businesses in Nigeria, Gabon, Zambia, Malawi, Niger, and Uganda after the company completed its $10.7 billion cash and dept purchase of the African assets of Kuwait’s Mobile Telecommunications.

Bharti may invest $400 million in the Democratic Republic of Congo in the next three years, Antoine Pamboro, the company’s Managing Director in Congo, said Dec 10. Bharti will invest 25 billion shillings ($300 million,) in Kenya this year and start 3G services in the East African nation this year. Airtel Kenya Limited Chief Executive Officer Rene Meza said in January.

Question:

A) WHY DO YOU THINK THAT THE ADVERTISING EXPENDITURE WAS DOUBLED?

One Possible Solution

Bharti Airtel Limited (BHARTI), India largest mobile-phone operator, posted a worse-than-estimated 31per cent drop in fourth-quarter profit after higher network costs and advertising expenses croded margins. Advertising expenditure in Bharti Airtel Limited was doubled by leaps and bounds.

The various reasons that can be attributed for the rising expenditure are as follows:

1) 3G Mobile Phone Services: Introduction of third-generation mobile –phone services in India by BHARTI was a very tactial move which in turn demanded heavy advertising expenditure. 3G as a new technology service was not acceptable among the users therefore it had become mandatory for the telecom companies to invest in advertising expenditure, and hence is one of the reasons for increased advertising expenditure on the part of BHARTI.

2) Number Portability: One of the most unique and high tech service provided by the BHARTI is number portability, which same as 3G and is also a upcoming technology and therefore demands a heavy advertising expenditure. Making number portability acceptable among the users is a challenging task on the part of BHARTI is thus accounts for one more reason for doubling advertising expenses.

B) WHY IS IT NECESSARY TO PROFIT THE CUSTOMER BASE AS A "YOUNG POPULATION"? WHAT IMPLICATIONS DOES IT HAVE ON ADVERTISING?

One Possible Solution

As we know that 3G technology in telephone service is widely acceptable among the young generation and that is why it has become imperative for the telecom service provider to profile their customer base as young population. Today's young population is tech savvy they understand the importance of hybrid technologies and are willing to accept it more lavishly as compared to old generation. The various implication of profiling young population as the customer base on advertising is that the advertisers must use or develop such advertisements which influence them to purchase the product. Such advertisements must be produced that show the young population being more adapted to the product and also the theme must be taken from the real life situation of the youngsters. Therefore, the advertisers must be very conscious while producing the advertisements when they profile their customer base as young population as the youngsters are the upcoming users of the product and the main segment for the telecomm service providers to earn the profit.

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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.

1. **Business Ethics and Corporate Ethics** – Meaning, Importance, Functions, Unethical Practices and Ethical dilemma, Ethical theories and Approaches, Modern Decision making - Ethical Models for Decision Making, Indian Ethos, Ethics for Managers, Ethics in Business Competition.
2. **Ethical Aspects in Organization – I:** Marketing ethics and Consumer ethics – Ethical issues in Advertising, Criticisms in Marketing ethics, Ethics in HRM: Selection, Training and Development – Ethics at work place – Ethics in Performance Appraisal.
3. **Ethical Aspects in Organization – II: Ethics in Finance: Insider trading - Ethical investment - Combating Frauds. Ethical issues in Information Technology: Information Security and Threats – Intellectual Property Rights – Cyber crime.**
4. **Corporate Governance:** Purpose – Theories and Philosophies of Corporate Governance
5. **Corporate Governance Structures:** Directors, Committees, Institutional investors – Auditors. Corporate Social Responsibility: Stakeholders – Environment – social Development.

Textbook :

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

References:

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- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
- Business Ethics -Concepts and Cases, Weiss,Cengage.
- Business Ethics, Himalaya, C.S.V.Murthy.
- Ethical Management, Satish Modh, Mcmillan.

UNIT-3
ETHICAL ASPECTS IN ORGANISATION-II

3.1. ETHICS IN FINANCE:

3.1.1. 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.

EHTICS 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.

3.1.2. 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.

3.1.3. <u>ROLE OF FINANCE MANAGER:</u>

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

Role of The Financial Manager

Primary Functions:

1. Performing Financial Analysis and Planning
2. Investment Decision
3. Financing Decision
4. Dividend Decision

Emerging Roles:

1. Financial Engineering
2. Foreign Exchange Management
3. Treasury Operators
4. Investors Communication
5. Management Control
6. Investment Planning
7. Pension Fund Management
8. Credit Manager
9. Tax Management
10. Insurance Risk Management

3.1.4 :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.

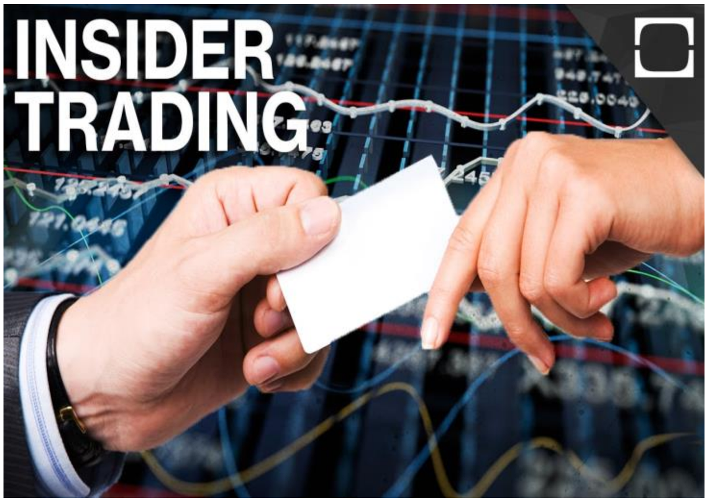
(iv) UNFAIRNESS IN MARKETS:

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 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 acquisitions, target company pays a premium, known as greenmail to purchase its own stock shares back at inflates prices from a corporate raider.

3.2. INSIDER TRADING:

3.2.1. MEANING OF INSIDER TRADING:

Insider trading is the act of buying and selling a company's stock on the basis of inside Information. Company information 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.)

3.2.3. FORMS OF INSIDER TRADING:

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.

3.3. ETHICAL INVESTMENT:

3.3.1 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.

3.3.2. 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**

i) 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), publishes 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.

ii) 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.

iii) 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.

iv) **MICRO FINANCE:**

- 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.

3.3.3. 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.

3.3.4. 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.

3.4. COMBATING FRAUDS:

3.4.1 : 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.

3.4.2 : 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. Outsider frauds
b. Insider frauds

A. OUTSIDER 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.

Outsider/external frauds
- **Fraudulent loans**
- **Identity theft**
- **Card skimming**
- **phishing**
- **Vishing**
- **Unscrupulous traders**
- **False title deeds.**

(i) <u>FRAUDULENT LOANS:</u>

- 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) <u>IDENTITY THEFT:</u>

- 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.

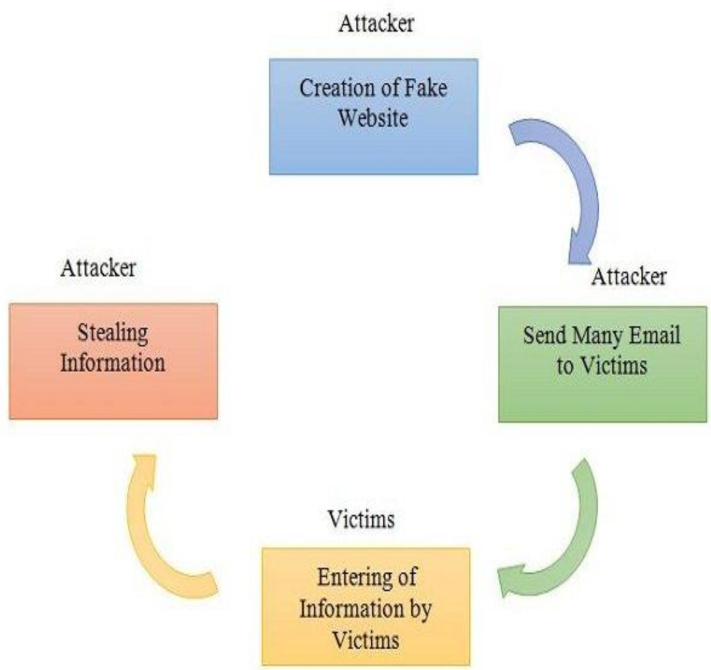
(iii) <u>DUPLICATION OR CARD SKIMMING:</u>

- 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 buy fraudsters to steal money from bank account.

(iv) 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 lead finally to losing of money.



(v) 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 individual's 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.

(vi) <u>UNSCRUPULOUS TRADERS:</u>

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.

(vii) <u>FAKE TITLE DEEDS</u>

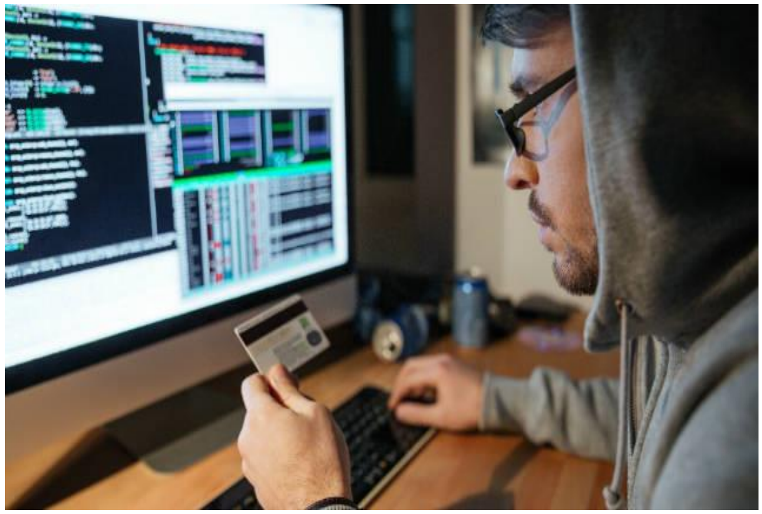
- Title deeds are the legal deeds or documents constituting evidence of a right especially to ownership of property.
- Fake title deeds are submitted cleverly or impersonation (the act of pretending to be another person for the purpose of fraud) resorted (adopted) to as land/building owners while offering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

(viii) <u>CHEQUES FRAUD</u>

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.

(ix) <u>CREDIT CARD FRAUD</u>

- 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,

Insider frauds

- **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 certificate.

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 broachers 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:

It occurs when a bank employee steals personal information from customers in order to sell the information or to make fraudulent purchases using a stolen identity.

3.4.3. 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,

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 financial 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.

3.4.4 : COMBATING FRAUDS:

Following are some of the measures to combat frauds in banks and insurance sectors,

In banks

- **Monitoring cheques**
- **Annual review of financial statements**
- **Payroll safeguarding**
- **review of sensitive documents**
- **Protect accounts**
- **Checking employee references**

a) MONITORING THE CHEQUES:

- Reviewing and monitoring the cheques using pre numbered cheques enables to audit for missing cheques.
- Cheques clearing out of sequences can be spotted more easily.

b) ANNUAL REVIEW OF FINANCIAL STATEMENTS:

- Annual review of financial statements gives a clear picture of annual transactions in a year.
- An audit will not discover all fraud within an organization but, it will give an opportunity to keep an eye in financial report of organization.

c) PAYROLL SAFEGUARDING:

- Small business owners and managers should take extra time to 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.

d) 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.

e) PROTECT ACCOUNTS:

- Ask the bank to set up dual controls on ones 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.

f) 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 there by controlling the fraud.

IN INSURANACE SECTOR:

In insurance sector

- **Need for regulation**
- **Building consumer awareness**
- **rewards whistle-blowers**
- **Collection of proper evidence**
- **Effective legislation and judicial action**

i) NEED FOR REGULATION

- Regulation is a 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.

ii) 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.

iii) 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 neighbour.

iv) COLLECTION OF PROPER EVIDENCE:

- Insurance need to collect all proper evidence of fraud that is capable of succeeding judicial scrutinity.
- Since the courts will take a strict view against the insurance it is extremely important to collect proper evidence before arriving at a decision.

v) EFFECTIVE LEGISLATION AND JUDICIAL ACTION

- Insurance fraud deserves effective legislation and judicial attention a few quick high profiles are probably the strongest medicine for potential fraudsters.
- Without legislation and judicial support all the activities of insurance and regulators will be ineffective.

3.5: ETHICAL ISSUES IN INFORMATION TECHNOLOGY:

3.5.1: 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.

3.5.2: 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)

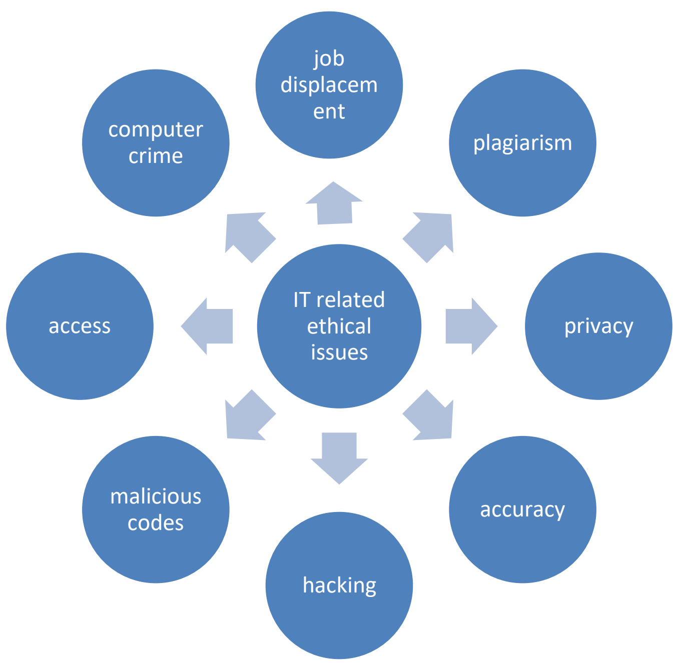
3.5.3: ETHICS

Ethics are 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.

3.5.4: <u>ETHICS IN INFORMATION TECHNOLOGY:</u>

- 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.

3.5.5: <u>ETHICAL ISSUES IN IT:</u>



In the rapidly changing technological environment in which we live ethical issues are increasingly been raised demanding attention efforts towards resolution. These ethical issues of information technology include, here as follows,

a) **<u>PLAGIARISM:</u>**

- 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 it is much easier to do and is happening more often.

EXAMPLE

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

b) **<u>PRIVACY:</u>**

- 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.

c) **<u>ACCURACY:</u>**

- 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

Inaccurate 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

- ➢ Incorrect data in credit history files deny credit and to correct this, it is complicated.
- ➢ Admission to school or employment has been denied because of inaccurate data.

d) <u>HACKING:</u>

- 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.

e) <u>MALICIOUS CODES:</u>

- 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,

❖ **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.

EXAMAPLE – block of computer code to transfer money to a criminal's bank account.

- ❖ **VIRUS** is malicious software that is attached to another program to execute a particular unwanted function on a workstation.
- ❖ **Worms** are self contained programs that attack a system and try to exploit vulnerability in the target.

f) 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,
  - ➢ The extent of access individuals should have information stored about them in the database available to prevent unwanted access to personal or confidential data.
  - ➢ The extent to which appropriate safeguards are available to prevent unwanted 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.

g) 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.

EXMAPLE

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

h) 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,

i. Should those that lose their jobs be compensated?

ii. How can the pressure be eased on those that are suffering stress?

iii. Is it acceptable for computer programmers to be made redundant ion the spot etc.

3.6. INFORMATION SECURITY AND THREATS:

3.6.1: 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 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

3.6.2: PRINCIPLES OF INFORAMTION SECURITY:

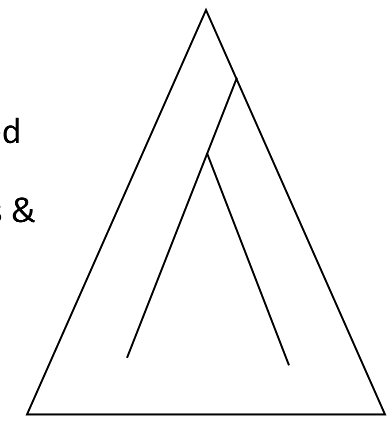
- A principle is a core requirement of information security for the safe utilization, flow and storage of information. Three basic principles of information security represented as CIA triad.
- CIA triad includes principles as follows,

(i) Confidentiality

(ii) Integrity

(iii) Availability

Prevents unauthorized Disclosure of systems & Information



prevents unauthorized modification of systems & information

Prevents disruption of service and productivity

CIA TRIAD

i) CONFIDENTALITY:

- 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.

ii) INTEGRITY:

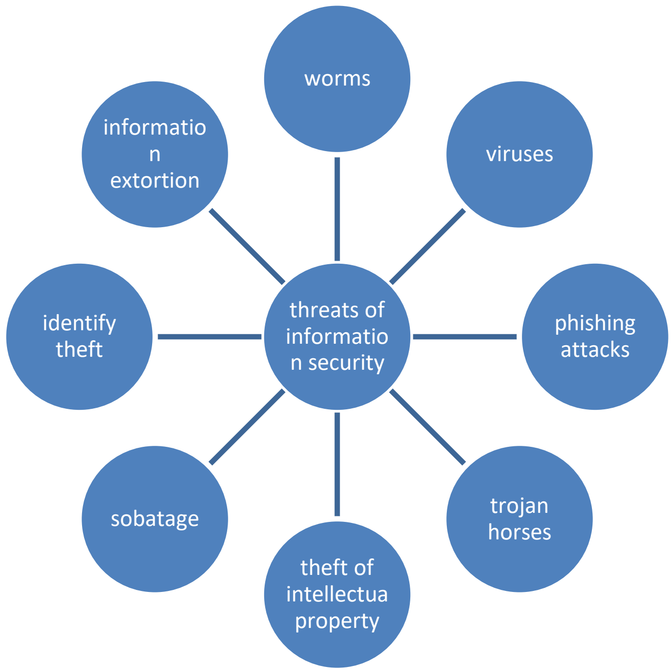
- In information security data integrity means maintaining and assuring the accuracy and completeness of data over its entire lifecycle.
- This means that data cannot be modified in an unauthorized or undetected manner.
- Information security systems typically provide message integrity in addition to data confidentiality.

iii) 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.

3.6.3: THREATS:

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



I. **<u>INFORMAITON EXTORTION:</u>**

- 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.

II. **<u>WORMS:</u>**

- 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)

III. **<u>VIRUSES:</u>**

- 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.

IV. **PHISHING ATTACKS:**

- Phishing is the fraudulent attempt 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.

V. **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.

VI. **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

VII. **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.

VIII. **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.

3.7. INTELLECTUAL PROPERTY RIGHTS:

3.7.1: 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.

3.7.2: FORMS OF INTELLECTUAL PROPERTY RIGHTS:

Some of the intellectual property rights include the following forms;

a) Patents
b) Copyrights
c) Trademarks
d) Industrial design rights
e) Trade secrets

a) 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.

b) 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 right 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.

c) 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 organizations 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.

d) <u>INDUSTRIAL DESIGN RIGHTS:</u>

- 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 Patten or color containing aesthetic (concerned with beauty) value.
- Industrial design applied to products that are to be manufactured through techniques of mass production.

e) <u>TRADE SECRETS:</u>

- 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.

3.7.3: <u>THREATS TO INTELLECTUAL PROPERTY RIGHTS:</u>

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

1. <u>RISK OF TRADE SECRET THEFT</u>

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. <u>RISK OF BEING REPLICATED</u>

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

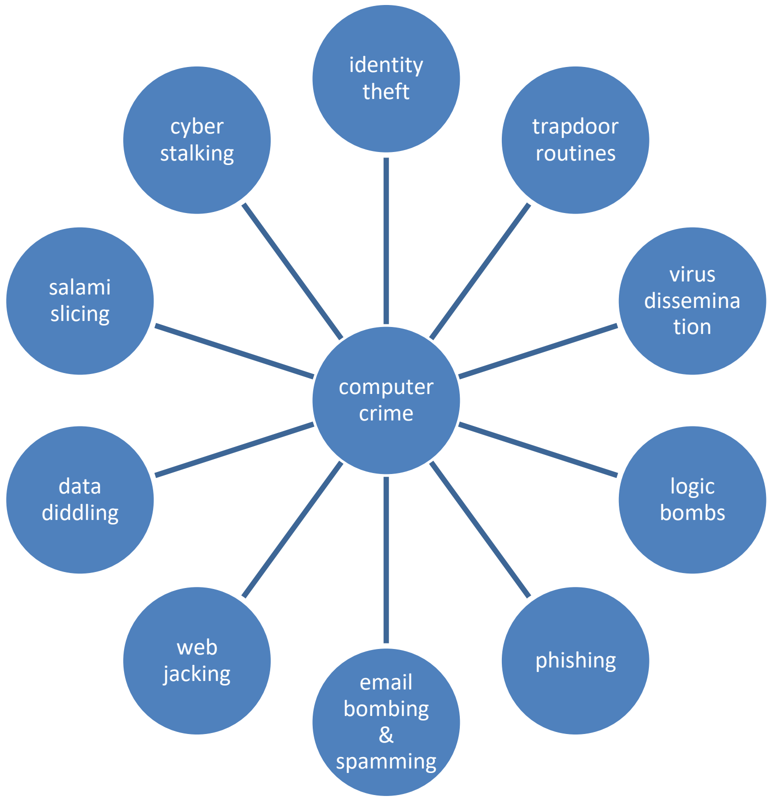
- Any intellectual property advantage can be affected by social media.
- Some issues at stake include disclosure of confidential information in social media that lead to erosion of competitive advantage, infringement of trademarks by third parties, infringing posts of creative works (affecting copy rights)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

3.8: CYBER CRIME:

- The term cyber refers to something relating to or characteristic of the computers information technology. In 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.

3.8.1: FORMS OF CYBER CRIME:

Different forms of cyber crime are explained here as follows,



i) 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.

ii) 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.

iii) 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.

iv) 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,

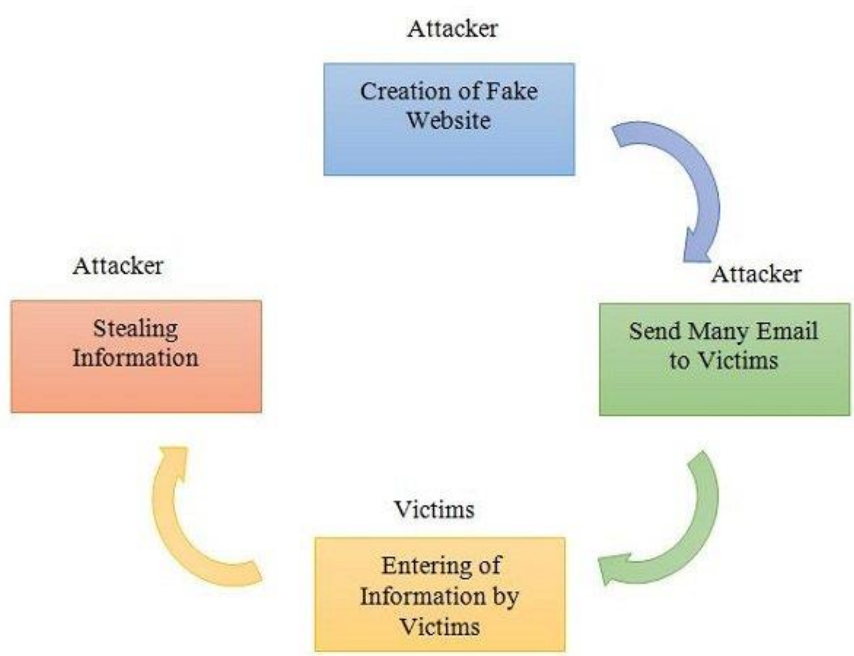
a. Those that only disseminate and don't cause any intentional damage.
b. Those which are programmed to cause damage.

v) 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.

vi) 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.



vii) 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.

viii) <u>WEB JACKING:</u>

- 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.

ix) <u>CYBER STALKING:</u>

- Cyber stacking is a new form of internet crime in our society.
- A cyber stalker doesn't physically 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 interment rules.

x) <u>DATA DIDDLING</u>

- 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.

3.8.2: PREVETION OF CYBER CRIME:

Following are the important steps to prevent cyber crime,

a) HIRE CAREFULLY:

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

b) 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) on change them on a regular basis.

c) 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 after hour's access to a computer installation and locating the same.
- To prevent cyber crimes one should be aware of the malcontents.

d) 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.

IMPORTANT QUESTIONS:

UNIT-3:

1. What is ethical investment? Explain.
2. Does ethics in finance helps the company to grow or not? Comment your use.
3. What is insider trading? What are the different issues in insider trading? Explain.
4. Elaborate on financial frauds and majors to overcome them.
5. What is mean by combating frauds? Explain various steps to overcome it through ethics
6. Explain the ethical issues in information technology.
7. Briefly explain about the cybercrime and how to overcome the cybercrime issues.
8. Explain different types of cybercrimes.

CASE STUDY:

INTELLECTUAL PROPERTY RIGHTS:

Under the TRIPS agreement, WTO members are required to enforce product patents for pharmaceuticals. The debate about the merits of this requirement has been extremely contentious. Many low income economies claim that patent protection for pharmaceuticals will result in substantially higher prices for medicines, with adverse consequences for the health and well-being of their citizens.

On the other hand, research-based global pharmaceutical companies, argue that prices are unlikely to rise significantly because most patented products have therapeutic substitutes. In this case we empirically investigate the basis of these claims. Central to the ongoing debate is the structure of demand for pharmaceuticals in poor economic where, because health insurance coverage is so rare, almost all medical expenses are met out-of-pocket.

Using a detailed product-level data set from India, we estimate key price and expenditures, elasticities and supply-side parameters for the fluoroquinolones sub-segment of the systemic anti-bacterials (i.e., antibiotics) segment of the Indian pharmaceuticals market. We then use these estimates to carry out counterfactual simulations of what prices, profits, and consumer welfare would have been, had the fluoroquinolone molecules we study been under patent in India as they were in the U.S. at the time. Our results suggest that concerns about the potential adverse welfare effects of TRIPS may have some basis.

We estimate that in the presence price regulation the total annual welfare losses to the Indian economy from the withdrawal of the four domestic product groups in the fluoroquinolone sub-segment would be on the order of U.S. $305 million or about 50% of the sales of the entire systemic anti-bacterials segment in 2000. Of this amount, foregone profits of domestic producers constitute roughly $50 million. The overwhelming portion of the total welfare loss therefore derives from the loss of consumer welfare. In contrast, the profit gains to foreign producers in the presence regulation are estimated to be only around $19.6 million per year.

QUESTION:

1. DOES INDIA BENEFIT FROM WTO PATENT PROTECTION? DISCUSS.

One Possible Solution

Yes, to some extent India gained benefit from WTO patent protection but as the TRIPS Agreement requires that 20-year patent protection is available for all inventions whether of products or processes in almost all fields of technology. It is this provision which has hard hitting effects on India and is causing a lot of hue and cry. In India only process patent exists for drugs, food items and medicines. This ensures that others can make these products by a different process and maintain a steady supply in the market. India has to amend its patent Act to recognize product patent in case of Pharmaceutical. Granting of product patent in pharmaceuticals would confer monopoly rights on the manufacturer who may then increase the prices of the drugs. The increase in prices of drugs is what is worrying the country.

India being a member of WTO has to implement the TRIPS Agreement in totality. This requires that Indian intellectual property laws have to be amended to bring them in conformity with the provisions of the TRIPS Agreement. While the laws on trademarks, copyrights, designs, are almost in conformity with the provisions of the TRIPS Agreement, the patent laws are the ones which are a cause of concern in the minds of both the Indian and the international community. The Indian concerns are centered on the undernoted apprehensions:

1) Drugs becoming expensive and beyond the reach of the common man due to heavy royalties being charged by the patent holder of such drugs, raising drug prices.

2) In the agricultural sector the farmers would be loaded with the burden of paying royalties to the suppliers of improved variety of seeds who would be the patent owners for such seeds.

3) Invoking the provision of compulsory licensing on the ground of non-availability of the patented invention to the public at reasonable prices would not be easily possible once the Indian patent Act is brought in accordance with the provisions of TRIPS Agreement.

4) The Provisions of “Licenses of Right” outlined in Sections 88 and 89 of the Indian Act will have to be re-examined to keep them in agreement with the provisions of the TRIPS Agreement. These provisions will get diluted it not become instinct.

5) Once India amends its patent law to include product patent in Pharmaceutical industry. Indian industry has to necessarily engage itself in new product development to remain globally competitive. Evidently none of the Indian companies have the financial strength to undertake drug development as a part of its research and development (R&D) portfolio. The Government is already burdened with its own compulsions. Government financial support to R & D wings of pharmaceutical Industry does not seem to be a probability. The generation of surplus finance for R&D in order to enable the survival of Indian pharmaceutical industry is also an area of concern.

6) The traditional knowledge of medicine in India, i.e., Unani and Ayurvedic are also threatened by the system of product patent. These medicinal products have existed in our country for centuries without anyone exercising a monopoly right over them. In the post-TRIPS scenario if a person gets a patent for such a product abroad, he would be entitled to an exclusive right in the product. This implies that Indians would have to pay the price fixed by the patentee since he would have the monopoly right to determine the price and supply of such products. We would lose what has been ours for centuries. The anticipation of such a circumstance is also giving sleepless nights to some people in our country. The answer lies in enacting suitable legislation to protect our heritage.

7) Patents on products will no longer allow Indian companies to copy patented drugs and work out indigenous process for each of them.

It may be summarized in nutshell that most of the WTO agreements are heavily loaded in favor of developed countries. Developing countries have gained very little from these agreements.

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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.

1. **Business Ethics and Corporate Ethics** – Meaning, Importance, Functions, Unethical Practices and Ethical dilemma, Ethical theories and Approaches, Modern Decision making - Ethical Models for Decision Making, Indian Ethos, Ethics for Managers, Ethics in Business Competition.
2. **Ethical Aspects in Organization – I:** Marketing ethics and Consumer ethics – Ethical issues in Advertising, Criticisms in Marketing ethics, Ethics in HRM: Selection, Training and Development – Ethics at work place – Ethics in Performance Appraisal.
3. **Ethical Aspects in Organization – II:** Ethics in Finance: Insider trading - Ethical investment - Combating Frauds. Ethical issues in Information Technology: Information Security and Threats – Intellectual Property Rights – Cyber crime.
4. **Corporate Governance: Purpose – Theories and Philosophies of Corporate Governance**
5. **Corporate Governance Structures:** Directors, Committees, Institutional investors – Auditors. Corporate Social Responsibility: Stakeholders – Environment – social Development.

Textbook :

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

References:

- "Perspectives in Business Ethics", Laura P Hartman, Tata McGraw Hill.
- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
- Business Ethics -Concepts and Cases, Weiss,Cengage.
- Business Ethics, Himalaya, C.S.V.Murthy.
- Ethical Management, Satish Modh, Mcmillan.

UNIT-4
CORPORATE GOVERNANCE

4.1: PURPOSE:

4.1.1. MEANING AND DEFINITION:

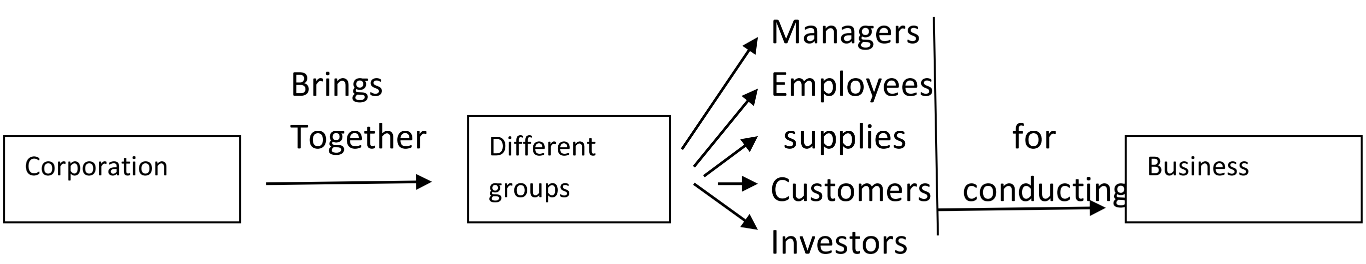
The term 'corporate governance' includes two words 'corporate 'and 'governance'. **Corporate** means legal entity united into a body so as to act as an individual. **Governance** refers to the set of governing rules and regulations in control or direction. Both corporate and governance put together it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

Corporate governance is a set of regulations and practices that control a company. The reason that so many companies find corporate governance difficult is that it requires carefully managing the interests of multiple parties:

- Shareholders.
- Management.
- Customers.
- Suppliers.

Informally, corporate governance is gathering a group of smart, accomplished people around a board table to make right decisions on behalf of the company and its stakeholders.

Formally, corporate governance facilitates effective management that can deliver long-term success to a company and is the mechanisms, processes, and relations by which companies are controlled and directed.

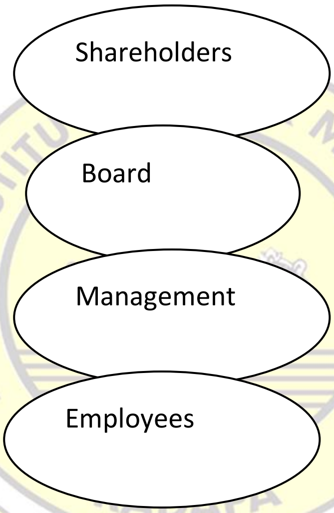


RELATIONSHIP BETWEEN CORPORATION AND BUSINESS

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,



SEPARATION OF OWNERSHIP AND MANAGEMENT

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".

ORGANIZATION OF ECONOMIC COOPERATION AND DEVELOPMENT (OECD)

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

4.1.2: <u>REQUIREMENTS (DESIDERATE) OF CORPORATE GOVERNANCE:</u>

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

Requirements of Corporate governance

- **Right of shareholders**
- **Equitable treatment of share holders**
- **Role of stake holders in corporate governance**
- **Disclosure and transparency**
- **Responsibilities of the board**

I. <u>RIGHTS OF SHAREHOLDERS:</u>

- 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.

II. <u>EQUITABLE TREATMENT OF SHAREHOLDERS:</u>

- 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.

III. ROLE OF STAKEHOLDERS IN CORPORATE GOVERNANCE:

- The OECED guidelines recognize the fact that, there are other stakeholders in corporation apart, from shareholders.
- Apart from dealers, consumers, 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.

IV. 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.

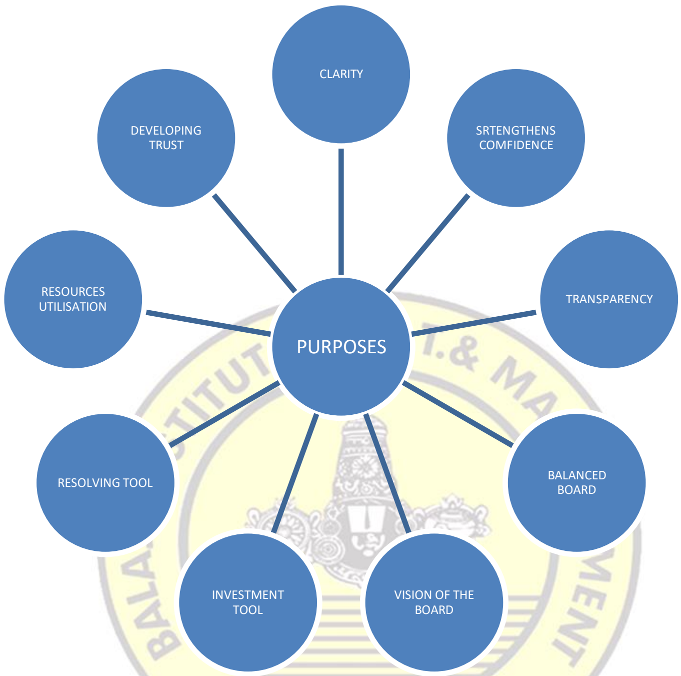
V. RESPONSIBILITIES OF THE BOARD:

- 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.

4.2 : 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,



a) STRENGTHENS CONFIDENCE:

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

b) 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.

c) 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.

d) **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 by them to make wealth for its stakeholders.

e) **INVESTMENT TOOL:**

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

f) **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.

g) **RESOURCES UTILISATION:**

Good governance system focuses 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.

h) **DEVELOPING TRUST:**

Corporate governance is an effective way of building the trust of the stakeholders in the capabilities of the company.

i) **CLARITY:**

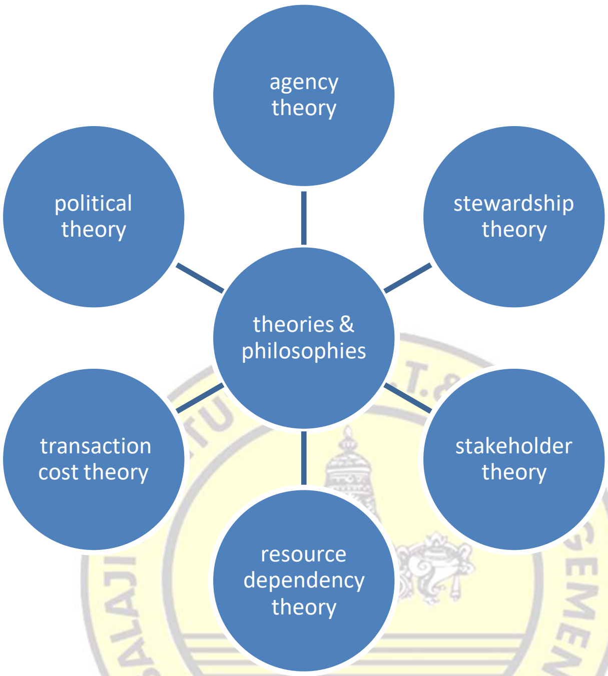
Good governance system takes care that the policies and procedures followed by the board area transparent enough so that each and every transaction carried out is clear to both the company as well as the investors.

j) **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.

4.3. THEORIES AND PHILOSOPHIES OF CORPORATE GOVERNANCE:

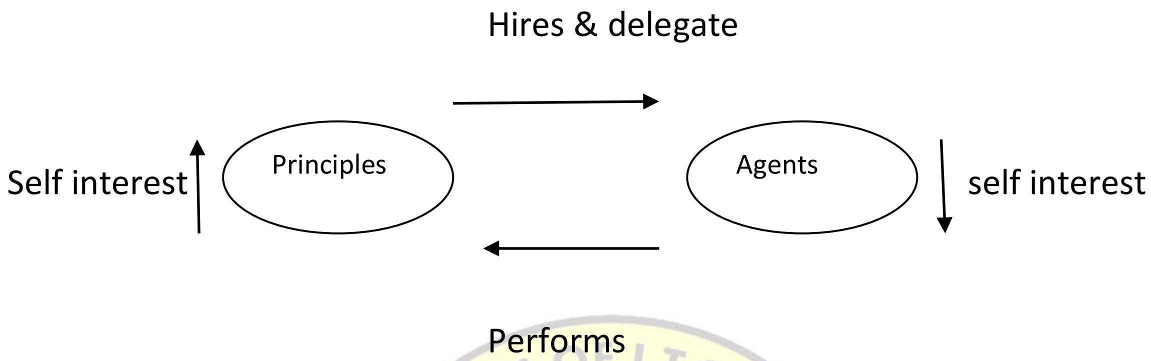
The theories and philosophies of corporate governance are given here as follows,



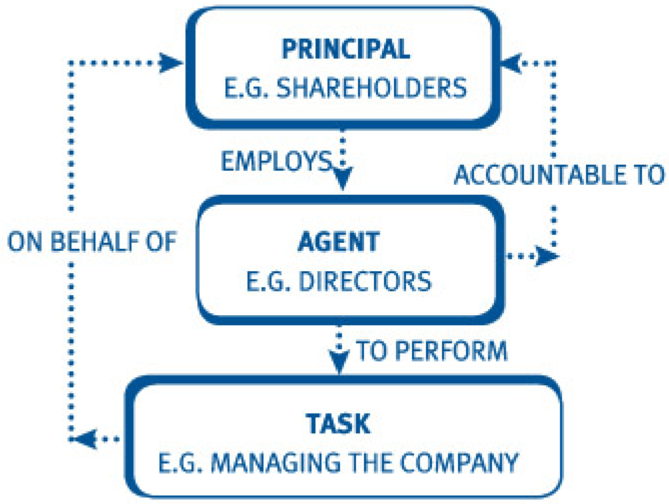
1. **AGENCY THEORY:**

- **Adam smith** proposed agency theory.
- Agency theory is defined as the **relationship between the principles ad 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 mangers, 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 mangers in organizations can be self-interested.



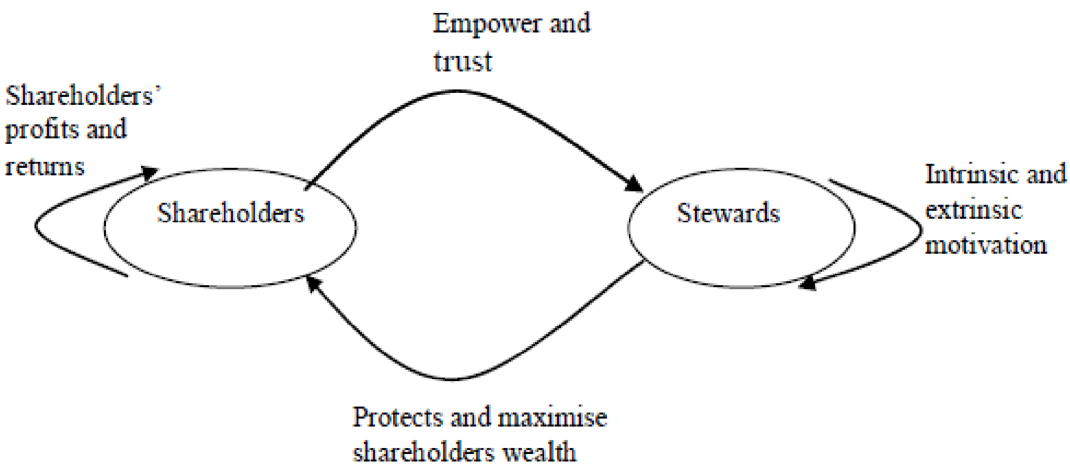
AGENCY THEORY



2. <u>STEWARDSHIP THEORY:</u>

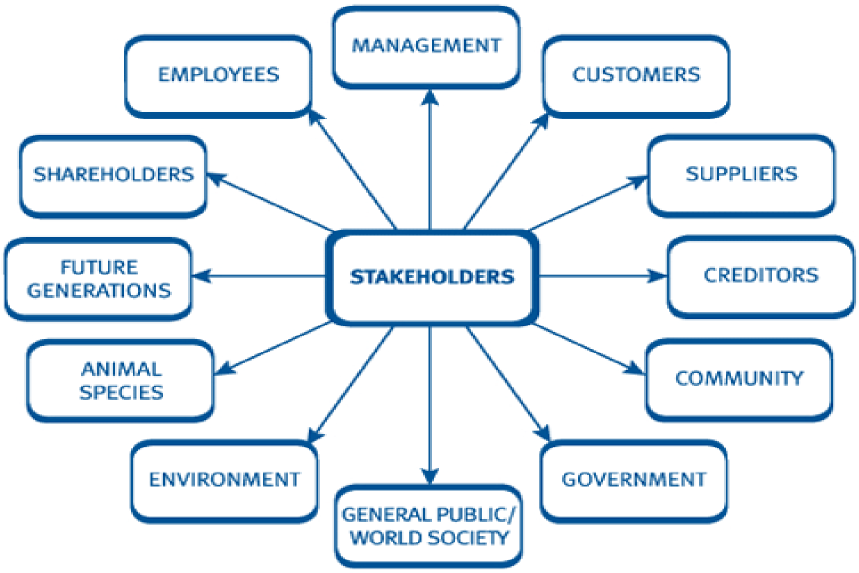
- Stewardship theory has its roots from psychology and sociology.
- **Davis, schoorman and Donaldson (1997)** defined stewardship theory as a steward protects and maximizes shareholders wealth through firm performance because by doing so the steward's utility functions are maximized.
- In this perspective, **stewards are company executive and managers working for the shareholders** and mangers working for the shareholders protect and make profits for the shareholders.

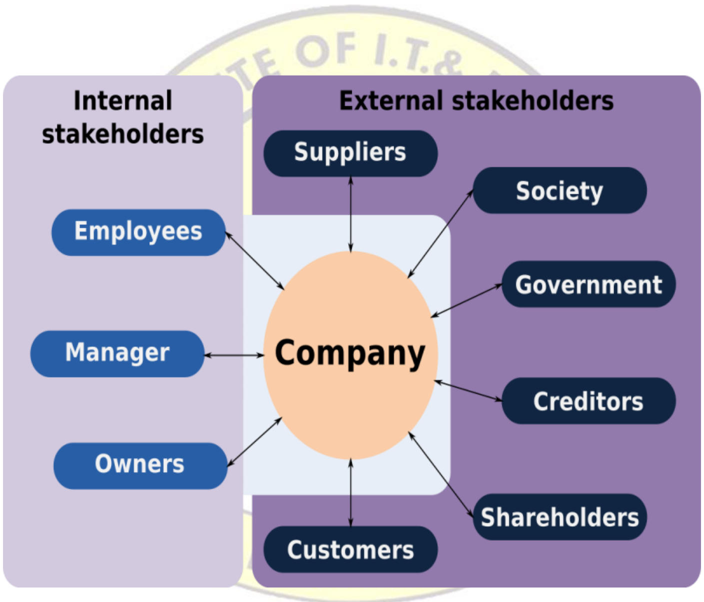
- Unlike agency theory, stewardship theory stresses not only on the perspective of individualism but rather on the role of top management being as stewards, integrating their goals as part of the origination.
- Stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attached.



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 theory 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.





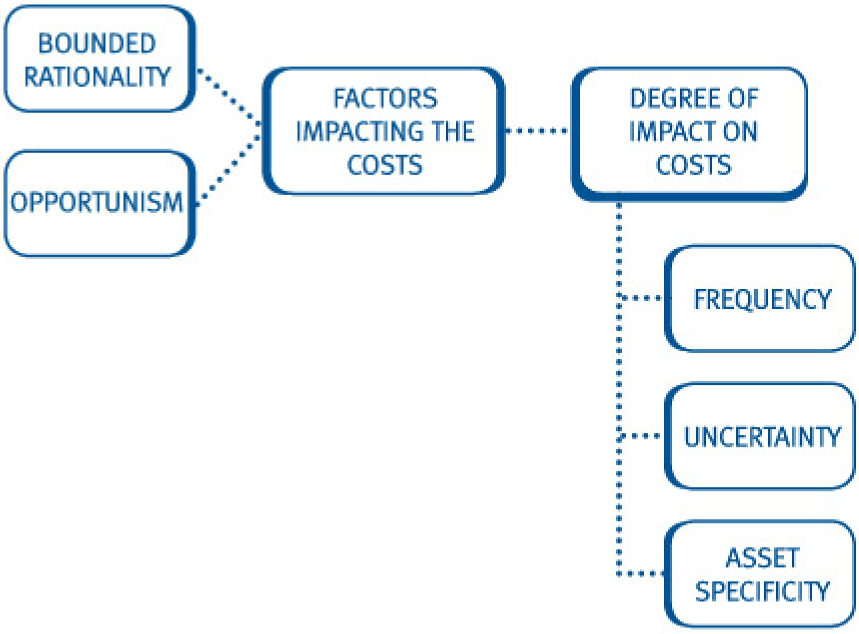
4. <u>RESOURCE DEPENDENCY THEORY:</u>

- 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.)

5. 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.



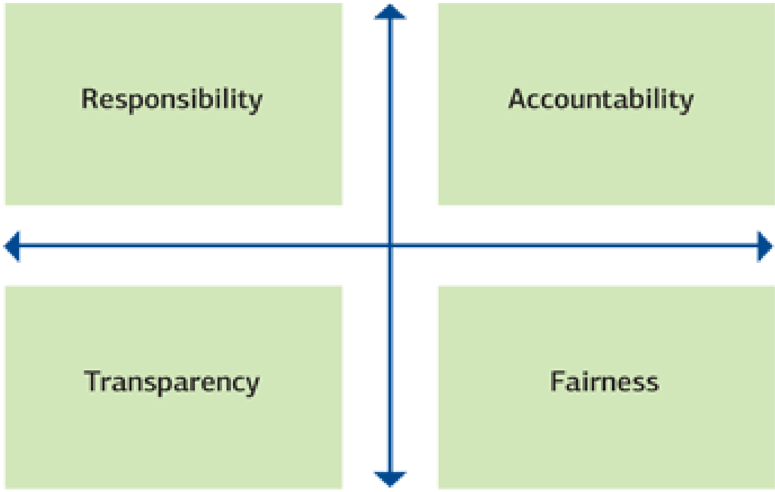
TRANSACTION COST THEORY

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.

4.3.1: 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;



i. **FAIRNESS:**

- **Fairness refers equal treatment** for example; all shareholders should receive equal consideration for whatever shareholdings they hold. In 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 employees, 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.

ii. **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.

iii. **RESPONSIBILITY:**

- The board of directors is given authority to act on behalf of the company. They should 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.

iv. **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 it 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.

4.3.2: 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.

4.3.3: 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 drives 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 in 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 (the early stage in the development or growth of something.). 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;

a. **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.

b. **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.

c. **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.

d. 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.

e. INFLUENCE OF BANKS AND FINANCIAL INSTITUTIONS:

- Despite serious gap in Indian bankruptcy (the state of being completely lacking in a particular good quality) 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.

f. 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.

g. REALIZATION OF THE BENEFITS OF CORPORATE GOVERNANCE:

Ultimately Indian corporations have appreciated the fat that good corporate governance and internationally accepted standards of accounting and disclosure can help them access the US capital markets.

4.3.4: IMPORTANCE OF CORPORATE GOVERNANCE:

The importance of corporate governance is listed below;

Importance
- **Changing ownership structure**
- **Importance of social responsibility**
- **Growing number of scams**
- **Indifference on the part of share holders**
- **Globalization**
- **Take over's and mergers**
- **SEBI**

1) CHANGING OWNERSHIP STRUCTURE:

- In recent years, the ownership structure of companies has changes 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 has 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 institutes, 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) GLOBALISATION:

- 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.

4.3.5: COMPOSITION OF CORPORATE GOVERNANCE:

The Composition of Corporate Governance Include;

- The Board of Directors is typically central to corporate governance.
- The board should be elected by a majority. Some can be nominated if they are well known and would be additive to the board.
- The governance should not be run solely by a CEO.

- The loyalty of the directors should be to the shareholders and the company.
- All directors must have high integrity and represent the interests of all shareholders.
- All directors must have professional experience related to the company's vision and business and expertise with companies without related business to the company.
- Directors should be willing to challenge, but also be collaborative and collegiate.
- Directors should be business minded with a strong allegiance to the company.
- Directors should have a diverse skill set.
- The board should represent a variety of perspectives and should be drawn from a diverse pool of candidates.
- Boards can be different sizes depending on the needs of the company. They should remain relatively small to promote effective communication among directors.
- Board members must be able to dedicate their time and energy to their position.

What is the purpose of corporate governance? Benefits of corporate governance.

A good corporate governance system;

- Ensures that the management of a company considers the best interests of everyone.
- Helps companies deliver long-term corporate success and economic growth.
- Maintains the confidence of investors and as consequence companies raise capital efficiently and effectively.
- Has a positive impact on the price of shares as it improves the trust in the market.
- Improves the control over management and information systems (such as security or risk management).
- Gives guidance to the owners and managers about what are the goals, strategies of the company.
- Minimizes wastages, corruption, risks, and mismanagement.
- Helps to create a strong brand reputation.

- Most importantly – it makes companies more resilient(able to withstand or recover quickly from difficult conditions).

CASE STUDY:

Satyam fraud is unfolding and so are the inherent weaknesses of Corporate Governance in India. RamalingaRaju, once a posture boy of India's growing software sector who could find a seat beside Bill Clinton on the dais, has become a villain in the corporate world for valid reasons.

The company is listed in BSE, NSE and NYSE. On BSE, the Satyam's stock crashed down by 70 per cent to $52 from a high of $188.70. It had a client list that boasted of Fortune 500 companies. His emotionally charged four and half page letter of starting revelations shook the entire corporate world when he admitted of cooking the account and inflating the figure by $5,040 crore. He committed this fraud and tried to hush up it by an abortive bid to purchase Maytas infra, a company created by him and run by his son Teja Raju. This scam is being equated with Enron of U.S.A. because here also the scam was orchestrated by its Auditor, Arthur Anderson, in Satyam, Price Waterhouse cooper.

QUESTION:

a) Is Corporate Governance in India not world class? Support your answer with reference to Satyam Case.

One Possible Solution

- Yes, the corporate governance in India not world class. Satyam has bagged Golden Peacock award for best corporate governance by World Council for Corporate Governance only a few years ago. The scam has raised many doubts about the class of corporate governance in India. While speaking at a seminar on corporate governance organized by CII, Ministry of Company Affairs and National Foundation of Corporate Governance, C.B. Bhave, the chairman of SEBI said on 6th February, 2009 that the corporate governance is an ongoing process. There is a retrospection everywhere that some concrete steps with respect to it should be done.

b) What are the reasons of failure of corporate governance at Satyam Info Systems?

One Possible solution

- There are few importance elements of corporate governance namely auditing, Independent Directors, Regulators and Finally the Board including CEO itself. There are some of the major reasons that were responsible for failure of corporate governance at Satyam Info Systems:

  1) Failure of Auditing system: The Price water house Coopers was auditor of the company. A big question is posed over the credibility of auditors. Loopholes in the auditing system and irresponsible nature of the auditors were one the major reason.

  2) Irresponsible Directors: The independent directors have also failed to discharge their duties properly, Section 49 of SEBI Act and section 229A of Company Act, 1956 provides for appointment of Independent Directors in the companies for protecting the rights of public at large in general and shareholders in particular. There are only two possibilities in Satyam with respect to Independent directors. Either they connive with Raju and knew everything that was going on, or they did not know. In both the cases they failed miserably to discharges their duties.

  3) Irresponsible Regulatory: The SEBI and Ministry of Company affairs too have failed in their assigned jobs, SEBI is the highest regulator and keeps eagle eye on the activities of the capital markets. When the profits of this company were registering abnormal growth, thereby the prices of the shares were soaring, what were these guys doing? There has been a lot of hue and cry with respect to insider trading; a how1 SEBI failed to listen to and it inflicted heavily on Satyam. Raju had pledged almost all his shares so did many of the promoters.

IMPORTANT QUESTIONS:

UNIT-4

1. Write the theories and philosophies of corporate governance.
2. What is corporate governance? Explain.
3. Define corporate governance. Explain the principles of corporate governance.
4. Give a note on the future of corporate governance in India.

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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.

1. **Business Ethics and Corporate Ethics** – Meaning, Importance, Functions, Unethical Practices and Ethical dilemma, Ethical theories and Approaches, Modern Decision making - Ethical Models for Decision Making, Indian Ethos, Ethics for Managers, Ethics in Business Competition.
2. **Ethical Aspects in Organization – I:** Marketing ethics and Consumer ethics – Ethical issues in Advertising, Criticisms in Marketing ethics, Ethics in HRM: Selection, Training and Development – Ethics at work place – Ethics in Performance Appraisal.
3. **Ethical Aspects in Organization – II:** Ethics in Finance: Insider trading - Ethical investment - Combating Frauds. Ethical issues in Information Technology: Information Security and Threats – Intellectual Property Rights – Cyber crime.
4. **Corporate Governance:** Purpose – Theories and Philosophies of Corporate Governance
5. **CORPORATE GOVERNANCE STRUCTURES: DIRECTORS, COMMITTEES, INSTITUTIONAL INVESTORS – AUDITORS. CORPORATE SOCIAL RESPONSIBILITY: STAKEHOLDERS – ENVIRONMENT – SOCIAL DEVELOPMENT.**

Textbook:

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

References:

- “Perspectives in Business Ethics”, Laura P Hartman, Tata McGraw Hill.
- Ethics in management and Indian Ethos, Biswanath Ghosh, Vikas
- Bob Tricker, Corporate Governance, Oxford.
- Corporate Governance and Social responsibility, Balachandran, Chandrasekharan, PHI
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- Business Ethics, Himalaya, C.S.V.Murthy.
- Ethical Management, Satish Modh, Mcmillan.

UNIT-5
CORPORATE GOVERNANCE STRUCTURES

5.1: DIRECTORS:

5.1.1: 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.

5.1.2: 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;
  - **a.** The board shall not do any act which is to be done by the company in the general meeting of shareholders, and
  - **b.** 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.

5.1.3: TYPES OF COMPANY DIRECTORS:

i. SHADOW DIRECTOR:

- In addition to those who are formally appointed as directors, any person, other than a professional adviser, with whose instructions the directors of the company normally comply is a shadow director.
- In other words, where ***a person who is not a director exerts such an influence over the company's directors that those directors are accustomed to acting in accordance with that person's instructions, that person is a shadow director.***
- The significance of being a shadow director is that a shadow director has many of the legal responsibilities of a director.

ii. ALTERNATE DIRECTORS:

- Alternate directors are persons who are nominated by a director to act in their absence.
- An alternate director can only be appointed with the agreement of a majority of the directors.

iii. DE FACTO DIRECTORS:

- A de facto director is a person who has not been validly appointed or who is disqualified but whom in effect occupies the position of, and acts as if he were, a director.
- In addition to the legal categories of director as set out above, other terms are used in business to describe company directors. In practice company directors are generally categorized as either being executive directors or non-executive directors.
- However, it is important to note that these are not legal classifications but rather are distinctions drawn under corporate governance best practice.
- Regardless of whether an individual is an executive or non-executive director, they have exactly the same legal responsibilities.

iv. EXECUTIVE DIRECTORS:

- Executive directors are directors of the company who are involved in the day to day management of the company.
- As these individuals are involved in the management of the company they may, in practice, have specific titles within the company, for example, managing director, marketing director or finance director.

v. NON-EXECUTIVE DIRECTORS:

- Non-executive directors are not involved in the day to day management of the company and are appointed from outside the company.
- It should be noted that there is no legal obligation for a company to appoint non-executive directors; however, certain companies i.e. companies listed on the Stock Exchange are required to comply with codes of corporate governance best practice which do require the presence of non-executive directors on the board.

vi. RESIDENTIAL DIRECTOR:

- The Ministry of Corporate Affairs (MCA) has notified that effective April 1, 2014, every company must have at least one resident director.
- Resident Director has been defined as one who has stayed in India for at least 182 days in the previous calendar year.

5.1.4: 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.

5.1.5: 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-today affairs. Under the companies act, 2006, a director should follow duties as given below,

Duties of Directors

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

a. 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).

b. 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.

c. **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.

d. **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.

e. **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.

- A personal interest, director is a major shareholder, 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.

f. **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.

5.2: COMMITTEES:

5.2.1: 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,

S.NO	COMMITTEES	COUNTRY	DATE OF SIUBMISSION
1	Cadbury	England	1992
2	King committee	South Africa	1994 & 2002
3	CLL	India	1996
4	Hampel	England	1998
5	Kumar mangalam Birla	India	2000
6	SEBI	India	2000
7	Narayana murthy	India	2000

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 a dedication that 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 green bury 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 hamper 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 functions should from time to time review their need for one.

5. KUMAR MANGALAM BIRLA COMMITTEE:

- This committee was established on 7th 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 RECOMMENDATIIONS:

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 50 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.
- A director 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 (Person who acts as a non-executive director on the board of directors of a firm, on behalf of another person). 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.

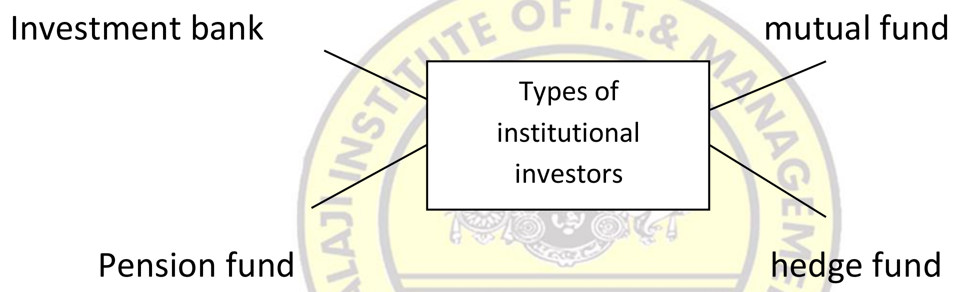
5.3. INSTITUTIONAL INVESTORS:

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.

5.3.1: TYPES OF INSTITUTIONAL INVESTORS:

Types of institutional investors are given as follows,



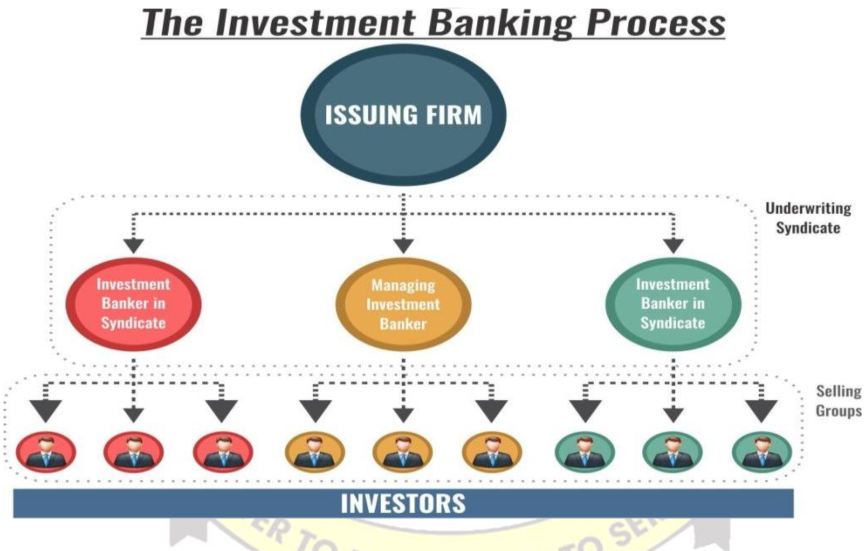
1) INVESTMENTS BANK:

- An investment bank is a financial institution that assists corporations and governments in raising capital by underwriting and acting as the great 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.
- An **Investment bank** offer financial services for clients, such as the trading of derivatives, fixed income, foreign exchange, commodity and Equities or advisory services for mergers and acquisitions. **Investment banks** perform Initial Public offerings (IPO), trades on securities and bonds and they also act as brokers.
- **Investment banks**, on the other hand, **make** their **money** by selling services to customers such as companies, governments and **investment**

funds (fund managers and hedge funds). They are usually paid for these services through fees and commissions rather than interest payments.

List of Top Investment Banks of India

- Barclays Capital: This **investment banking** company is a division of the Barclays Bank Plc.
- B. N. P. Paribas
- Citi Bank
- Credit Suisse A. G
- Deutsche Bank
- J. P. Morgan
- Kotak Mahindra Bank Limited



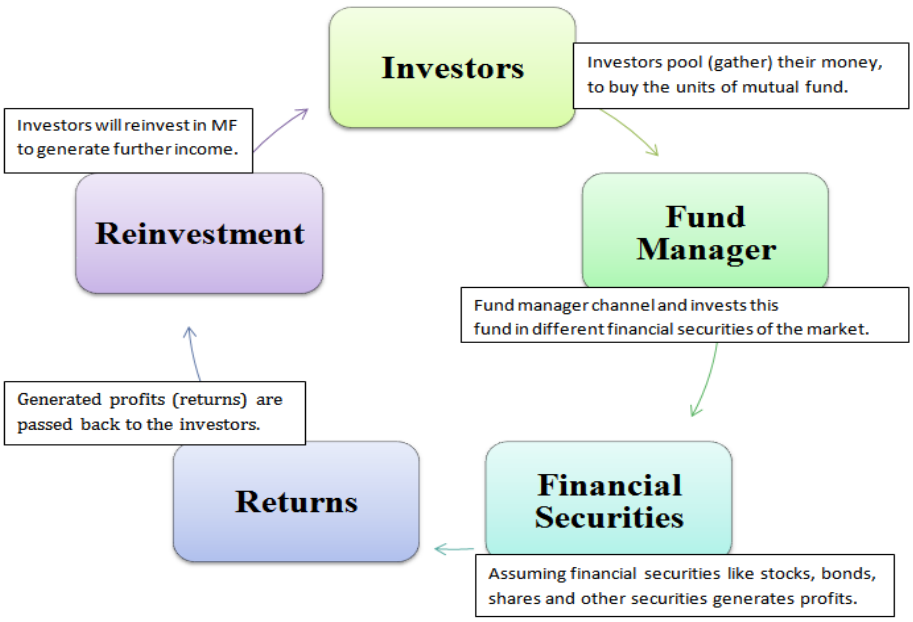
2) MUTUAL FUND:

- 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, bond, other mutual funds, commodities such as precious metals.)
- A **mutual fund** is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities such as stocks, bonds, money market instruments, and other assets. ... A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.
- A mutual fund is a basket of various investments, such as stocks, bonds, and cash. There are three main types of mutual funds: equity funds, fixed-

income funds, and money market funds. Each of these types has a different risk level associated with it.

Best direct Mutual funds platform in India;

- Zerodha
- Paisabazar
- Upwardly
- Cleartax
- Kuvera
- Orowealth
- Basunivesh
- Etmoney
- Cams & Karvy
- Groww



3) <u>PENSION FUND:</u>

- 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.
- **Pension funds** perform important economic functions, such as mobilizing and managing savings, providing income stability, making labor markets more efficient and providing exposure to systemic risk in the financial markets.
- **Pension schemes** can provide protection in the form of lump sums and pensions to dependants in the event of a member's death; in order to encourage pension schemes, the State provides tax relief on contributions made to pension schemes and the growth in their investments.

Types of Pension funds in India;

- Employees Provident Fund Scheme.
- Voluntary Provident Fund.
- Public Provident Fund.
- Mutual Funds Investment.
- National Pension System.

4) <u>HEDGE FUND:</u>

- 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 undertaken.
- Hedge funds as a class invest in broad range of investments including shares debt and commodities.
- A simple hedge fund definition is: a hedge fund is an alternative investment that is designed to protect investment portfolios from market uncertainty, while generating positive returns in both up and down markets. Throughout time investors have looked for ways to maximize profits while minimizing risk.
- The reasons for investing in hedge funds vary. For some investors, hedge funds represent an opportunity to trounce the market. For others, hedge funds are a way to add an additional element of diversification beyond stocks and bonds. ... Relative to mutual funds the fees are exorbitant: 2% plus 20% of profits is typical.

Here is a list of hedge funds operating in India;

- Indea Capital Pte Ltd.
- **India** Capital **Fund**.
- **India** Deep Value **Fund**.
- Absolute **India Fund** (AIF)
- Fair Value.
- Naissance Jaipur (**India**) **Fund**.
- Avatar Investment Management.
- Passport **India Fund**.

5.3.3: GUIDELINES FOR INSTITUTIONAL INVESTORS:

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

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 (a robust policy has been defined as one that is able to perform or work well across a range of plausible futures or scenarios) 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.

5.3.4: 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.

5.4. AUDITORS:

5.4.1: 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.

5.4.2: <u>MEANING OF AUDITORS:</u>

- 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, stock holders, investors and creditors.

5.4.3: <u>TYPES OF AUDITORS:</u>

Auditors are of four types here as follows,

i.<u>INTERNAL AUDITORS:</u>

- 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.
- Internal auditors are employees of the organization they audit. This type of auditors is involved in an independent evaluation of evidence, called internal auditing, within an organization as a service to the organization.
- The objective of internal auditing is to assist the management of the organization in the effective discharge of its responsibilities.

ii.INDEPENDENT/EXTERNAL AUDITORS:

- Independent auditors are usually members of CPA (certified public accountants) firms. Independent auditors are usually Chartered Accountants (CAs) who are either individual practitioners or members of public accounting firms who render professional auditing services to clients.
- In general, licensing involves passing the uniform CA examination and obtaining practical experience in auditing.
- The opinion of independent auditors about financial statements makes the statements more credible to investor's bankers, labor unions, government agencies and the general public.

iii.GOVERNMENT AUDITORS:

- Government auditors work in various local, state and federal or central government agencies performing financial compliance and operational auditors. At the federal level, the three primary agencies are the General Accounting Offices (GAO), the Internal Revenue Services (IRS), and the Defense Contract Audit Agency.
- Local and state governments for example employ auditors to verify that business collect and remit sales taxes and excise duties as required by law.

iv. FORENSIC AUDITORS:

- Forensic auditors specialize in crimes and are used by law enforcement organizations when financial documents are involved in a crime.
- This does not necessarily mean the crime was financial (although this can be the case) but rather that the law enforcement organization needs to track money used to find out where it began or ended up.

5.4.4: RIGHTS OF AUDITORS:

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

Rights of auditors

- **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**

I. 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.

II. 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.

III. 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.

IV. 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.

V. 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.

VI. RIGHT TO BEING INDEMNIFIED:

Under section 633, an auditor (being officer of a company) has a right to be indemnified (compensate (someone) for harm or loss) out of the assets of the company against any liability incurred by defending himself against any civil and criminal proceedings by the company if it is proved that the auditor has acted honestly.

VII. 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.

5.4.5: 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 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;

i. Is responsible for **forming and expressing his or her opinion on the financial statements.**

ii. He or she **assesses the reliability and sufficiency of the information** contained in accounting records.

iii. **Determines whether the relevant information is properly disclosed** in the financial statements by comparing financial statements with underlying accounting records and other source data.

iv. Has to **ensure that his or her work involves exercise of judgment.**

v. An auditor is **not expected to perform duties which fall outside the scope** of his or her competence.

vi. **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.

5.5. CORPORATE SOCIAL RESPONSIBILITY SHAKEHOLDERS-ENVIRONMENT-SOCIAL DEVELOPMENT:

5.5.1: 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.

5.5.2: DEFINITION OF CORPORATE SOCIAL RESPONSIBILIY:

"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 work force 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

5.5.3: <u>WHAT CSR MEANS?</u>

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 makes 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 = 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.

5.5.4: <u>MODELS FOR IMPLEMENTATION OF CSR:</u>

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,

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

I.**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.

II.**STATIST MODEL:**

- A second model of CSR emerged in India after independence in 1947, when India adopted the socialist and mixed economy framework, with a large public sector and state-owned companies.
- 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.

III. LIBERAL MODEL:

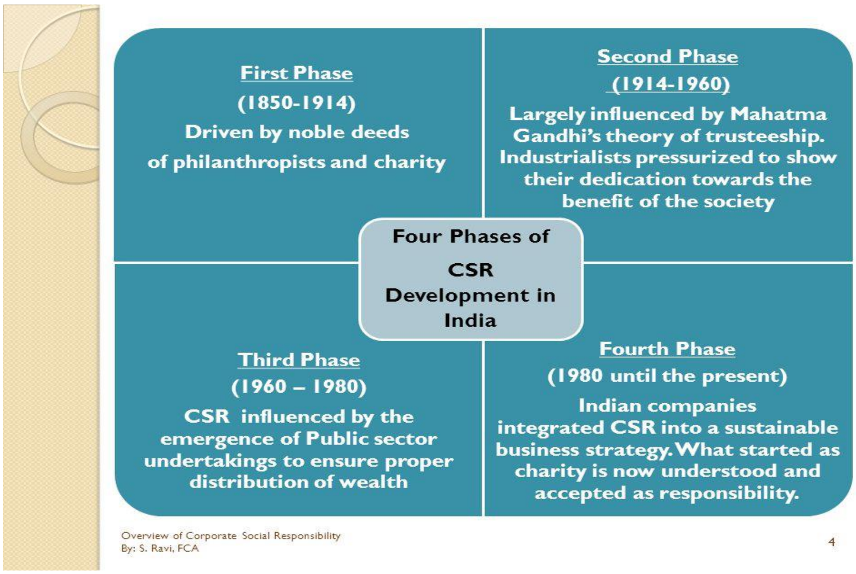
- This is the liberal approach where the belief is that the free market would take care of corporate responsibility.
- It is drawn from Milton Friedman's view which states that a company's responsibility lies mainly in improving the economic bottom line and increasing the wealth of the shareholders.
- This model is sufficient for the corporate to obey the law and generate wealth, which can be directed towards social ends through fiscal policy and charitable choices.

IV. 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.

5.5.5: 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 last 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, leader's 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 and acts framed by government companies mostly PSUs follow activities related to CSR.

PHASE – 4: <u>CSR FOR COMPLYING WITH INTERNATIONAL NORMS AND STANDARDS:</u>

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.

5.5.6: <u>NEED FOR CSR:</u>

Corporate social responsibility is needed for the following reasons.

a. <u>IT IS ORGANIZATIONS RESPONSIBILITY:</u>

- 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.

b. <u>TO ENHANCE REPUTATION:</u>

- 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.

c. <u>TO AVOID GOVERNMENT REGULATION OR CONTROL:</u>

- 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.

d. <u>TO MINIMIZE ENVIRONMENT DAMAGE:</u>

- Effluent gases and chemicals from industrial organizations are detrimental to the environment. Such organizations should neutralize the damaging effects of these environmental violations and restore normally.
- It is a prime responsibility of such organizations.

e. 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.

f. 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.

g. 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.

5.5.7: 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 them 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 of organizations 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 includes;

REGULAR FLOW OF GOODS:

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

COURTEOUS SERVICE:

Courteous (polite, respectful, or considerate in manner) 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 (accuracy) 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.

(v) CREDITORS:

Creditors are those who provide loans to a business like banks and financial organizations. Businesses have responsibilities like,

- A company should furnish accurate information about its financial status.
- A company should repay loans promptly within due date.

(vi) 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.
- Stop all corrupt practices while dealing with government.
- Act in conformity with fair trade practices
- Avoid monopolization.

(vii) SOCIETY:

A society is a large social grouping that shares same geographical territory shares. Common responsibilities of business towards society are;

- 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 of 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 batteries 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.

CASE STUDY:

RESPONSIBILITY TOWARDS EMPLOYEE

Ram Singh was an area supervisor of a company that manufactured furniture. He was diagnosed with HIV in 2001 and chose to inform the company manager. The manager was concerned over a number of issues related to this case. One was the possibility of his infecting others in the workforce (although the manager did not specify how such transmission might take place). He was also concerned that some transference of the virus might be conveyed to the products and thereby to customers – thus having a severely adverse effect upon company viability.

The chairman of the Board was of a more sedate temperature and thought that the manager was over –reacting. To complicate this further the worker's union was concerned to protect the supervisor form unjustifiable discrimination. The supervisor's job was at stake, the family at financial risk, and the morale depletion would have an adverse effect on all other workforces-who would feel particularly vulnerable. If the supervisor's employment were to be terminated. At the end of a series of meetings and petitions someone through to check what the law might say about adverse discrimination on health grounds, on the breach of medical privacy and on the comparative rights of employers and employees. It was clear that the company would operate only within the law, but that still left space for discretion.

QUESTION:

a) What is the actual medical risk of an HIV infected employee continuing in his employed role?

One Possible Solution

There are no actual medical risks of an HIV infected employee continuing in his employed role as there are no chances of transference of infection from infected employees to other employee of an organization.

b) Does the company have any moral obligation toward employee?

One Possible Solution

Yes, the company has following moral obligation toward employee:

1) The infected employee should be counseled to seek follow-up care form his/her private physician.

2) Any form of discrimination in the workplace on the sole account of his or her actual or perceived HIV status, should be prohibited by an organization.

3) Employer should initiate disciplinary procedures against any employee who discriminates against another employee on the latter's actual or perceived HIV status.

4) The employer should take all necessary measures to implement the universal precaution to reduce the risk of HIV infection through accidental exposure to HIV in the workplace.

5) In case of accidental exposure to HIV infection occurring in the workplace, the employer should ensure free access to post-exposure prophylaxis (post-exposure prevention (PEP)) and counseling for employee in accordance with relevant national and international guidelines.

6) HIV testing of job seekers or an employee for the purpose of recruitment, selection, promotion or any other reason should be prohibited.

IMPORTANT QUESTIONS:

UNIT-5:

1. Explain the corporate governance structures briefly.
2. How does corporate social responsibility contribute towards social developments?
3. Define director. Explain their duties and responsibilities.
4. Explain the recommendations of Cadbury committee on corporate governance.
5. How does corporate social responsibility contribute towards stakeholders and environment?

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