

Self Learning Material

BUSINESS ETHICS AND CORPORATE GOVERNANCE

MASTER OF COMMERCE
M21CM02DC

SREENARAYANAGURU OPEN UNIVERSITY

The State University for Education, Training and Research in Blended Format, Kerala

Vision

To increase access of potential learners of all categories to higher education, research and training, and ensure equity through delivery of high quality processes and outcomes fostering inclusive educational empowerment for social advancement.

Mission

To be benchmarked as a model for conservation and dissemination of knowledge and skill on blended and virtual mode in education, training and research for normal, continuing, and adult learners.

Pathway

Access and Quality define Equity.

Business Ethics and Corporate Governance

Course Code: M21CM02DC
Semester-I

**Discipline Core Course
Master of Commerce
Self Learning Material**



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Documentation

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Governance**
Semester -I



SREENARAYANAGURU
OPEN UNIVERSITY

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Message from Vice Chancellor

Dear

I greet all of you with deep delight and great excitement. I welcome you to the Sreenarayanaguru Open University.

Sreenarayanaguru Open University was established in September 2020 as a state initiative for fostering higher education in open and distance mode. We shaped our dreams through a pathway defined by a dictum 'access and quality define equity'. It provides all reasons to us for the celebration of quality in the process of education. I am overwhelmed to let you know that we have resolved not to become ourselves a reason or cause a reason for the dissemination of inferior education. It sets the pace as well as the destination. The name of the University centers around the aura of Sreenarayanaguru, the great renaissance thinker of modern India. His name is a reminder for us to ensure quality in the delivery of all academic endeavors.

Sreenarayanaguru Open University rests on the practical framework of the popularly known "blended format". Learner on distance mode obviously has limitations in getting exposed to the full potential of classroom learning experience. Our pedagogical basket has three entities viz Self Learning Material, Classroom Counselling and Virtual modes. This combination is expected to provide high voltage in learning as well as teaching experiences. Care has been taken to ensure quality endeavours across all the entities.

The university is committed to provide you stimulating learning experience. The master's programme in Commerce is considered to be an academic progression of the bachelor programme in form and content. It heavily leans on the knowledge level of a normal undergraduate learner. The discussions on the theories and accounting practices are kept integrated with a view to ensure cohesiveness in understanding of the learner. The worked out problems and its procedures constitute the conspicuous identity of the programme. Mathematical knowledge is enhanced over the modules. We assure you that the university student support services will closely stay with you for the redressal of your grievances during your studentship.

Feel free to write to us about anything that you feel relevant regarding the academic programme. Wish you the best.



Regards,

Dr. P.M. Mubarak Pasha

01.11.2023

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01 BLOCK

BUSINESS ETHICS

Block Content

Unit 1	Business Ethics
Unit 2	Theories of Ethics



Unit 1

Business Ethics

Learning Outcomes

After completion of this unit, the learner will be able to:

- ♦ familiarise the concept of business ethics
- ♦ gain insights into the relevance and impact of business ethics in modern business
- ♦ identify the factors that influence business ethics

Background

Business ethics is a crucial aspect of modern commerce, guiding ethical behavior in the corporate world. It addresses the need for businesses to operate with integrity, transparency, and social responsibility, fostering trust among stakeholders. The demand for business ethics arises from the complexities of societal, economic, and environmental contexts, necessitating ethical decision making to balance profitability and societal welfare. Ethical principles stem from religious, philosophical, cultural beliefs, as well as legal frameworks and industry regulations. Organisational culture, leadership, and individual values play essential roles in shaping ethical behavior, while external factors like market competition and stakeholder pressures can also influence it. In this unit, the significance of ethical conduct, various sources of business ethics, and factors affecting ethical behavior in business settings are discussed.

Keywords

Business Ethics, Values, Decision making, Vision, Factors

1.1.1 Concept of Business Ethics

The word “ethics” is derived from the Greek word “Ethikos” which means character. Thus, when applied to business, this means business with character. There is another word, “morality” considered a synonym of ethics. The word morality has been derived from the Latin word “moralis” which means behaviour. In this way, ethical-moral behaviour pertain to a set of actions expressed through behaviour. Alternatively, while the character is relatively internal, behaviour is relatively external, and character is externalised via behaviour. Character defines an action, whereas behaviour gives it immediate shape. Without going into the semantics of character and behaviour, let us try to define the term ethics. As already mentioned, ethics is a branch of philosophy.

♦ Branch of philosophy

Ethics is a moral perspective on what is morally correct behaviour and incorrect behaviour, indicating when our actions are right and wrong. On the other side, business ethics is the application of general ethical principles to business behaviour which promotes good in society, improves profitability, fosters business relationships and employee productivity, prevents business from dishonest practices and protects employees from harmful actions by their employer.

♦ Moral perspective

Business ethics is specifically defined as “the art and discipline of applying ethical principles to evaluate and resolve complicated moral challenges”. Business ethics show how profitable and ethical a business can be. The use of ethical principles in business transactions and the ethical consequences of business are now being studied with increasing attention. Business ethics, whether applied at the individual or group level, is the collection of values or justifications that ought to guide how business is conducted.

♦ Collection of values

According to Cater McNamara, “Business ethics is generally coming to know what is right or wrong in the workplace and doing what is right. This is in regard to effects of products/services and in relationship with the stakeholders.”

♦ Right and Wrong

What flows from the above definitions can be summed up as that business ethics is the form of applied ethics that applies moral judgments in the business spheres. It is the application of our understanding of what is good or bad and right or wrong to that assortment of activities that fall within the realm of business. Thus, business ethics means the application of moral judgements to decide business matters as right or wrong and fair or unfair. Like general ethics, business ethics is also normative ethics. Therefore, as normative ethics, business practices are judged on the basis of standards set in this regard, i.e., ‘what ought to be done in a given



◆ Rules of conduct

situation?'. Business ethics is about applying moral principles to decisions and actions in the business world. It means determining what is right or wrong, and fair or unfair, in various business activities. Just like regular ethics guides us on what is good or bad in life, business ethics does the same for business matters. It sets standards for what should be done in different situations. So, it judges how businesses behave by using clear moral rules and also offers specific moral guidelines for actual business situations. Ultimately, business ethics finds a balance between moral requirements and business interests.

1.1.2 Importance and Need for Business Ethics

◆ Pervasive in nature

In today's world, conducting business in an ethical way is essential. When businesses behave ethically, it encourages others to do the same. Ethics is not just important in business; it matters in all aspects of life. If a society lacks ethics, its businesses are likely to face problems and may even fail eventually. So, being ethical is vital for the success and well-being of businesses and society as a whole.

◆ Ethical Influence

- ◆ **Controls business transgression:** Business ethics directly influence the operations of the business by helping them decide what is wrong and what is right. These ethics set certain rules and principles to be followed strictly by businesses and their violation leads to a penalty. Implementation of these principles ensures that the business does not indulge in any unfair practices like black marketing, providing misleading advertisements, fraud in measures and weight, adulteration, etc.. Through ethical business, better products and services can be ensured at fair price.

◆ Employee welfare

- ◆ **Better relation with employees:** Employees are an important part of the business and necessary for the survival of the business. Business ethics ensures that a business works for the welfare of its employees working in it. The business should not only work for the achievement of its objectives like profit maximisation and higher growth but should also focus on the people working in it. These ethics ensure that the business provides better monetary compensation and good working conditions to its employees, active participation in decision making, addresses complaints, and provides promotions as per their progress. This helps in maintaining a good relationship with employees.

- ◆ **Protection of consumer rights:** The consumer is termed the



king of the market and they decide the success or failure of all businesses. It is important that the business fulfills the needs of its customers. Business ethics provides principles for business operations under which it is required to provide better quality products at reasonable prices. It ensures that the business provides better customer support and redresses all complaints. This helps businesses in improving the satisfaction levels of their customers building more trust and confidence in businessmen who follow ethical principles.

♦ Customer-centric

- ♦ **Increase profitability:** Business ethics improve the productivity and profitability of every business. It sets certain rules to be followed by every person working with the business. Every employee is required to adhere to these rules and should focus on their duties with sincerity. These ethics ensure that there is no waste of resources, and that every resource is efficiently utilized. This eventually leads to an increase in business profit in the long run.

♦ Productivity boost

- ♦ **Portrays a good picture of business:** Business goodwill has an important effect on capturing the market. Businesses with high goodwill are able to attract more customers. By implementing ethics in its operations business aims at providing better service to the market. Businesses that work ethically operate at a low-profit base and with honesty. This develops a better image in front of the public and is easily accepted by customers with less effort.

♦ Goodwill impact

- ♦ **Better decision making:** Ethics in business helps them in making timely decisions. It provides certain rules and guidelines that every business needs to follow in its operations. Every decision is taken in light of the moral principles and social values provided through these ethics. It helps businesses in deciding what is right and what is wrong.

♦ Timely decision

- ♦ **Protection of society:** Ethics can protect society in a better way than even the legal system of the country does. Where laws fail, ethics succeed in cases where the government cannot regulate all the activities that are harmful to society. For instance, an ethically sound Human Resource Manager settle can easily settle the problems and agitations of employees which are very important for the ease of doing business. If a business does not consider the interests of its society, then it will harm its survival. Business ethics direct that the business should work for the welfare of its society and take part in various programmes that could make a sound relationship with the society.

♦ Societal protection



BLOCK - 1

♦ CSR commitment

♦ Human alignment

♦ Long-term viability

♦ Consumer protection

- ♦ **Contribution to Corporate Social Responsibility (CSR):** Ethics ensure that a business contributes actively to its corporate social responsibility. Businesses that follow ethical practices tend to perform more activities related to CSR.
- ♦ **Corresponds to basic human needs:** It emphasise that ethical business practices align with fundamental human values and needs. When businesses operate ethically, they cater to the human needs such as fair treatment, trust, transparency and so forth.
- ♦ **Survival and smooth functioning of business:** Business ethics are mandatory for the long term viability and success of the business. If businessmen do not follow ethical rules, they will fail in the market. So, it is always better to follow an appropriate code of conduct to survive in the market and to achieve reputation, trust, customer loyalty, employee engagement and so forth.

Safeguarding consumer's rights: Business ethics are necessary to safeguard the rights of the consumers such as the right to health and safety, the right to be informed, the right to choose, the right to be heard, the right to redress, etc.. It aims to protect and prioritise the rights and interests of their consumers by offering product safety, quality, fair price, responsible advertising and so forth.

CASE STUDY:

COCA COLA BEVERAGES PVT (Ltd.) IN PALAKKAD

Plachimada is a small village in Palakkad district of Kerala. It is situated in Chittur block's Perumatty Panchayat of the district. In 2000, this Panchayat gave license to the Hindustan Coca-Cola Beverages Private Limited (HCCBPL) to manufacture Coca-Cola (Coke) and other products viz. Fanta, Limca, Thums Up, Sprite, Kinley, etc.. But very soon due to the contamination of groundwater in that locality by the chemical waste discharged by the company, local people started a small-scale protest against the company. Later, this protest was supported by the Panchayat authorities. In a long run, with national as well as international support to the protest against this multinational company (MNC), this movement became an icon of other such movements worldwide leading to permanent shut down of the company later. This case tells how Coca-Cola – the most popular brand in the world takes prominent position in a web of legal, strategic and ethical challenges. The above example emphasises how essential it is to follow ethics in business.



1.1.3 Sources of Ethics

The following are some of the various sources of business ethics:

i. Culture and traditions

Practices that are handed over from generation to generation become part of societal standards. The other source of business ethics is the culture and traditions that an individual has to follow pertaining to certain guidelines prevalent in the society to which they belong. Culture implies the rules, standards, patterns of behaviour, and values that are transmitted from generation to generation. These are the standard codes of conduct to be followed by an individual that is permissible and acceptable to the community to which one belongs from their childhood. Human civilization is the cumulative cultural experience that an individual passes through during his lifetime.

♦ Cultural experience

ii. Government laws

Sometimes, certain standards are imposed on society through laws that, over time, are accepted by society and form part of its ethical system. A law is a code of conduct formulated by the legal system of the state and is to be followed by an individual to respect the societal interest. These are the strict rules and procedures that every business should abide by to conform to the ethical behaviour of each. The major problem with the law is that all the ethical expectations cannot be covered by the law and especially with an ever-changing outer environment the law keeps on changing but often fails to keep pace.

♦ Legal system

iii. Role models and philosophers

Role models and philosophers serve as vital sources of business ethics by offering guiding principles, moral frameworks, and inspiring examples. Ethical leaders and successful businesses act as role models, encouraging others to uphold honesty, integrity, and responsible decision making. Philosophers' ideas, such as utilitarianism and virtue ethics, provide a basis for understanding ethical behaviour, helping business leaders navigate complex moral dilemmas. Ethical codes and standards influenced by philosophical principles set ethical benchmarks for organizations. Overall, these influences foster a culture of integrity, responsibility, and sustainable practices, benefiting businesses and society.

♦ Human ethics

iv. Human conscience

Human conscience serves as an internal moral compass, guid-



♦ Moral compass

ing individuals and organisations towards ethical decision making and responsible behaviour. It prompts individuals to reflect on the ethical implications of their actions, fosters personal responsibility, and influences employee behaviour. Ethical leaders, driven by their conscience, set a positive example for others and promote a culture of trust and integrity. The conscience also plays a role in driving corporate social responsibility initiatives and helps in rectifying ethical lapses when they occur.

v. Philosophical system

♦ Ethical paradigm

A philosophical system is a set of viewpoints regarded as reliable by a certain organisation or institution. The study of what is good and bad acts as an important source of ethics. In general, philosophical ethics is concerned with developing a framework for determining who or what is morally right or with assessing frameworks put forth by others.

1.1.4 Factors Influencing Business Ethics

♦ Internal and external factors

It is a fact that every business depends on society which is made up of a variety of environmental elements. These extremely dynamic environmental elements have an impact on the operations of any business. The actions and decisions, therefore, should be based on its ethical behaviour which may be related to the internal or external acts as for a business. These factors of business ethics can be classified into internal and external factors, as discussed below:

1.1.4.1 Internal Factors

Internal factors are related to the business organisation. They can be controlled up to some extent. Internal factors affecting business ethics are largely governed by vision, mission, policies, and company culture.

♦ Foresight

a) Vision: An organisation which values to charity and social service on its agenda will always be more particular about its ethical behaviour in decision making. Ethical guidelines and standards of business must be well designed. A strong ethical vision reflects the company's commitment to conducting business with integrity, transparency, and responsibility. It guides decision making processes by emphasising the importance of ethical considerations in all aspects of the organisation's activities.

b) Psychological factor: The psychological factors within an organisation, including attitudes, perceptions, and ethical awareness of employees, significantly influence the ethical climate. A positive ethical climate fosters an environment where employees

feel comfortable speaking up about ethical concerns and reporting unethical behaviour. On the other hand, a negative ethical climate can lead to a lack of ethical awareness, resulting in ethical lapses and misconduct. Business leaders must promote ethical awareness and encourage an ethical culture to enhance employees' commitment to ethical behaviour.

◆ Employee attitude and perception

c) Individual characteristics: The individual characteristics of a person depend upon the natural personality traits, past experience and the value system in the society to which he/she belongs. People of different personalities have different approaches towards life, and their ethical behaviour accordingly depends upon the dominant part of their personality.

◆ Personality traits

The individual characteristics of a person include:

- ◆ Fairness
- ◆ No discrimination
- ◆ No politics
- ◆ Mutual help
- ◆ Concern to society and environment
- ◆ Not to fall prey to short gains
- ◆ Build trust
- ◆ Set themselves as a model integrity

d) Policy statement and programmes: A well-designed and clearly defined management policy also encourages ethical behaviour in the organisation. The management must timely conduct the training programmes and workshops in order to develop and encourage ethical practices in the organisation. Ethical behaviour in the organisation can be conducted and nurtured by rewarding good moral conduct and ethical behaviour in the organisation. Other than these, financial and non-financial motivations such as direct and indirect rewards programmes can be helpful.

◆ Management policy

e) Measurement and follow-ups: It refers to the process of assessing and evaluating the ethical performance of an organisation over time. It involves monitoring the implementation of ethical policies, practices, and standards to ensure that the company remains true to its ethical commitments. For embedding the ethical culture in the organisation, timely measurement and follow-up programs have to be taken up, and depending upon



◆ Assessment and evaluation

the gap analysis the corrective steps can be taken. By regularly assessing the ethical performance and compliance with ethical standards, businesses can identify areas of strength and weakness in their ethical conduct. This process allows them to address potential ethical risks and gaps, make necessary improvements, and reinforce a culture of ethical behaviour. Measurement and follow-ups serve as a mechanism for accountability, ensuring that the organisation's ethical commitments are consistently upheld and aligned with its ethical vision.

◆ Guidance

f) Leadership: A good leader not only encourages others to follow ethical behaviour but also leads by example. Ethical leadership involves demonstrating integrity, transparency, and accountability in decision making and actions. When leaders prioritise ethics and lead by example, they create a positive ethical culture that permeates throughout the organisation. Their commitment to ethical principles fosters trust among employees, customers, and other stakeholders, resulting in stronger relationships and sustainable business success.

◆ Performance goals

g) Targets and budgets: In the present world of competition, survival of the fittest is the only condition for success. In order to cope with this cut-throat market competition, the employees work under pressure of attaining high targets with limited resources. They work under tremendous pressure to achieve their goals. In order to achieve their targets, sometimes they keep their morals and ethics at stake and get indulged into malicious business practices. Therefore, it can be said that targets and work pressure are also the factors influencing business ethics.

◆ Organisational culture

h) Company culture: Company culture refers to the shared values, beliefs, norms, and behaviours that characterise an organisation. In an ethical culture, employees are encouraged to act ethically, building trust with stakeholders and enhancing the organisation's reputation. Such a culture promotes compliance with laws, governance mechanisms, and internal controls. Atmosphere at the workplace also directly and indirectly responsible for business ethics.

It is inclusive of workplace dynamics and also includes:

- ◆ Internal culture
- ◆ Views of stakeholders
- ◆ Building ethical standards in business
- ◆ Corporate vision

- ♦ Corporate code of ethics
- ♦ Corporate code of conduct
- ♦ Corporate strategy
- ♦ Business strategy
- ♦ Functional strategy

In a morally corrupt working environment, it becomes challenging to maintain high ethical standards and morality in behaviour. On the other hand, in an ethical working environment, the employees feel motivated to adhere to their moral values.

♦ Motivation

1.1.4.2 External Factors

External factors affecting business ethics are beyond the control of any organisation. No individual lives in isolation, all come from a social background, which consists of values and a belief system that we get throughout the family, society, culture, etc.. These factors also play a key role in determining the ethical behaviour of a person. The following are factors:

a) Society: Being a part of society, every individual draws few behavioural norms in his/her personality. These sets of values and beliefs drive a person throughout his/her life and are reflected in every decision made by the person, be it personal or professional. The role of ethical values in the society is a great influencer, eg., in a society where females are treated at par with men and are equally empowered, the crime rate against women is less. So, it can be said that society plays a vital role in shaping the foundations of the ethical behaviour of an individual.

♦ Community

b) Religion and culture: Religion provides ethical guidelines, while cultural norms influence what is considered ethical behaviour. Respecting religious beliefs and cultural values enhances business reputation and fosters a responsible and inclusive approach to conducting business.

♦ Tradition

c) Government philosophy: Government philosophy significantly influences business ethics through its impact on the regulatory environment, ethical standards, corporate social responsibility (CSR), labour practices, consumer protection, and financial ethics. Ethical governments prioritise transparency, fairness, and social responsibility, shaping a business environment that aligns with societal values and promotes responsible conduct. By enacting policies that foster ethical behaviour, the government plays a crucial role in building a just, sustainable, and trustworthy econ-

♦ Political ideology



omy.

◆ Regulatory environment

d) Regulatory and legislative framework: A law abiding country's strong regulatory and legislative framework ensures ethical practices in the country. Mandatory laws for fair business practices and strict provisions of punishment for defaulters encourage ethical business practice. Laws such as Consumer Protection Act, 1986, Standards of Weights and Measures Act of 1956, Competition Act of 2002 and Companies Act, 2013 ensure fair business and protect the rights of consumers and investors.

◆ Data security

e) Technology: It presents ethical challenges related to data privacy and security, transparency in sourcing and supply chains, cybersecurity, and job displacement through automation. Ethical considerations arise in digital marketing and advertising, ensuring fairness in artificial intelligence, and responsibly managing electronic waste. Businesses must embrace technology responsibly, prioritising data privacy, transparency, fairness, and environmental responsibility to build trust with stakeholders and foster a sustainable and ethical business environment.

◆ Fair practices

f) Competition: Tremendous competition in the market has compelled the business organisations to adopt fair business practices. Good business policies generate goodwill for the firm in the long run and help the firm in not only surviving but to face competition. In the situation of monopoly or oligopoly, consumers have no choice or limited choices. In such situations, the business firms exploit consumers and indulge into unfair business practices, whereas in a competitive market consumers have wide choices to make. In a situation like this, the consumer prefers a brand whose reputation is good in the market and this encourages the business firms to act ethically for enjoying goodwill in the long run.

◆ Stakeholder perception

g) Public perception of law: Public perception of law is also one of the determinants of ethical behaviour of the business firms. In a place where people think that there is no harm in being unethical, they can do whatever suits their interest and get away with it very easily; chances of unethical conduct are very high. People know that they can get indulged into unfair means, malicious activities and take advantage of loopholes in the judiciary system. On the other hand, if people feel that being unethical in their conduct may attract unnecessary legal consequences, their ethical conduct naturally improves.

h) Role of ethical values in society: It is very significant to see how society reacts to unethical behaviour. In a tolerant society where success and fame are of prime importance, ethics take a



back seat. But where the ethical and moral values are also equally significant for social reputation, business organisations prefer growth with ethical conduct.

♦ Moral values

Summarised Overview

Ethics is the branch of philosophy that deals with studying the principles relating to right and wrong conduct. Business ethics refers to the system of moral principles and rules of conduct applied to business. Businesses make use of the resources of the society and therefore they must contribute something in return to the society. Ethics ensure that a business contributes actively to its corporate social responsibility. A business following ethics is influenced by a number of factors that are external and internal to the business such as Personal Code of Ethics, Legislation, Leadership, Government Rules and Regulations, Ethical Code of the Company, Social Pressures and Ethical Climate of the Industry. Complying with an ethical code of conduct helps businesses in their long-run growth and survival.

Self-assessment Questions

1. What do you mean by the term Business Ethics?
2. State the importance of Business Ethics.
3. Explain the various elements of Business Ethics?
4. What are the sources of Business Ethics?
5. Explain the various factors influencing Business Ethics?
6. Explain how legal laws and rules affect business ethics.
7. Business ethics helps to improve profitability of a business. Elucidate.
8. Mention some of the individual traits that affect business ethics.



Assignments

1. Visit two businesses, one led by an entrepreneur of the first generation and the other by someone with a business background. Do businesses need to adhere to ethics? Contrast and compare the two perspectives on corporate ethics.
2. Explain the relationship between ethical business practices and Corporate Social Responsibility followed by firms.
3. Visit a firm near your locality and list out any three ethical practices followed by the firm.
4. Discuss what are the ethical issues that business faces today? Discuss them with suitable examples.
5. Meet a prosperous businessperson. Inquire from them about the moral standards they uphold in their business. Ask if ethical behaviour helps or hurts business. In that case, how? What ethical business practises would they like other businesspeople to advise them on?

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



Unit 2

Theories of Ethics

Learning Outcomes

After completion of this unit, the learner will be able to:

- ♦ fair idea about various ethical theories and approaches developed by philosophers
- ♦ applicability and critical appraisal of some of the theories of ethicsIdentify the factors that influence business ethics
- ♦ identify the impact of ethical theories in modern business environment

Background

Business ethics is a crucial field exploring the moral principles guiding business practices and decisions. The study of theories of business ethics provides frameworks for ethical decision making. Understanding the theories enables future business leaders to make informed and principled decisions, fostering a socially responsible business environment. Business ethics encourages companies to strike a balance between profitability and ethical conduct, fostering sustainable practices and responsible interactions with stakeholders.

The theories of business ethics provide valuable insights into the complex realm of moral decision making within the corporate context. By integrating these theories into their approach, businesses can create a positive impact on society and enhance their reputation as ethical and socially conscious entities. Knowledge on these theories helps to develop a strong ethical foundation in the learners, thereby equipping to navigate the challenges of the modern business world with integrity and wisdom.

Keywords

Economic theory, Deontological theory, Utilitarianism, Gandhian approach

1.2.1 Theories of Business Ethics

It will be important to first comprehend the basis of business ethics theories before we analyse the theories themselves. The fundamental foundation of a study of business ethics is the viewpoint that is taken into account. Accordingly, three different lenses or perspectives—descriptive, analytical, and normative ethics—are used to study business ethics, or as it is sometimes called, ethical behaviour in business.

◆ Ethics study lenses

Descriptive ethics: Descriptive ethics is defined as the presentation of the actual ethical behaviour of an individual or members of a business organisation. It is used when one just wants to know and understand the course of ethical behaviour. It is important to mention that no interpretation is made concerning why the given course of ethical behaviour took place.

- ◆ Ethical behaviour overview

Analytical ethics: Analytical ethics can be described as understanding the reasons behind a course of ethical behaviour that took place. In other words, analytical ethics answers the question of how an ethical behaviour took place. Unlike descriptive ethics, analytical ethics also studies the motive behind ethical behaviour of the individual or organisation whichever be the case. Thus, analytical ethics helps determine the legality of ethical behaviour.

- ◆ Understanding ethical behaviour

Normative ethics: As the term itself denotes, normative ethics can be described as a prescribed course of action that the ethical behaviour will take place accordingly. This deals with what and how one should conduct in future. Thus, being a prospective course of action, normative ethics enables members of an organisation to address probable ethical issues well before they take place. ‘Code of Ethics’ as prepared and practiced by some business organisations such as Johnson and Johnson helps organisational members follow normative ethical behaviour by following the acceptable and avoiding the unacceptable behaviours.

- ◆ Prescribed ethical behaviour

The question of what makes business ethical is best answered by the theories of business ethics. All theories of business ethics have customarily been coming under the two broad groups called Teleological Theories and Deontological Theories. Teleological theories, also known as consequentialist theories, focus on the outcomes or consequences of actions to determine their ethical nature. Deontological theories prioritise the inherent nature of actions rather than their outcomes and propose that certain actions are inherently right or wrong, regardless of their consequences.

- ◆ Teleological vs. Deontological

1.2.1.1 Friedman's Economic Theory

Milton Friedman, an American economist, came up with an



- ♦ Commitment towards the shareholders

economic theory in 1970. The theory, which appeared in the New York Times in 1970, suggested the idea of shareholder primacy and the belief that the sole social responsibility of businesses is to maximise profits for their shareholders. Friedman Doctrine also notes that shareholders must make key business decisions or, an outsider must not make decisions that can affect the shareholders.

Friedman doctrine and social responsibility

As per the theory, a company has no social responsibility unless the shareholders decide so. The theory states that the authority to determine social responsibility should rest with the shareholders, not the managers or executives. Also, it is the shareholders who must decide on using the company's resources for social purposes. Social responsibility, such as offering social amenities, is usually capital intensive. Thus, they impact the financial resources of a firm. Hence, it is the shareholders who get to decide how to use financial resources. According to Friedman, it must not be made mandatory for a company to take up social responsibilities. Instead, the final decision should rest with the shareholders. Along with social responsibility, this theory also covers many other crucial topics, such as the role of directors, appraisal and measurement, compensation, and more.

- ♦ Social responsibility - not mandatory

Influence of Friedman doctrine

Since its introduction, several companies have been following the theory. Every business school book state that the goal of a company is to maximise shareholder value. Most businesses currently work to maximise the shareholder value rather than focus on Corporate Social Responsibility (CSR). Such companies have a goal to increase profits because this is what matters most to the shareholders. Also, when allocating resources, the executives of such firms give preference to maximising shareholder value. Over the years, several studies, researchers, and experts have also confirmed the influence of this theory in dictating the company's operation.

- ♦ Value maximisation

Criticism

Friedman Doctrine is hugely popular and relevant even after 50 years of its inception. However, it has got criticism as well. From the perspective of society, this theory is individualistic. Those against the theory believe it lacks on almost every front, be it financial, economic, legal, moral, or social.

- ♦ Enduring but controversial

The critics argue that this theory gives importance to the shareholders and neglects the society. They believe that along with the shareholders, a company also needs a community to be success-



ful. It is because a company uses the resources of the community and eventually sells its products to the community. Moreover, the goodwill that a company creates in the community helps it to be successful. Thus, an entity has a responsibility towards society as well. Moreover, the Friedman Doctrine has also received criticism for enriching a few corporations at the expense of the community. Other criticisms include pressure from shareholder activists and management burnout to increase the profits for the shareholders. Many argue that maximising shareholders' value is the root cause of most evils currently plaguing society. These evils are racial inequality, economic inequality, hostile takeovers, climate change etc.

♦ Neglects social responsibility

Another criticism is that this theory does not cover the consequences of executives bending the law to maximise shareholder value. As per the theory, a company must operate within the law to make profits for the shareholders. However, there are several cases where executives bypass or bend the rules to make more profit. Companies still closely follow Friedman Doctrine and believe that maximising returns for the shareholders will benefit society as well. Things, however, are slowly changing. The Business Roundtable, a group of CEOs of top companies, recently reached a consensus on doing away with the sole focus on the shareholders. Instead, they agree to make decisions that benefit all the stakeholders.

♦ Bending rules

1.2.1.2 Kant's Deontological Theory

This theory is developed by Kant, which emphasised a single principle of duty and duty only. Kant's (1959) argument is that to act in right way, one must act from duty. He begins with an argument that the highest good must be both good in itself, and good without qualification. It is a prominent ethical framework that focuses on the inherent nature of actions and emphasises the importance of moral principles and duties. Kant's theory is grounded in the concept of the categorical imperative, which provides a universal moral principle for guiding ethical decision making. Influenced by Pufendorf (1691), Kant agreed that we have moral duties to ourselves and others, such as developing one's talents and keeping our promises to others. However, Kant argued that there is a more foundational principle of duty that one ought to do and others that we ought not to do merely by virtue of being rational. Kant asserted that moral law that is to be abided by all rational human beings.

♦ Emphasis on moral duties

In business ethics, Kant's Deontological Theory provides a framework for evaluating the moral dimensions of actions and decisions. Business leaders and employees are encouraged to act



♦ Moral framework

ethically by following universal moral principles and respecting the rights and dignity of all stakeholders, including customers, employees, suppliers, and the community. Kantian ethics can guide businesses to prioritise honesty, fairness, and integrity in their dealings and to make decisions based on moral duty rather than pursuing self-interest or short-term gains.

Kantian Duty-based ethics can be illustrated with an example used by Kant himself as follows:

♦ False promise and use of others

“A man finds himself forced by need to borrow money. He knows well that he will not be able to repay it, he also sees that nothing will be loaned to him if he does not firmly promise to repay it at a certain time. He desires to make a fake promise to make use of another man merely as a means to an end which the latter does not likewise hold. For the man whom I want to use for my own purposes by such a promise cannot possibly coincide with my way of action. The person who was deceived by the false promise was tricked into doing something that he or she would not have consented to had all the facts been known. Even if the debt is ultimately paid, it does not change the fact that one person imposed his will on another and treated him simply as a means to an end (Kant 1959).”

♦ Actions guided by morality

Considering Kant’s view of duty, the issue is what ought this man to do morally? One way to address to this issue is considering the consequences of borrowing money and not borrowing money. For example, if he borrows money with a false promise to pay, it will relieve him from a financial problem and will benefit him in pursuing his pursuit (s). If he does not borrow money following moral reasoning not to make a false promise to repay, he will have to face financial problems and, in turn, undergo hardships in life. Kant resolves this issue with his own turgid statement which he nomenclatures ‘categorical imperative’. Kant’s Categorical Imperatives are universal ethical principles that everyone should follow, like not lying, cheating, or harming others. He says that we should act only according to rules that we would want everyone to follow. Kant believes that doing the right thing is more important than the results, and we should act out of a sense of duty. His main idea is that we can know what is right or wrong by following a principle of duty and treating others how we would want to be treated.

Criticism against Kant’s theory

Some ethicists have raised two major objections against the Kant’s theory of duty and that lead many to reject it:

Unlike the proportionality that comes out of the utility princi-



ple, the categorical imperative yields only absolute. Actions either pass or fail with no allowance for a “grey area”. For example, lying is always wrong even the “polite lie”.

Moral dilemmas happen when our duties clash, and there is no easy way to solve them. Conflicting duties may force us to do things that cannot all be done at once, and not doing any of them can still be morally wrong.

♦ Rigid

♦ Discounting outcome for moral values

1.2.1.3 Mill and Bentham’s Utilitarianism Theory

According to the Utilitarian philosophy, business decisions should be based on what the people benefit from it. It is one of the business ethics ideas that is probably open to a wide range of interpretations. What ought a person to do is a practical topic that utilitarianism aims to address. The answer is that one should perform activities in a way that maximises happiness or pleasure and minimises unhappiness and hardships. Mill and Bentham have differences in their thinking. Bentham’s work opens with a statement of the principle of utility. Mill rejects it being purely quantitative measurement of utility.

♦ Maximizing benefit

Utilitarianism appears to be a simple theory because it consists of only one evaluative principle: Do what produces the best consequences. However, the theory is complex because we cannot understand that single principle unless we know (at least) three things:

♦ Ethics of welfare

- a) What things are good and bad?
- b) Who’s good from whom we should aim to maximise; and
- c) Whether actions, policies, etc. are made right or wrong by their actual consequences.

Jeremy Bentham spent much of his life criticising the existing laws and supporting legal changes to make society better. He also wrote a lot about legal philosophy. In his writings, he argued against the idea that concepts like freedom and rights exist independently of a government’s authority. This led him to develop an early version of what we now call ‘legal positivism.’ Despite these criticisms, he believed that if we consistently apply his moral principles, it will help us understand and justify the rules and systems that govern our society, like politics, laws, and social structures.

♦ Legal positivism

Mill defines utilitarianism as a theory based on the principle that “actions are right in proportion as they tend to promote happiness and the reverse of happiness resulting from wrong deeds.” According to Mill, contentment is the combination of pleasure



◆ Principles of utility

and the absence of suffering. He also contends that enjoyment can vary in both quality and quantity and that higher-order pleasures should be given greater weight than lower-order pleasures. Additionally, Mill contends that happiness should include people's accomplishment of their objectives and ends, such as leading moral lives. Mill argues that utilitarianism coincides with "natural" sentiments that originate from humans' social nature. Therefore, if society adopted utilitarianism as its guiding ethic, individuals would logically internalise these principles as morally obligatory. According to Mill, people only want happiness and that is the only foundation for morality. He provides evidence to support this assertion by demonstrating how all other things that people desire are either way to achieve happiness or are part of the concept of happiness. The sense of justice is actually based on utility, and rights only exist because they are required for human enjoyment, according to Mill, who goes into great detail about this.

Criticisms

◆ Neglects human rights

Critics of utilitarianism argue that the theory focuses only on consequences and ignores motives and intentions when judging actions. They say it does not adequately protect individual rights and that not everything can be measured using the same standard. Happiness, according to critics, is more complex than what the theory suggests. In response to these criticisms, John Stuart Mill tried to create a more detailed moral theory that considered different qualities of pleasure and recognized that some pleasures are more valuable than others, not just based on their intensity and duration. People often criticize Bentham's theory that happiness is the only valuable thing in life. They argue that life is more than just finding a balance between pleasure and suffering. Mill, on the other hand, understood that not all pleasures are the same; some are more valuable and desirable, regardless of how intense or long-lasting they are.

◆ Gandhian trusteeship

1.2.1.4 Gandhian Approach in Management and Trusteeship

Trusteeship is a socio-economic philosophy developed by Mahatma Gandhi as a part of his non-violent revolution. It is a concept where a person voluntarily gives up or renounces his right to the money earned by him and dedicates it to the welfare of the poor section of society. The Gandhian approach promotes non-violence and ethical behaviour in all aspects of management and leadership. Leaders are encouraged to resolve conflicts peacefully and treat their employees and stakeholders with respect and fairness.

Gandhi firmly believed that every bourgeoisie being human



being had an element of goodness in him. Therefore, when they feel that without the labour of the poor, it would not be possible for them to earn money, the capitalist would act only as a trustee for the poor. They will then keep all the surplus money or money in trust for the welfare of the poor thereby establishing economic equality in society.

♦ Trustworthiness

Gandhi described trusteeship as, “Suppose I have brought a fair amount of money by way of inheritance or through trade and industry. I must know that all that wealth is not mine. The rest of my property belongs to the community and should be used for the welfare of the community.” Mahatma Gandhi used it as a powerful tool to remove economic and social inequality and eventually establish peace in society. Gandhi had no doubts about its enduring value. He said, “My doctrine of trusteeship is not temporary, certainly no camouflage. I believe it will survive all other principles. Behind it is the acceptance of philosophy and religion”. He used trusteeship as a tool to establish economic and social equality. In fact, Gandhi said that his trusteeship was a gift from India to the world. A trustee is someone who holds assets in trust for the benefit of others and is legally and ethically bound to manage the trust in a responsible and productive manner for the benefit of the trust’s beneficiaries. The trustee can have a share of the trust’s profits like other beneficiaries. The trustee cannot leave his assets to the public other than to his children as heirs. Gandhi thought that the idea of ownership was basically a form of violence. So, if the capitalists or rich people feel that their surplus wealth is not really their wealth and if they voluntarily put their surplus wealth in trust then it will certainly guarantee social and economic equality. Gandhi wanted the capitalists to become the trustees of the nation by running their business honestly for the welfare of the people.

♦ Economic equality

- ♦ The rules, systems, and procedures of the organisation that governs its operation must reflect the principles of trusteeship. The need for a moral foundation for business arises from three areas:
- ♦ The state establishes and defends corporations, and its goal is to advance society’s interests.
- ♦ A group of people makes up the corporation as a whole. If people have moral standards and, in the perspective of society, it is vital that a corporation should also have moral standards

♦ Trusteeship

Businesses engage in a variety of activities that have an effect on people’s lives through the products and services they buy



and sell. They must therefore behave in a way that society would deem appropriate, which may go beyond acting only to further their own financial interests.

Features of trusteeship

The salient features of trusteeship are:

◆ Wealthy trusteeship

a) Socio-economic philosophy: Trusteeship is a socio-economic philosophy, which provided a means by which the wealthy would be the trustees of the trust that looked after the welfare of the people in general. Trusteeship provides a means to transform the current capitalist system of society into an egalitarian one.

◆ Anti-capitalist trusteeship

b) Economic equality: Gandhi used trusteeship as a powerful tool to establish lasting peace in society by removing economic and social inequalities. He did not believe in the capture of power but believed in the accumulation of power for many. He believed that the concept of ownership or capitalism itself contained a form of violence. He believed in equal distribution of wealth. Therefore, he used trusteeship as a tool to remove social and economic inequalities from the society.

◆ Wealth redistribution

c) Bridges the gap between rich and poor: Trusteeship tries to bridge the gap between rich and poor. Economic equality is the main key to the non-violent movement. That is why Gandhi wants to end capitalism, not capitalists. He invites the capitalist to be the trustee.

◆ Capitalist attitude change

d) Enhancing the welfare of the poor: It tries to change the attitude of the capitalist. Because without the labour and cooperation of the poor section of society, it would not be possible for the capitalist to accumulate wealth. Therefore, they should voluntarily surrender their excess assets and place it in trust for the welfare of the working class and poor.

◆ Equal distribution of income and wealth

e) Trusteeship includes non-material possessions: Gandhi's trusteeship included not only a physical source of wealth and power, but also non-material possessions such as special talents that certain individuals possess. Gandhi believed that every person has some talent or ability, but we exploit that talent or ability for personal gain in the belief that we own the talent. But Gandhi said that we do not have talent, but we have been appointed as trustees by God and hence we should use talent to help others who are less fortunate or talented.

The concept of trusteeship comes from the ideas of non-violence and non-possession. For Gandhi, non-violence is the greatest virtue. This positive attitude inspired Gandhi to think about the concept of trusteeship. It is true



that one cannot earn extra money without exploiting the labour of others. Exploitation is a form of violence. A true believer of non-violence can never exploit the labour of others for more money. Centralisation of power creates social and economic inequalities in the society. But Gandhi did not believe that evil could be removed from society by transferring concentrated ownership from the individual to the state. So, he offered trusteeship as an option.

- ◆ Invites the capitalist to be the trustee

Trusteeship based on non-violence is nothing but the ethical idea of non-possession. It also means being detached from worldly things, living an honest life and avoiding greed. Gandhi was deeply influenced by this moral idea and hence he developed the concept of trusteeship. He thought that complete non-possession is impossible since the body is possessed. But one must differentiate between needs and wants, minimising one's desires. Gandhi believed that God never creates more than what is desperately needed at the moment. Hence, to possess something, more than what we need, is against the fundamental law of nature.

- ◆ Minimising one's desires

Principles of trusteeship

Gandhian Principles of Trusteeship are discussed in following main points:

- ◆ **Reduce inequalities:** This concept tries to reduce inequalities. It tries to reduce the gap between the rich and poor. It tries to reduce exploitation.
- ◆ **Change of attitude of businessmen:** According to Mahatma Gandhi, businessmen should change their attitude. They have no moral right to accumulate unlimited wealth while most of their countrymen live in poverty and misery. Each businessman should take enough wealth to live honourably. He should distribute the remaining wealth back to the society. Gandhi advised the rich businessmen to voluntarily surrender their surplus wealth. If not done so, the poor masses may revolt (fight) one day and plunder their entire wealth by force.
- ◆ **Social pressure:** People must put social pressure on businessmen to follow the principle of trusteeship. They should boycott (not purchase) the products of those who do not practice trusteeship.
- ◆ **Legal pressure:** If voluntary measures and social pressure do not work, legal pressure must be put on the businessmen to follow the principle of trusteeship.

- ◆ Reduce exploitation

- ◆ Wealth redistribution ethics

- ◆ Consumer activism

- ◆ Legal enforcement



BLOCK - 1

♦ Societal wealth equity

♦ Production for common good

♦ Wealth equitable distribution

♦ Ethical earnings

♦ Limitation on private ownership

♦ Government regulation of trusteeship

- ♦ **Socialism:** This concept gives more importance to socialism. That is, society is given much more importance than an individual. So, the wealth of the society should be distributed equitably to all its members.
- ♦ **Consider social needs:** Businessmen should produce only those goods and services which are useful for all members of the society. They should not produce goods and services, which are used only by a few individuals.
- ♦ **Equal distribution of wealth:** According to Gandhiji, all the wealth of the society should be distributed equitably. There should not be concentration of wealth in few hands.
- ♦ **Earn money by hard work:** A person should earn his living by doing hard work. Earning money without doing hard work is just like stealing.
- ♦ **No right to private ownership:** This concept does not give the right to private ownership except when it is necessary.
- ♦ **Government regulation:** The Government should regulate trusteeship. No individual should be allowed to use his wealth for selfish satisfaction or against the interest of society.

Limitations of principles of trusteeship

- ♦ This concept is not relevant in today's competitive business world because every businessman tries to earn maximum profits and accumulate huge wealth.
- ♦ It demotivates the hardworking businessmen. The businessmen will lose their creativity, and they will become lazy. This will slow down the economic development of the country.
- ♦ This concept is based on the concept of socialism. However, today socialism is out-dated.
- ♦ This concept is not accepted by shareholders who invest their money to earn the highest dividend. Businessmen feel that the welfare of society is not their responsibility. It is the responsibility of the Government.
- ♦ This concept is against capitalism. Today, capitalism is proving very successful all over the world. Poverty levels are very low in capitalist countries when compared to the poverty statistics of socialist nations.



Summarised Overview

Many theories have attempted to describe what is “good” and “wrong.” The present unit dealt with various theories of ethics. Friedman’s doctrine emphasised on maximising returns for the shareholders that benefit society as well. The guiding premise of utilitarianism is the greatest good for the greatest number of people. No action is good or bad in and of itself, according to Kant; what matters is the intention behind the action. He has given more weight to obligations. He has put forth the universalist, anti-consequentialist principle of universalism. Trusteeship, in Mahatma Gandhi’s view, is founded on equality in the distribution of income and wealth. Gandhi wanted the capitalists to become the trustees of the nation by running their businesses honestly for the welfare of the people. He supported everyone’s welfare.

Self-assessment Questions

1. Write a short note on Friedman’s Economic theory.
2. Explain briefly the concept of Kant’s Deontological theory.
3. What are the rules of Deontology?
4. Explain Utilitarianism theory.
5. State the features of trusteeship.
6. What are principles of trusteeship?
7. Explain Gandhian Approach in Management and Trusteeship.
8. What are the criticisms raised against Friedman’s Economic Theory?

Assignments

1. Compare and contrast the various theories of ethics that you have learned in this unit.
2. Write a short note on any three theories of ethics other than the theories explain in this unit.
3. Business Ethics is basically a Western concept. Would you agree? Substantiate your



answer.

4. Visit a business organisation following ethical practices. Collect all relevant and required information about its business practices. Then, find out which theory of business ethics applies to it. Suggest how the organisation can be yet more ethical.
5. From two groups, each of which had 4-5 people. Each team should write a thorough report on the moral standards observed by a corporation. In front of the class, both groups show their work while the teacher is discussing corporate ethics. Draw

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.





02 BLOCK

Ethical Decision Making and Managing Ethics

Block Content

Unit 1	Ethical Decision Making
Unit 2	Managing Ethics

Unit 1

Ethical Decision Making

Learning Outcomes

After completion of this unit, the learner will be able to:

- ◆ define ethical decision making
- ◆ identify the factors that affect ethical decision making in business
- ◆ discuss the process involved in ethical decision making
- ◆ know the difficulties related to ethical decision making in business

Background

Business ethics is a crucial aspect of organisational conduct, guiding decision making and behaviour in the dynamic and interconnected corporate world. Ethical models for making business decisions offer systematic approaches to address ethical challenges. Ethical decision making involves thoughtful assessments based on moral principles, societal norms, and potential consequences, often navigating areas of conflicting interests. However, difficulties in ethical decision making emerge due to time constraints, conflicting interests, and global complexities. In this unit, factors that affect while taking ethical decisions, various models associated with it, and difficulties in taking ethical decisions are discussed. By understanding the connections between ethical decision-making, models, and difficulties, learners gain valuable insights to make responsible choices that align with organisational values and promote a positive ethical culture in the corporate world.

Keywords

Moral intensity, Decision making, Organisational culture, Stages, Determinants, Models



2.1.1 Ethical Decision Making in Business

In both personal and professional settings, we often encounter situations where the available options are equally undesirable, leading to ethical dilemmas. To navigate such situations, we rely on normative concepts like egoism, net utility, justice, and the right to carefully consider all the available information before making an ethical choice. Our main focus is usually on potential outcomes, but we may also take into account factors such as rights, relationships, and justice. While we are well-versed in using these ethical frameworks, we may not always fully understand why we were educated to approach dilemmas in this way or why we initially perceived them as ethical challenges. When the decisions we make only impact our personal lives, the process is relatively straightforward because the consequences are limited, and we do not have to answer to anyone else.

However, when it comes to business and professional decisions, the complexity increases significantly as they can have far-reaching effects on society. In such cases, the decision maker must justify the guidelines and principles they followed in arriving at their choice. This justification is necessary because these decisions can affect a broader spectrum of stakeholders, and the decision maker's accountability becomes more critical. The goal of the descriptive theory of ethical decision making provides a solution to this. According to Andrew Crane, a descriptive ethical theory is one that explains what influences the process and results of ethical decisions as well as how they are actually made in business. Two features result from this, are given in the figure 2.1.1

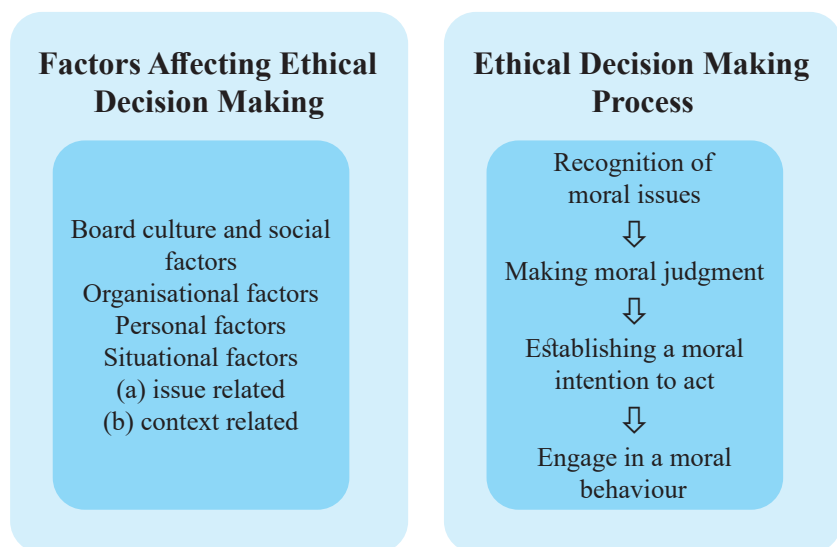
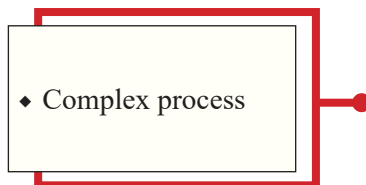


Fig. 2.1.1 Outcomes of Ethical Decision Making

2.1.2 Stages in Ethical Decision Making

The framework put forward by James Rest is the widely used conceptual framework to explain the first question. This model has four stages in sequential order as follows:

- ◆ Recognize a moral issue.
- ◆ Make some kind of moral judgment on it.
- ◆ Express the intention to act upon it.
- ◆ Act accordingly.

i) Recognition of a moral issue: The starting point of ethical decision making is the recognition of the existence of ethical decision making at the time of decision making. If the decision maker does not consider any moral issue in his/her decision, the question of ethical decision making does not arise. For example, suppose a poor patient is coming to a doctor for consultation who believes that surgery is the only panacea for the illness and he can only recommend the surgery to the patient, the question of ethical decision making does not arise. On the other hand, if the doctor thinks that some medicines can be administered initially and if the medicine cannot cure the illness, and then recommends surgery, a moral issue arises as to whether one must first recommend some medicine and if it cannot cure the illness, then suggest surgery or straight away go for a surgery.

◆ Moral concern

ii) Make a moral judgment: The next step in ethical decision making is making a moral judgment about the issue. While making such a judgment, one must be unbiased, impartial, and objective. The personal ethics of the decision maker also plays a significant role in making a moral judgment. One must have his/her own reasoning about it. In the previous example, he/she should not consider the economic benefits of the decision. As a professional, he/she should think in terms of professional ethics as to whether to immediately go for surgery or try some medicines, and if not able to cure, then go for the surgery. If the medicine can cure the illness, then a lot of sufferings on the part of the patient for undergoing surgery can be avoided.

◆ Moral reasoning

iii) Establish a moral intention to act upon the judgment: The third step in an ethical decision making process is showing the commitment that the decision maker is really interested in acting with a moral judgment. His/her personal virtues such as integrity, trust, justice and equity, honesty, etc. are the driving forces for making an intention to act upon the judgment. Consistency

◆ Resolve to act morally



on the part of the decision maker is also essential in this respect. Consistency refers to making similar judgments in repeated cases.

♦ Ethical behaviour

iv) Act up on it: The last and final step in decision making is that he/she has to act according to his/her judgment. At this stage too, the decision maker may be influenced by many factors such as societal acceptance of his/her decision, peer group acceptance, and superior's acceptance.

2.1.3 Factors Influencing Ethical Decision Making

Evidences are available to believe that a host of factors influence making ethical decision in organisations. Researchers have classified these factors into two broad categories:

2.1.3.1 Individual Factors

People are different from each other, and these differences can affect how they act when faced with ethical problems. When employees join a company, their unique traits can influence how they think and behave in ethical situations. Some may seem more ethical, but it's not just about being "good" or "bad" people." It is not as simple as saying some employees are just naturally more ethical. Instead, there are many factors at play, including individual characteristics, that influence how employees handle ethical issues.

Researchers have identified certain personal traits that play a role in shaping how people make ethical decisions.

♦ Personal traits

♦ Upbringing's influence

♦ **Moral education and upbringing:** The values instilled during childhood and moral education received at home and in schools can significantly impact how individuals approach ethical dilemmas in their professional lives.

♦ Financial motivation

♦ **Personal interests and incentives:** Self-interest and financial incentives can affect ethical decision-making. When individuals are motivated primarily by personal gain, they may compromise ethical principles to achieve their goals.

♦ Emotional intelligence

♦ **Emotional intelligence:** The ability to understand and manage emotions can impact ethical decision making. High emotional intelligence may lead individuals to consider the feelings and perspectives of others in their ethical deliberations.

♦ Family influence

♦ **Family and societal expectations:** Indian society places significant importance on family values and expectations. Individuals may consider the impact of their decisions on

their family's reputation and societal standing, leading them to prioritise ethical behaviour.

- ♦ **Ethical judgment:** The ability to assess the rightness or wrongness of a particular action is crucial for ethical decision-making. Individuals may differ in their ability to reason through complex ethical situations and consider the potential consequences of their actions.
- ♦ **Ethical awareness:** Some individuals may be more ethically aware and sensitive to ethical issues than others. Being aware of ethical considerations is essential for recognizing potential dilemmas and making ethically sound decisions.
- ♦ **Attitude:** An individual's attitude refers to their overall predisposition or evaluation of certain ideas, objects, or situations. Attitudes can shape how individuals approach ethical dilemmas in the business context. Those with a positive attitude towards ethics are more likely to prioritise ethical considerations in their decision making. They may value integrity, honesty, and fairness and are inclined to make choices aligned with these ethical principles. Individuals with a negative attitude towards ethics may be more willing to compromise on ethical standards. They might prioritise self-interest or short-term gains over long-term ethical implications.
- ♦ **Education:** Education and learning experiences influence ethical decision-making by shaping an individual's understanding of ethics and providing them with the tools to navigate complex moral issues. It is generally believed that education opens and enlarges one's horizons of knowledge and wisdom. Moreover, the type and level of education acquired by someone influence one's analytical and rationalising ability of things and happenings. There is generally a positive relationship between the type and level of education.

♦ Moral judgment

♦ Ethical awareness

♦ Attitude impact

♦ Analytical and rationalising ability

2.1.3.2 Situational Factors

Though we have just examined in the preceding section how the individual factors influence one's decision making when faced with ethical problems. But, in reality, as we see, people do not make judgements in business simply based on their individual characteristics.

♦ Circumstantial

A situation may have two types of factors influencing ethical decision making:

I. Issue-related factors



II. Context-related factors

The major factors included in these two types of categories with their likely influences on ethical decision making are discussed in more detail in the following sections.

I. Issue-related factors

♦ Relevant factors

Both the types of processes one follows and the decision one makes greatly depend on the type of issue it is that one is dealing with. For example, the issues which will be perceived as relatively insignificant may invite limited ethical consideration in making the decision. On the other hand, the issues which are perceived as more serious and intense in an ethical level may necessitate more serious and deeper consideration and even quite different approach to deal with them.

Issue-related factors relate either to moral intensity or moral framing of the ethical issue one is confronted with. A brief discussion on each of them follows in seriatim.

♦ Ethical intensity

Moral intensity: Moral intensity as a notion was initially proposed by Thomas Jones. It is just a way of using an ethical decision making model to incorporate the relative importance of the ethical issue to consider its influence on the decision.

Research studies suggest that the moral intensity of an ethical issue depends on the following six factors:

- ♦ **Magnitude of consequences:** This refers to the expected sum of harms or benefits for those affected by the particular decision or action. Obviously, an ethical issue will be considered more intensively if its consequences are quite significant.
- ♦ **Social consensus:** This is the degree to which society is in the agreement or otherwise over the decision taken or action taken.
- ♦ **Probability of effect:** This refers to the probability that the consequences of the action-be harm or benefits-are actually going to occur.
- ♦ **Temporal immediacy:** This is concerned with the speed with which the consequences are likely to take years to show their effect, the decision maker may perceive the moral intensity at a much low level. The long-term effects of smoking may be one example.

- ♦ **Proximity:** This refers to the feeling of closeness the decision maker has for those who would be affected by his/her decision.
- ♦ **Concentration of effect:** This is the extent to which the consequences of one's action or decision are concentrated heavily on a few or sparsely on many.

Moral framing: Moral framing refers to the way in which ethical issues or dilemmas are presented to individuals, affecting how they interpret and respond to the situation. The framing of a moral dilemma can influence people's perceptions of right and wrong, the seriousness of the issue, and the potential consequences of their actions. For example, a student of M.B.A. tells to your teacher, you have prepared the assignment by cutting and pasting some material from the internet. 'You will agree, this may sound quite innocuous to the teacher. Now imagine, instead you say to your teacher, 'I plagiarised material from the internet', or 'I stole some material from another student's material.' Expectedly, this would give the teacher an altogether different impression involving deeper moral issues about the student's action. Thus, it is now clear that the way moral or ethical issues are framed also has a bearing on ethical decision making.

♦ Framing of ethical dilemma

II. Context-related factors

The context here means the organisational context in which an employee works. The organisational context includes the factors like reward system, bureaucracy, organisational norms and culture. For these factors, some people also use the term 'organisational factors.'

♦ Organisational factors

Some important ones are discussed subsequently.

- ♦ **Reward system:** There is considerable research evidence available to believe that ethical decision making is influenced by the reward system that operates in the organisation. The existence of reward system in place in the organisation to reward ones who do things ethically and award punishment who follow unethical practices in doing their works also influences ethical decision making in the workplace.
- ♦ **Authority:** In practice do not just do what gets rewarded. The fact of the matter remains that employees many times do what they are told by their superiors to do. It is also possible that the superiors do not direct directly the employee to do something unethical, but their directives to the employee do not leave any option for employee but to do things in an unethical manner.

♦ Organizational rewards

♦ Superior influence



For example, a professor in a management institute asks his Fellow Programme in Management (FPM) scholar to evaluate three hundred answer scripts of undergraduate level in three days, not giving the FPM scholar time to even read all the answer scripts. As a results the answer scripts would not be evaluated rightly and students may resort to lodge complain against such unfair evaluation. Because subordinates observe and emulate their superior' behaviour, if the superiors themselves do ethical and questionable behaviour, the subordinates are also influenced by such behaviour of their superiors.

♦ Organizational culture's impact

- ♦ **Organisational culture:** It refers to the values, norms, beliefs, and traditions shared by the majority of the organisational members. Because organisational culture has its bearing on ethical decision making, it has, therefore, been frequently included in developing models of ethical decision making. Evidences available suggest that the way employees become socialised into organisational culture influences their perception of what is 'right' or 'wrong'. Employees make decisions when confronted with ethical problems. For example, the US energy giant Enron over the period developed a culture of dishonesty that culminated in the downfall of the firm in 2001. In India, Tata Group has developed a culture of honesty and it improves its ethical decision making. Here is one such instance. Once a junior-level manager submitted a false Travelling Allowance (TA) bill, Ratan Tata dismissed him from the job.

♦ Cultural influence

- ♦ **National culture:** Like organisational culture, the culture of the nation where the organisation is located also influences the decisions the employees make when faced with ethical problems. It is worth mentioning that we are discussing about the influence of the culture of the nation where decision is made not of the individual characteristics of the employee regardless of his/her nationality. Evidences are available to believe that the notion of right and wrong varies from nation to nation, or say, from culture to culture.

2.1.4 Ethical Models for Making Business Decisions

Making good ethical decisions necessitates a trained sensitivity to ethical issues as well as a practiced method for exploring the ethical aspects of a decision and weighing the factors that should influence our choice of action. It is critical to have a model for making ethical decisions. When we practice the model on a

regular basis, it becomes so familiar that we can follow it without consulting the specific steps. There are seven fundamental ethical models or principles that can be used for ethical business decision making.

♦ Ethical decision models

Consequence-based model (Utilitarianism or Consequentialist Principle)

According to this principle, a policy or action is ethically good or correct if it produces a huge quantity of goods for the greatest number of people. This principle can be interpreted in a variety of ways. According to one interpretation, the benefit of the policy should outweigh the cost. In other words, a policy is good if it generates net benefits.

♦ Benefit exceeds cost

Another school of thought holds that a policy is morally justifiable if it provides more benefit to each individual and also this benefit exceeds the net benefit of an alternative policy. In the nineteenth century, Jeremy Bentham and John Stuart Mill popularised this principle. They are the founders of the utilitarian school of thought. Despite its many limitations, the utilitarian principle has long been used and remains a popular principle in public policy. In the context of this principle, a minor moral lapse or aberration (cost) like bribery is justifiable if it brings greater benefit to society. Suppose Mr. Martin bribes a government official to get a permit to continue the production of soldiers' uniforms in his factory where 100 poor people are working. Is it morally wrong to bribe an official? The utilitarian principle will tell us that it is morally right to bribe the official in this case because in this action Martin has been able to save a family of 100 workers from starving. Consequentialism emphasises the outcomes or consequences of an action rather than the action itself. A business decision is morally acceptable if it benefits the public at large and that benefit outweighs the cost. It is instructive to note that in the case of ethical business decisions, the social gain must outweigh the personal gain, and the desired end must be accomplished efficiently.

♦ Benefit oriented

Duty-based Model (Universalism or Kantianism)

This principle states that all people should be treated with dignity. It states that a person or company has certain universal duties to protect the welfare or needs of others. It is perfectly ethical to assist these individuals and meet their legitimate basic needs. As a result, it is a firm's right and ethical decision to protect its employees from coercion, force, abuse, or any other type of harm in the workplace.

♦ Dignity

Another criterion for universalism is that the action or decision is acceptable to all parties involved and that other rational



♦ Universal truth

humans would make the same decision in the same situation. The principle emphasises Immanuel Kant's idea that duty-based action is ethically correct. However, as Mahatma Gandhi pointed out, the duty to be performed must be morally correct and performing unethical duties is morally wrong.

Rights-based model

♦ Rights-based ethical principle

Duties are analogous to rights. According to the theory of rights, it is ethically correct to make a decision or implement a policy that ensures legitimate rights to people who do not have them. Rights violations must be avoided, and legitimate rights must be established or restored. Rights are entitlements, and some are fundamental in nature, such as the right to live, the right to free expression, the right to security, the right to property, and so on.

♦ Conserve rights

There are numerous types of rights, such as moral rights, legal rights, property rights, contractual rights, and so on. While the state protects legal rights, society is responsible for protecting moral rights. As a result, the corporate sector must intervene and make appropriate decisions in this regard.

Justice-based model

The term justice can be interpreted in a variety of ways, some of which are discussed below:

- ♦ Justice is an ethical action in which everyone is treated fairly and consistently according to some legal or ethical standard.
- ♦ Justice also implies a policy or decision that treats all equals equally. Because no two people are equal in every way, justice requires that equity, rather than absolute equality, be the guiding principle. As a result, the tax rate on a middle-income person is lower than that of wealthy person.

♦ Fair distribution

This is due to the fact that the marginal utility of money differs between these two groups of people. The concept of justice includes distributive justice (fair distribution of benefits and burden), procedural justice (fair method of making a deal, agreement, or contract), retributive justice (correct punishment in accordance with the harm or injury done) and compensatory justice (fair compensation to someone for the harm or injury done in the past).

Virtue-based model

Any decision or action is justified if it promotes virtues such as honesty, integrity, sincerity, self-control, fairness, sacrifice, trust,

and truthfulness. Virtue is a type of personality trait that makes a person wise and helpful for the optimal development of his personality in such a way that he/she not only develops himself/herself but also contributes to social and humanitarian development. There are numerous advantages to virtue (external effects). A virtuous man is an ethical man, and any decision made to cultivate human virtues is an ethical decision.

An ethical decision needs to be consistent with certain ideals of virtue. The decision maker must exhibit, exercise, develop, or encourage a morally virtuous character. All good decisions must encourage virtues and discourage vices of any form.

♦ Personality traits

Common good model

An ethical business decision is one that contributes positively to the maximisation of social welfare or benefits for all because it improves the common good and benefits all. Common goods are goods that can be used by anyone, regardless of their personal status or position. These goods could be charitable hospitals, roads, street lights, public security systems, and so on. All persons are not required to pay equally or at all for the use of such goods. Those who do not pay are known as free riders, and they can enjoy the benefits of such goods as well. Common goods are benefits that can be provided in a specific region, area, or state.

♦ Contribution to social welfare

Care-based model

Care-based ethics is perhaps the best of all ethical models. It says that the interlocking social and personal relationship is the basis of all ethical actions. A decision is ethical which is based on care, compassion, and love.

♦ Social and personal relationship

It is ethical to care for all those we love and who require our compassion, love, kindness, and mercy. This primarily includes our immediate relatives and family members. The care-based model is also extended to include those in society who require care and compassion. Financial assistance or physical care may be provided. Corporate Social Responsibility includes care-based ethics. The model also includes caring for people who are not related to us. They may be unknown and strangers to us, but they deserve our compassion and care. Care ethics goes beyond the boundaries of narrowly defined relationships urging us to be more humane and inclusive in character.

♦ Humanity oriented model

2.1.5 Difficulties in Ethical Decision Making

There are several obstacles in the making and implementation of ethical business decisions. Some of the major constraints are



listed as under:

♦ Detrimental organisational factors

- a. The ethical organisational culture may be completely absent, or the company may not take ethical decision making seriously at all.
- b. In order to justify their intentions, antagonistic interests frequently use incompatible ethical arguments. For example, animal rights activists may argue against slaughter while poultry farmers argue that raising food animals provides societal benefits.
- c. The manager may lack an ethical orientation, and his upbringing and family history may be incompatible with ethical culture.
- d. Some ethical standards vary with the passage of time. Donations to political parties were forbidden earlier but it is allowed now. Similarly, certain bribes and payments are accepted practices in Asian, African, and Latin American countries but are not regarded as ethical in the US.
- e. The business may be solely concerned with the principle of profit maximisation.
- f. Knowledge about the consequences of an action is limited. One of the principles of decision making is utilitarianism. This implies that if an act results in good, it is taken as morally acceptable. But in an uncertain situation, the results of an Act cannot be accurately predicted.
- g. Ethical dilemmas in the manager's or shareholders' minds may have gone unaddressed. It is because material considerations always take precedence over ethical concerns.
- h. Shareholders and investors may object to the company's ethical culture. Some may be in favour, but the majority may not want such a culture to flourish.
- i. There may be no history or precedent of ethical predisposition in the company. It receives no encouragement or incentive to be ethical when studying the company's history.
- j. The organisation may be unconcerned about business ethics, and ethical leadership may be lacking. There is no proactive effort to make the company more ethical.
- k. In many cases, there may be a lack of suitable opportunities, timing, or financial ability to participate in an ethical programme. The desire may be present, but the right opportunities may be lacking.



Often good and evil exist simultaneously. For instance, the production and sale of a certain medication has been associated with harmful side effects for some patients, leading to adverse health outcomes. However, the same medication has also proven to be life-saving for many others, providing them with significant relief from their medical conditions. While efforts should be made to minimise the occurrence of evil, it is challenging to completely eliminate it.

♦ Duality of good and evil

2.1.6 Framework for Making Good Ethical Decisions in Business

Making an ethical decision is a difficult and time-consuming task. Different ethical issues and problems may necessitate different solutions. Not all ethical issues are equally important in business management. Similarly, not all ethical issues are equally compelling. Regardless of the different nature and dimensions of ethical issues, it is necessary to have a framework with which to properly address many types of ethical decision making. This section attempts to discuss a general framework for ethical decision making in business. It may be useful to business managers as a decision making guideline. The framework outlined below assumes that the organisation has a moral culture and the moral will to solve ethical problems. The framework is explained using a point-by-point approach. The following are the ten points to consider when making ethical-decisions.

♦ Ten-point ethical decision making framework

- ♦ Study the case thoroughly and seriously to become intimately acquainted with the ethical issues that must be resolved. The case could be about internal management and working conditions for all employees, or about the possibility of hiring a disabled person. The ethical issues in these two cases are distinct, and the manager should examine each case separately in order to appreciate its many facets. It is not enough to simply read the files; it is also necessary to study the cases.
- ♦ Consider the problems of ethical significance, its importance to the firm and the industry, and its priority in the scheme of your business agenda. To contextualise the case that requires a solution, one should also examine the company's goals and objectives (mission and vision). A green signal is given when there is no fundamental conflict between the company's goals and the ethical solution required.

♦ Examine the situation

♦ Identifying the problem

At this point, the solution to the case in terms of the most appropriate ethical model must be considered. The model of rights, of care, or of fairness and justice may be relevant. For example,



BLOCK - 2

◆ Option for the right moral

if there is unfair gender discrimination and women workers are not paid the same as men despite equal productivity, this is a clear case of injustice and discrimination. The manager should apply the principle of justice and fairness. The model that is to be applied must be consistent with the company's ethical culture, commitment and ethical base.

◆ Identify solutions

At this point, the manager should investigate the feasibility of the solution in terms of available resources. If the solution is feasible, he should proceed with the case.

◆ Seek authority's approval

It is now necessary to present the completed ethical action or decision to senior officers and those whose approval is required. The manager should instil in them the significance of the case and its far-reaching implications.

◆ Analyse implications

At this point, it is critical to understand the case's dual implications. First, what are the consequences of not resolving this ethical issue? This can be examined in terms of legal action, reputational harm, litigation costs, and so on. Second, what are the consequences if this case is resolved ethically? All of these factors must be discussed by the manager with the Board of Management.

◆ Determining the long-term consequences

It is advisable to consider all possible and feasible alternatives. Some of these may be relevant in the short run, while others may be relevant in the long run. However, the implications may differ. Knowledge of alternative approaches to achieving the ethical goal is extremely beneficial for the manager in making policy adjustments and accommodations. Some alternative solutions may be discussed in open meetings to gather feedback and general agreement. It is also necessary to resolve any legal issues that are impeding an ethical solution.

◆ Fix trade-off between alternatives

Some proposed ethical solutions to problems may contain moral dilemmas, conflicts, and contradictions. These can be either internal or external. These should be resolved amicably, and sometimes a trade-off between two options is required. A company's long-run and short-run objectives are frequently at odds. In this type of situation, a compromise or a conciliatory approach based on cooperation may be beneficial. For example, a firm's profit maximisation objective is in conflict with its welfare maximisation objective. In this case, a policy compromise that achieves some of both of these objectives will be a welcome decision.

◆ Choose decisively

When all problems have been resolved and the deck has been cleared, it is time to make a firm decision with the confidence of all those who matter. However, if everyone has faith in the manager and something goes wrong by chance, he/she may be excused.



Once an ethical decision has been made, it should be implemented as soon as possible. Justice is denied when it is delayed. More time may imply greater expense and sacrifice, as well as increased uncertainty.

◆ Implimentation

Summarised Overview

A good intention is required for ethical business decision making. It should come from the heart rather than the head. It is instructive to note that some business concerns are fundamentally moral, while others are immoral or amoral. Ethical decision making, individual factors, and organisational values all become extremely important. If the company has a value-oriented corporate culture and a strong ethical stance, as evidenced by its mission and vision statements, the process of making ethical decisions becomes relatively simple. If the ethical foundation or intensity is strong, the ethical superstructure will sprawl and expand.

Personal predisposition, like ethical intensity, is an important deterministic factor in ethical decision making. Elderly employees, female workers, workers' educational levels, and the volume of corporate profit are all positively correlated to ethical decision making in this context. If the corporate sector is founded on ethically sound rules, those rules can help guide ethical decision making. Personal values such as a sense of duty, good citizenship, a desire for fairness and justice, and concern for others can make it easier to make ethical decisions.

Self-assessment Questions

1. What do you mean by ethical decision making?
2. Explain the stages in ethical decision making.
3. What are the individual factors affect ethical decision making?
4. What is morality-based management?
5. Briefly explain the difficulties related to ethical decision making.



6. Explain Utilitarianism or Consequentialist Principle
7. Evaluate the term 'Duty-based Model'
8. Write a short note on the factors affecting ethical decision making.
9. What is virtue –based model?

Assignments

1. Explain the ethical principles that you can follow in common for ethical decision making if you run a pharmaceutical company.
2. How can you overcome the dilemmas of ethical decision making? Discuss.
3. Decision making depends on the corporate culture and ethical base or intensity. Do you agree with the statement? Give reasons in support of your answer.
4. Discuss a suitable framework for ethical decision making in business. What are the most important issues to be tackled in the process?

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



Unit 2

Managing Ethics

Learning Outcomes

After completion of this unit, the learner will be able to:

- ♦ define the term code of ethics
- ♦ identify the benefit of a code of ethics
- ♦ gain insights on the setting up of ethics committee
- ♦ explain the laws enforcing ethical conduct

Background

In the corporate world, ethics is essential for responsible behaviour. Businesses employ three key components to ensure ethical conduct: codes of ethics, ethics committees, and laws enforcing ethical conduct. The codes of ethics act as moral compasses, outlining values and guiding employees' ethical decision-making. Ethics committees serve as vigilant overseers, ensuring compliance with ethical standards and reviewing potential ethical issues. Meanwhile, laws enforcing ethical conduct establish boundaries and consequences for unethical behavior, promoting accountability and adherence to ethical principles. Integrating these components results in a well-managed organization, sailing with integrity, trust, and sustainability. Stakeholders trust the company's ethical navigation, leading to success and a positive impact on society. Through these mechanisms, businesses create a culture of ethical responsibility, contributing to a better and more sustainable corporate environment.

Keywords

Code of ethics, Principles, Ethics committee, Laws enforcing ethical conduct

2.2.1 Code of Ethics

A code of ethics is a set of rules or guides intended to establish moral standards and decent behaviour in those who practice it. Individuals may adopt a code of ethics for their personal morality, while companies and government organisations use them to guide the behaviour of their members/ employees. The code of ethics is the heart and soul of a company. It paints a picture of how employees, customers, partners, and suppliers can expect to be treated as a result. In other words, the code of ethics is a communication tool that informs internal and external stakeholders about what is valued by a particular organisation, its employees, and its management.

♦ What is right or wrong

A code of ethics lays down 'do's' and 'don'ts'. The code of ethics shows the company's commitment to ensuring the ethical behaviour of its employees. It specifies how an employee should act in general and in specific situations and describes the behaviour which is socially acceptable and responsible. A code of ethics serves as a practical guide to ethically acceptable behaviour. A code of ethics helps employees in promoting high ethical standards. Higher standards of behaviour and personal integrity will help them in gaining the trust and confidence of stakeholders. A code of ethics may be included in the annual report as an exhibit by the organisation. They can also post the code on its website and provide copies free of charge upon request.

♦ Promotes morality in the workplace

A code of ethics cannot be easily created. In order to ensure that the code of ethics is effective, the organisation must define its significant guiding values, design behavioural standards, assess the existing procedures, and establish systems and processes. The creation of a code should ideally be a collaborative effort between boards of directors and top management to discuss and settle on key principles, roles, responsibilities, expectations, and behavioural standards.

♦ Effective code of ethics development

The code of ethics establishes a set of fundamental principles that can be used to govern operational requirements (what must be done) and prohibitions (what should not be done). It is based on a set of fundamental beliefs and values. Employees that are subjected to the code must learn it, absorb it, and apply it to situations that aren't directly addressed in the code. Once the ideas have been transmitted and illustrated, organisations expect them to be applied in every context, and failure to do so may result in disciplinary action.

♦ Fundamental principles



2.2.2 Business Code of Ethics

As a branch of ‘Applied Ethics’, business ethics attempts to apply theoretical ethics to the business. It examines the ethical principles and problems that may arise in the business environment. Business Ethics helps the business organisation to stand on the strong pillars of integrity, fairness, and trust. Demand for ethical business is increasing since most business organisations opted to implement a code of ethics:

- ◆ To define the framework of acceptable behaviour.
- ◆ To follow high standards of practice.
- ◆ To create benchmarks for self-evaluation.
- ◆ To enhance the sense of community.
- ◆ To create transparency in business activities.
- ◆ To foster higher standards of business ethics.
- ◆ To comply with government laws and norms.

The code should include the following key areas:

- 1. The purpose and value of the business:** The vision and mission of the organisation should be kept always in consideration while creating the code. The products and services offered by the company, production, and financial goals should be kept in the mind.

- 2. Stakeholders:** Shareholders, Customers, Employees, and Suppliers are integral parts of the organisation.

- ◆ Employee welfare, working conditions, equal opportunities, harassment issues, and retirement plans should be mentioned.
- ◆ Maximisation of returns to shareholders is the basic purpose of any business. While making the code of ethics, conflicts may arise while dealing with this purpose. The protection of the investments and the timely returns on the investment are always needed.
- ◆ Every business organisation knows the importance of customer satisfaction. The promises about fair pricing, quality, and after-sales service made to the customers should always be kept.

- ♦ The payments to the supplier should always be on time. No excess hospitality or bribe should be accepted or given.

3. Society, government, and environment: Compliance with the laws and social norms should be maintained. The company's activities should always be environment-friendly.

4. Implementation process: It is always important that the code is implemented properly. It should be seen that the code is reached and understood properly by all. Awareness campaigns and training programs should be run if required.

5. Scope for feedback: Feedback is always necessary for the improvement and evaluation of the code. At least an annual report should be given to the board members. A review procedure should be created to update the code.

♦ Legal and environmental compliance

♦ Effective implementation and communication

♦ Review procedure

2.2.3 Contents of a Code of Ethics

Code of ethics is like a 'Golden Rule' of the company, it is, therefore, required to be as much clear and comprehensive learning. What should be the contents or subject matter to come within the fold of code of ethics may vary from organisation to organisation depending upon the nature and size of business activities. Hence, there has so far not been a common code of ethics followed across the organisations. The reason for this is not difficult to seek. Code of ethics has been an evolutionary phenomenon likely to change along in business context. General Electric (GE), for example, published its 2007 Citizenship Report, called "Investing in a Sustainable Future". Various areas include corporate governance, compliance, public policy, environment, health and safety, globalisation, community customers, products and services, suppliers, investors, and employees.

♦ Dynamic

Likewise, different organisational thinkers have suggested different sets of contents to be covered within the fold of organisational code of ethics. For example, the code of ethics of JCPenney considered as one of the first corporate code of ethics included the following seven ideas in its code of ethics to:

- ♦ Serve the public, to the extent possible, to its complete satisfaction.
- ♦ Ask a fair remuneration for the service we render to customers.
- ♦ Do all in our power and within our control to pack the customer's price full of value, quality, and satisfaction.

♦ Key elements of a code of ethics



- ◆ Continue to train ourselves and our associates to improve upon our job so that the services we render to our customers be performed more and more intelligently.
- ◆ Give emphasis on human development on continuous basis in our business.
- ◆ Make men and women partner in the rewards the business earns.
- ◆ Examine and test every policy, method, and act of the business: “Does it square with what is right just?”.

Similarly, the following four ideals/values to be incorporated in an organisation’s code of ethics:

◆ Trust and credibility

- **Integrity:** Integrity refers to the adherence to moral and ethical principles, honesty, and consistency in behaviour. In an organisation’s code of ethics, integrity emphasises the importance of maintaining trust and credibility by being truthful, transparent, and accountable in all business dealings. It means acting ethically, even when no one is watching, and upholding high moral standards in decision making and interactions with stakeholders.

◆ Overall well-being

- **Utility:** Utility, in the context of ethics, is the concept of maximising overall well-being or happiness for the greatest number of people. It involves considering the consequences of actions and making choices that result in the most favourable outcomes for all stakeholders. In the code of ethics, the principle of utility encourages decision makers to take into account the impact of their choices on employees, customers, the community, and other stakeholders to promote overall welfare.

◆ Fair and equitable treatment

- **Justice:** Justice refers to the fair and equitable treatment of individuals and the distribution of resources and opportunities. In the code of ethics, the principle of justice emphasises the importance of treating all stakeholders with fairness, impartiality, and respect. It means avoiding discrimination, favouritism, and any form of unfair advantage while promoting equal access to opportunities and resources.

◆ Expertise

- **Competence:** Competence relates to the possession of the necessary skills, knowledge, and expertise to perform duties and responsibilities effectively. In the code of ethics, competence underscores the commitment to continuous professional development, maintaining up-to-date knowledge, and delivering high-quality products or services. It means ensuring that employees are adequately trained and equipped to fulfill their roles competently and responsibly.



2.2.4 Essential Components of the Code of Ethics

Based on available experience, a good code of ethics needs to include the following essential components in it:

- **Relevancy:** A good code of ethics must have statements that are very relevant to clarify employees' desired behaviour in the organisation. For this to happen, the code of ethics should be derived from the organisation's core values, which, in turn, must be derived from the core purpose and broad mission of the organisation. It must also align with the values of the founder or top level-management of the organisation.

♦ Relevance and alignment with core values

- **Core values:** The code of ethics should not include solely compliance documents or rulebooks; it should also address issues relating to legal and regulatory matters. The code of ethics also communicates the importance of ethical behaviour and the organisation's core values and their role in running an organisation in an effective and righteous manner.

♦ Comprehensive coverage and communication

- **Plain language:** A code of ethics should be crafted and drafted in simple and plain language that the parties know and understand. Ethical standards should clearly be laid down and communicated to the members to enable them to know what 'can' and cannot be done by an employee in a given situation would be virtually impossible. In such a situation, employees must be allowed to apply their personal wisdom and judgment in conformity with the ethical standards of the organisation.

♦ Clarity and simplicity in language

- **Specific directions:** In matters and situations where the temptation to behave unethically is more and strong, the code of ethics must provide specific directions and guidelines about how to behave ethically. For example, if bribery is unacceptable in an organisation, then the code of ethics must clearly describe situations that would be considered unethical in the organisation. Offering a bribe to a public official or bribing an employee of a customer firm may be examples of unethical behaviour. Thus, specifying what an employee must do when he/she confronts with ethical uncertainties, encounters ethical dilemmas, or when he/she is pressured into committing unethical conduct, must be the essential component of a code of ethics. The code of ethics must also be benchmarked with the code of ethics of best practice companies in the world on a continual basis.

♦ Guidance for ethical challenges

2.2.5 Ethics Committee

Companies' aims, visions, strategies, and values, all influence their code of ethics. Corporate codes provide direction for the



♦ Pervasive

business in making ethical decisions. Codes of ethics must be living documents that are respected at all levels. Members of the board and senior executives must set an example for the behaviour they demand from others. Ethical breaches by top-level managers can be wrongly seen as silently accepting similar misconduct at lower levels. Before demanding equivalent integrity from people at lower levels, senior management must hold themselves to the highest standards of conduct. Companies should establish a committee of independent non-executive directors in charge of ensuring that the company has processes in place to ensure staff compliance with the code of ethics.

♦ Value system

Corporate governance in organisations all over the world plan for the creation of internal committees, which are often composed of members who are independent. The risk management, audit, remuneration, and nominating committees are the ones that are most frequently employed. Companies that are more aware of the need to foster an ethical culture have started to form committees for this purpose while reaffirming the values of social responsibility and sustainability. The rise in ethics committees is a sign of the board's aim to encourage morally responsible behaviour and implement activities to raise corporate social responsibility awareness among all members of the organisation. Therefore, it is anticipated that the presence of social and ethics committees will have a favourable impact on corporate governance, and many researchers endorse this idea. The social and ethics committee's primary responsibility is to evaluate and make recommendations to the management and board of directors regarding goals, policies, and procedures that are in the best interests of the business and help it uphold its commitment to high standards of morality and integrity, legal compliance, and integrated corporate responsibility.

2.2.6 Functions of the Ethics Committee

♦ Review of the definitions of standards and procedures

♦ Identification of flaws

The Committee should examine the organisation's areas of operation, particularly those that necessitate a clear set of ethical standards and procedures. After the completion of the review, if any flaws are identified, the ethics committee should take measures to revise the guidelines, that is, assign the revision to an appropriate member, including the development of a formal system for disseminating standards and procedures to employees. Employees should be able to understand and embrace the ethical programme. The ethics committee may advise upper management on how to reinforce the organisation's policies.

♦ Facilitate compliance

Overall compliance is the duty of the ethics committee. When it comes to interpretations of the organisation's standards and processes, the ethics committee should be the final resort. If inconsistencies are discovered, the committee should offer recommendations to improve the existing compliance measures. Regular follow-ups should also be conducted to verify that compliance recommendations are understood and adopted.

♦ Offer recommendations

♦ Due diligence of prospective employees

When applicants and employees are considered for positions of discretionary responsibility, their background investigation should be done. Placing violators in such positions may bring risk. The ethics committee should also define how it is going to balance the rights of applicants and workers against organisational needs.

♦ Candidate Verification process

♦ Oversight of communication and training of ethics program

Methods and channels for disseminating ethical norms and procedures should be defined by the ethics committee. This includes distributing materials to ensure that all employees are aware of and accept the organisation's ethical norms. Frequent training sessions should be arranged to ensure that established norms are understood. The ethics committee should seek advice from stakeholders on how standards and procedures should be created and implemented.

♦ Supervision

♦ Monitor and audit compliance

The ethics committee should design techniques for regular evaluation and assessment to ensure that the organisations goals, objectives, and strategies do not contradict with its ethical standards and procedures. The ethics committee should create mechanisms that monitor, audit, and demonstrate workers' adherence to published standards and procedures on a continuous basis. There should also be certain measures in place to ensure that internal controls are effective and reliable.

♦ Assessment

♦ Enforcement of disciplinary mechanism

Do not apply different standards to different employees based on their position or performance. Discipline rules should be in place to ensure that violations of standards are dealt with consistently. There should be provisions for those who neglect and violate standards.

♦ Execution of disciplinary policies



- ◆ Diminish future breaches

◆ Analysis and follow-up

The ethics committee should be able to identify the cause of the violation. It is important to systematically apply those lessons learned from previous violations to lessen the chance of similar future violations.

2.2.6 Laws Enforcing Ethical Conduct

- ◆ Impact of economic liberalisation on Indian business

During the last three decades since the economic liberalisation was initiated in India there has been a significant increase in the corporate form of business establishments. The removal of several licensing hurdles, the financial market reforms especially capital market reforms, the introduction of modern technology-based trading, strengthening of the regulatory system of the capital market has increased the confidence of the retail investors and foreign and domestic institutional investors and they are not hesitating to invest their savings in the Indian capital market. The primary market and secondary market reforms have imposed the profitability, the liquidity and the transparency in the capital market investment and reduced risk in it. Some of the key legal and regulatory measures are as follows:

Some of the key legal and regulatory measures are as follows:

- ◆ Commitment

2.2.6.1 Indian Contract Act, 1872

In our daily life we make a lot of agreements to satisfy our needs and interests. We must engage in many transaction processes that may lead to a promise by one person and acceptance by the other. If a promise and acceptance are made to establish a legal connection, the resultant agreement is referred to as a contract.

Concept of contract

- ◆ Definition and origin of contracts

Concept of Contract the word 'Contract' is derived from the Latin word "Contractum" which means "drawn together". Simply, the contract is an agreement enforceable by law. It is an agreement between two or more parties. The parties are bound by such agreement. To understand the concept of contract better, it is essential for us to understand the meaning of "agreement" and the differences and similarities between the two terms, "agreement" and "contract".

An agreement occurs when two or more people concur to accomplish the same thing in the same way. Every agreement is the consequence of one party (the proposer) making an offer, and the other party (the acceptor) accepting the offer. As a result, a con-



tract requires that both parties make reciprocal guarantees that they will carry out the agreement's terms. It might or might not result in a legal duty. A contract is formed if it results in a binding legal commitment. Each party to such an agreement is obligated by law to carry out the promise made by the higher in such a situation.

♦ Agreement and legal commitment

As a result, an agreement and a contract have both distinctions and similarities. In conclusion, while all agreements are agreements, not all agreements are contracts. As a result, any promise or group of promises that serve as reciprocal compensation constitute an agreement. Reciprocal pledges are those that serve as either full or partial consideration for one another. A contract that is not enforceable by law is said to be null, or not to exist. A contract is an arrangement that is legally binding. A contract is voidable if it can only be enforced by law at the request of one or more of the parties, but not at the request of the other party or parties. A contract that ceases to be enforceable by law becomes void when it ceases to be enforceable.

♦ Agreement enforceable by law

The following are examples of contracts: A agreed to paint a picture for B, and B promised to pay ₹55000 to A. This agreement is a contract. A promised to sell his house for ₹15000000, and B accepted to buy the house for the said amount. This agreement is a contract. All agreements are contracts if they are made by the free consent of parties competent to contract, for a lawful consideration and with a lawful object and are not expressly declared to be void by law. For example, any agreement made with an infant, or an insane person or a person of unsound mind cannot be called a contract.

Features of Indian Contract Act

- ♦ There should be an offer by one party and acceptance by the other
- ♦ They should be free consent by the parties
- ♦ Consideration must be lawful and fair
- ♦ Consideration should not be illegal or immoral
- ♦ Parties should be competent to contract
- ♦ Communication of the proposal should be complete

2.2.6.2 Indian Partnership Act, 1932

In the year 1932, the Indian Partnership Act was passed. Be-



♦ Sharing profit/loss

fore the passage of this Act, Sections 239 to 266 of Chapter XI of the Indian Contract Act of 1872 included the provisions pertaining to partnerships. The need for a new partnership act aroused as the English Partnership Act, 1890, on which the Act is mostly based, incorporated only the minimal amendments required for Indian conditions. Section 4 defines the term ‘partnership’ as the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. The term ‘partners’ is defined as persons, who have entered into a partnership with one another and are called individual partners. A ‘firm’ is a collective of partners. The ‘firm name’ is the name under which the business is carried on.

The following are the essential ingredients for the constitution of a partnership:

- ♦ There should be an agreement between the parties.
- ♦ The agreement must be to share the profits of the business.
- ♦ The business must be carried on by all or any of them acting for all.
- ♦ The agreement need not be in writing. It may be oral. It may be expressed or implied.

2.2.6.3 Factories Act, 1948

♦ Protection from exploitation

There are several legislations that regulate the conditions of employment, work environment, and other welfare requirements of certain specific industries. The Factories Act, of 1948 was enacted to regulate the working conditions in factories. In short, the Act is meant to provide protection to the workers from being exploited by greedy business establishments and it also provides for the improvement of working conditions within the factory premises.

♦ Safety of workers

The main object of the Factories Act, of 1948 is to ensure adequate safety measures and to promote the health and welfare of the workers employed in factories. The Act also makes provisions regarding the employment of women and young persons (including children and adolescents), annual leave with wages, etc.. The Act extends to the whole of India including Jammu and Kashmir and covers all manufacturing processes and establishments falling within the definition of ‘factory’ as defined under Section 2(m) of the Act. Unless otherwise provided it is also applicable to factories belonging to Central/State Governments. (Section 116).

The Factories Act includes the following protection to the em-



ployees:

- ◆ Protection of the health of the workers in the working environment
- ◆ Safety of the workers
- ◆ Welfare of the workers
- ◆ Annual leave with wages
- ◆ Ventilation and temperature, lighting, drinking water, latrines, and urinals
- ◆ Removal of accumulated dirt and refuse on floors, benches of workroom, staircases, and passages and effective disposal.

2.2.6.4 Consumer Protection Act, 2019

The Indian government passed the Consumer Protection Act, 2019 to address issues connected to consumer rights violations, unfair business practises, deceptive advertising, and other situations that are detrimental to consumers' rights. Due to the advancement of technology and the sharp rise in the purchase and sale of products and services online over the past several years, the Parliament intended the Act to include provisions for e-consumers. By establishing Consumer Protection Councils to resolve disputes should they occur and to give adequate compensation to consumers in the event that their rights have been violated, the Act aims to better protect the rights and interests of consumers. Additionally, it offers quick and efficient handling of customer concerns through alternative dispute resolution procedures. The Act also encourages consumer education to inform consumers of their rights, obligations, and options for resolving complaints.

◆ Protects customers interests

Objectives of Consumer Protection Act, 2019

The main objective of the Act is to protect the interests of the consumers and to establish a stable and strong mechanism for the settlement of consumer disputes. The Act aims to:

- ◆ Protect against the marketing of products that are hazardous to life and property.
- ◆ Inform about the quality, potency, quantity, standard, purity, and price of goods to safeguard the consumers against unfair trade practices.
- ◆ Establish Consumer Protection Councils for protecting the



rights and interests of the consumers.

- ◆ Assure, wherever possible, access to an authority of goods at competitive prices.
- ◆ Seek redressal against unfair trade practices or unscrupulous exploitation of consumers.
- ◆ Protect the consumers by appointing authorities for timely and sufficient administration and settlement of consumers' disputes.
- ◆ Lay down the penalties for offences committed under the Act.
- ◆ Hear and ensure that consumers' welfare will receive due consideration at appropriate forums in case any problem or dispute arises.
- ◆ Provide consumer education, so that the consumers are able to be aware of their rights.
- ◆ Provide speedy and effective disposal of consumer complaints through alternate dispute resolution mechanisms.

Consumer rights under Consumer Protection Act

- ◆ The right of a consumer to be protected from the marketing of goods and services that are hazardous and detrimental to life and property.
- ◆ The right of a consumer to be protected against unfair trade practices by being aware of the quality, quantity, potency, purity, standard and price of goods, products or services.
- ◆ The right of a consumer to have access to a variety of goods, services and products at competitive prices.
- ◆ The right to seek redressal at respective forums against unfair and restrictive trade practices.
- ◆ The right to receive adequate compensation or consideration from respective consumer forums in case they have been wronged by the seller.
- ◆ The right to receive consumer education.



2.2.6.5 Companies Act, 2013

The new Companies Act of 2013 overcome most of the deficiencies in the Indian Companies Act 1956. This is considered to be a major reform in independent India to bring about good governance in Indian corporate sector. This Act simplified and liberalised the formation and administration of company and set norms for its governance. The Companies Act, 2013, which was created to contain all of India's corporate regulations, aims to safeguard the interests of all parties involved in a company's business through its provisions. 469 sections total, distributed across 29 chapters, make up the new Act, which also has seven schedules attached to it. In order to make the new Act more efficient and compact, up to 188 parts of the previous law (The Companies Act, 1956) have been eliminated.

♦ Formation of new Companies Act 2013

The new company legislation takes a progressive stance, giving the Central Government the authority to create regulations for businesses and making any violation of such regulations subject to a fine. To bring the law in line with international standards, as many as 16 revisions have been made, rectifying problems with the rules relating to winding up, board resolutions, bail conditions, and utilisation of unclaimed dividends. This historic law will have huge effects and is expected to fundamentally alter how corporations operate in India. Among other things, it will raise the bar for corporate governance, make Corporate Social Responsibility (CSR) spending mandatory, support gender equality on corporate boards, permit class action lawsuits, and completely restructure the way businesses are run and regulated in the nation. Corporate Governance under the new Companies Act 2013 has broadened its meaning and scope. It includes among other things a complete module for fixing the liability on the corporate entity. It is prescriptive to the companies rather than recommendatory in nature.

♦ Prescriptive not recommendatory

The major provisions relating to corporate governance introduced in the new Company Law can be broadly grouped in to eight group namely:

- ♦ Increased reporting standards
- ♦ Higher auditing accountability
- ♦ Risk management
- ♦ Emphasis on investor protection
- ♦ Composition of director board members and their responsi-



bilities

- ◆ Board committees
- ◆ Inclusive Corporate Social Responsibility
- ◆ Compulsory whistle-blower mechanism

- ◆ Promote fair competition

2.2.6.6 Competition Act, 2002

The Competition Act, 2002 is an Indian legislation that aims to promote fair competition and prevent practices that have an adverse impact on competition in the Indian market. It was enacted to replace the Monopolies and Restrictive Trade Practices Act, 1969, and came into effect on May 20, 2009.

- ◆ Raising living standards

The Government of India created the National Competition Policy with the goal of achieving the highest possible levels of economic development, entrepreneurship, employment, and living standards for its people. It also aims to protect economic rights for just, equitable, inclusive, and sustainable social and economic development, advance economic democracy, and support good governance by outlawing rent-seeking behaviours. An essential piece of legislation to advance the National Competition Policy is the Competition Act of 2002, as revised by the Competition (Amendment) Act of 2007. The Act provides, keeping in view the economic development of the country, for the establishment of a commission, known as the Competition Commission of India (CCI).

Competition commission: Aim and objectives

The commission aims to establish a robust competition environment through:

- ◆ Proactive engagement with all stakeholders, including consumers, industry, government, and international jurisdictions.
- ◆ Being a knowledge-intensive organisation with high competence levels.
- ◆ Professionalism, transparency, resolve, and wisdom in enforcement.
- ◆ Curb practices have an adverse effect on competition.
- ◆ Promote the interest of consumers and ensure the freedom of trade carried on by other participants in markets in India, and



for matters connected therewith or incidental thereto.

2.2.6.7 The Environment (Protection) Act (EPA), 1986

In 1986, the Environment Protection Act (EPA) was passed. It encompasses the entirety of India, including Jammu and Kashmir. According to some, EPA is an “umbrella” law that was passed to give the federal government a framework for coordinating the efforts of numerous federal and state agencies under earlier laws like the Water Act and the Air Act, among others.

- ◆ Environmental legislation

The Act aims to address concerns related to the environment, which includes water, air, land, people, other animals, plants, microorganisms, and properties, as well as its protection and improvement. It gives the Central Government the authority to start initiatives to safeguard and enhance environmental quality, manage and lessen pollution from all sources, and forbid or impose restrictions on the location and/or use of any industrial facility for environmental reasons. In 1991, the Act was modified.

- ◆ Tackle environmental concerns

Measures to protect the environment

The Act gives the Central Government the authority to enact regulations that it determines are necessary for environmental protection, improvement of the quality of the environment, and the prevention, control, and reduction of environmental pollution.

- ◆ Central government authority

Such regulations may address all or some of the following issues:

- ◆ The standards of quality of air, water, or soil for various areas and purposes.
- ◆ The maximum allowable limits of concentration of various environmental pollutants (including noise) for different areas.
- ◆ The procedures and safeguards for the handling of hazardous substances.
- ◆ The prohibition and restriction on the handling of hazardous substances in different areas.
- ◆ The prohibition and restriction on the location of industries and carrying on processes and operations in different areas.
- ◆ The procedures and safeguards for the prevention of accidents that may cause environmental pollution and for providing remedial measures for such accidents.



Summarised Overview

A code of ethics is a set of principles that outlines the values and conduct expected from individuals within an organisation, providing a framework for ethical decision making. It covers honesty, integrity, fairness, respect, confidentiality, and compliance with laws. Ethics committees oversee ethical issues in business activities. They ensure alignment with ethical standards and legal regulations. Laws Enforcing Ethical Conduct are legal regulations that businesses must adhere to, covering various areas like consumer protection, labour practices, and data privacy. Complying with these laws, having a clear code of ethics, and an ethics committee are vital for maintaining an ethical culture and responsible business operations.

Self-assessment Questions

1. What do you mean by code of ethics?
2. What are the contents of code of ethics?
3. Explain Indian Contract Act 1872.
4. Write a short note on ethics committee.
5. What are the key areas that are to be considered while developing the code of ethics?
6. Briefly explain the history and development of Competition Act.
7. List the essential components of the code of ethics.
8. There are numerous laws enforcing ethical conduct. Explain.

Assignments

1. Prepare notes on the code of ethics followed by any five Indian companies.
2. Write a short note on the Satyam Computer Services scandal.
3. Present a case study based on ethics and ethical values. Discuss the importance of ethics in our life.

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



03 BLOCK

Corporate Governance and Corporate Social Responsibility

Block Content

Unit 1	Ethical Decision Making
Unit 2	Managing Ethics

and sustainable rate of economic growth, expand human capability, uphold fairness and justice, reduce poverty and hunger, and move people from a state of necessity to one of freedom, excellent governance is necessary. There are several contexts in which governance interacts. But for the purposes of our analysis, we shall simply pay attention to the moral dilemmas raised by the associated topics. An attempt will also be made in this unit to discuss corporate governance.

Keywords

Financial reporting, Risk management, Corporate scandals, Whistle blowing, Technology and information

3.1.1 History and Development of Corporate Governance

♦ Rules, practice and process

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. The goal of corporate governance is to ensure that a company's management acts in the best interests of all stakeholders, maintaining transparency, accountability, and integrity in their decision-making.

♦ Origin

It is very difficult to trace the accurate origin of corporate governance. In the academic literature, the term corporate governance seems to have been first used by Richard Eells in 1960 to denote 'the structure and functioning of a corporate polity'. In order to study the evolution of corporate governance, it is very essential to have a clear understanding of the two terms -corporate and governance.

♦ Evolution of chartered companies

To explore the international market and for the expansion of trade and commerce The East India Company, Hudson's Bay Company, Levant Company and many other such major chartered companies were launched in the 16th and 17th century around the world. Such corporations were owned, governed and controlled by a few powerful families. The East India Company was one of such giant corporations which was established in 1600. The



company with 125 shareholders and £72000 capital was governed by royal charter of Queen Elizabeth-I. England witnessed an industrial revolution in the 17th century and the term corporation is the product of the same industrial revolutionary process. The rapid industrialisation developed a factor system that gave ample employment opportunities in urban areas. This migration and concentration of population in urban areas paved the way for the development of a new class in the society, who depended on the factory job for their livelihood.

The industrial revolution and the industrialisation process across the globe changed the scenario drastically. Industrialisation commanded the huge capital demand for the new giant corporations, particularly in the rail and road industry. In order to cater such demand, the new corporate ownership structure was developed. Now, these giant corporations were treated as separate legal entity, whose ownership was separate from the management and was transferable too. In this system share capital of the firm was split into small denominations and the ownership was distributed widely among the large number of shareholders. The liability of the shareholders was limited up to the number of shares held to raise the capital fund publicly. With the key features such as limited liability, transferable became very popular and created the market for trading the shares, whereby people holding shares of a particular company started buying and selling their ownership rights for a better price or premium. It has also become a way to express the pleasure of dissatisfaction with the management decisions and performance, which gave birth to the 'agency problem'. Due to growing significance of the corporations, markets for the exchange of shares opened in New York and some European capital cities.

♦ Transfer of ownership

The advent of the 19th century witnessed World War I and II. These world wars affecting international trade and all the big economies were adversely affected by the slowdown in trade. The big European countries and the big economies were the worst hit by that economic recession. The cold war between USA and USSR flared it as a period of mistrust and doubt, where international peace and prosperity were at stake. The United States of America was the only country that was neither affected nor destroyed due to the World War as none of the battles were fought on their home grounds. On the other hand, their economy became even more prosperous during the post-World War period. As a result, international investors were allured to the United States of America.

♦ War and Trade

The period between the 1970s and 1980s witnessed many regulatory reforms in corporate governance but the focus was mainly on American corporations. After the United States corporate gov-



♦ Corporate scams

ernance came on the priority list of many developed and developing countries and Britain was the pioneer in it. In the early 1990s, the Japanese and German corporations gave a tough competition to the US corporations as a result the faith in the most trusted US economy got a jolt. In order to survive the market pressure and competition, the US corporate executives focused more on short-term gain strategies at the cost of long-run benefits, whereas the Japanese and the German corporate were not handicapped by the 'Time Horizon' as their corporate governance regime were focused on long-term relational investment. The end of the 19th century and the beginning of the 20th century unfolded many financial scams such as Enron, WorldCom, Parmalat and others, which raised eyebrows on the credibility of the corporate governance system and heated up the discussion on efficient markets. These markets must operate within the parameters set by legal regulatory authorities of the nation and must be capable of defining and dividing the authority and responsibility within the organisation. There was a need felt for developing corporate governance mechanisms so that its impact on the economic efficiency of the market can be evaluated.

♦ Customised corporate governance

In order to achieve an efficient code of good governance, many committees and regulatory frameworks were incorporated. The countries differ in their topography, demography, cultures, beliefs, value systems, socio-economic parameters, state of trade and commerce development and legal and regulatory environment. The stage of economic development is also not the same for all countries. In such a diverse scenario where every country is unique in its nature and characteristics and has its own sets of needs and requirements a uniform code of corporate governance cannot be applied. In this situation there is a need to design customised corporate governance that cannot be applied. In this situation there is a need to design a customised corporate governance code for every country depending on its nature and requirements rather than simply adopting an imported uniform code. Corporates shall not be compelled to adopt an incompatible imported corporate governance code as this may cost them adversely affect their performance. In order to overcome the challenges of the diversity of needs of the financial sector, ownership structure and the business practices of different economies, it is wise to have a separate corporate governance code which suits the diversified needs of each country.

Since the 1990s, in the different parts of the world several corporate guidelines and regulations have been made so far:

- ♦ Cadbury Committee Report (1992)



- ◆ CalPERS-Global Corporate Governance Principles (1996)
- ◆ Market Specific Principles-UK and France (1997)
- ◆ TIAA-CREF-Policy Statement on Corporate Governance (September 1997)
- ◆ Business Roundtable-Statement on Corporate Governance (September 1997)
- ◆ Hampel Report on Corporate Governance-UK (January 1998)
- ◆ Core Principles and Guidelines – USA (April 1998)
- ◆ The Sarbanes-Oxley Act-USA (August 2002)
- ◆ The Higgs Report-UK (January 2003)

3.1.2 Corporate Governance in Global

The United States witnessed rapid economic growth following World War II, which had a significant influence on the development of corporate governance. Businesses were booming and expanding quickly. The Securities and Exchange Commission (SEC) brought corporate governance to the forefront when it adopted a position on official reforms to corporate governance in the 1970s.

Table 3.1.1

Stages of development of corporate governance in USA.

Years	Commission/Act/ Report	Developments
1977	The Foreign Corrupt Practices Act	Provides specific provisions regarding the establishment, maintenance, and review of systems of internal control.
1979	US Securities Exchange Commission	Prescribed mandatory reporting on internal financial controls.
1985	Treadway Commission	To identify the main causes of misrepresentation in financial reports and to recommend ways of reducing incidence thereof.



1987	The Treadway Report	The need for a proper control environment, independent audit committees and an objective internal audit function and called for published reports on the effectiveness of internal control. The Commission also requested the sponsoring organisations to develop an integrated set of internal control criteria to enable companies to improve their controls.
1992	COSO issued Internal Control – Integrated Framework.	The Committee of Sponsoring Organisations of the Treadway Commission (COSO) issued Internal Control-Integrated Framework. It is a framework to help businesses and other entities assess and enhance their internal control systems

Table 3.1.2

Stages of development of corporate governance in UK

Years	Commission/Act/ Report	Developments
1992	Cadbury Report	The Committee on the Financial Aspects of Corporate Governance under the chairmanship of Sir Adrian Cadbury was set up in May 1991 by the Financial Reporting Council, the Stock Exchange, and the accountancy profession in response to the concern about standards of financial reporting and accountability, particularly in light of the BCCI and Maxwell cases. The Committee submitted its report in December 1992 and developed a set of principles



		of good corporate governance which were incorporated into the London Stock Exchange (LSE)'s Listing Rules. It also introduced the principle of 'comply or explain'. It made the following three basic recommendations: • The CEO and Chairman of companies should be separated; • Boards should have at least three non-executive directors, two of whom should have no financial or personal ties to executives; and • Each board should have an audit committee composed of non-executive directors.
1995	Greenbury Report	The Confederation of British Industry constituted a group under the chairmanship of Sir Richard Greenbury to make recommendations on Directors' Remuneration. The group submitted its report in 1995, its major findings were as under: • Constitution of a Remuneration Committee comprising of Non-Executive Directors • Responsibility of this committee in determining the remuneration of CEO and executive directors • Responsibility of the committee in determining the remuneration policy. • Level of disclosure to shareholders regarding the remuneration of directors. • Remuneration should be linked more explicitly to performance.

		These findings were incorporated in the Code of Best Practice on Directors' Remuneration of the Report. The majority of the recommendations were incorporated in the Listing Rules of the London Stock Exchange.
1995	Hampel Report	The Hampel Committee was set up in November 1995 to promote high standards of corporate governance both to protect investors and preserve and enhance the standing of companies listed on the London Stock Exchange. The Committee: ● Developed the Cadbury Report ● Recommended that: ◆ The auditors should report on internal control privately to the directors. ◆ the directors maintain and review all (and not just financial) controls. ◆ Companies that do not already have an internal audit function, should from time to time, review their need for one.

3.1.3 Evolution of Corporate Governance in India

Corporate governance in India has transformed from a lax and opaque system before liberalization to a robust and transparent framework during the post-liberalization period. Corporate governance regulations during the pre-liberalization were weak which led to limited shareholder protection, inadequate disclosure

and corporate malpractices. However, in tune with the economic reforms, the existing corporate regulations were strengthened by enhancing disclosure requirements, and by establishing of regulatory bodies like SEBI. Measures such as independent directors, audit committees, and codes of conduct enhanced transparency and accountability. Let's have a detailed discussion of about the evolution.

- ♦ Lax and opaque to robust and transparent

3.1.3.1 Governance in Pre-liberalisation Period

During the pre-liberalization period in India, which refers to the time before the economic reforms of the early 1990s, corporate governance was characterized by a relatively weak regulatory environment and a lack of robust oversight mechanisms. The governance framework during this era was marked by limited transparency, inadequate shareholder protection, and minimal disclosure requirements.

- ♦ Weak regulation

1. Companies Act, 1956

The Companies Act, 1956 was a crucial legislation governing corporate governance in the pre-liberalization period. It provided the legal framework for the incorporation, management, and regulation of companies in India. The Act outlined provisions related to the formation, operations, and dissolution of companies, including rules regarding the issuance and transfer of shares, appointment of directors, and maintenance of books and accounts. However, it should be noted that the Act had limited provisions concerning transparency, shareholder rights, and corporate disclosure requirements, which contributed to a less stringent governance framework.

- ♦ Limited power

2. Securities Contract Regulation Act, 1956

The Securities Contract Regulation Act (SCRA) of 1956 aimed to regulate securities markets in India. It primarily focused on the regulation of stock exchanges, defining their roles, responsibilities, and operations. The SCRA covered areas such as stock exchange membership, trading rules, settlement procedures, and listing requirements. However, it did not comprehensively address broader corporate governance issues, such as shareholder protection, financial reporting, or disclosure obligations, which left gaps in the governance framework during the pre-liberalization era.

- ♦ Absence of full-fledged system

3. Factories Act, 1948

The Factories Act of 1948 was not directly focused on corporate governance but played a significant role in ensuring the welfare and safety of workers in industrial establishments. It laid



- ◆ Protection for labours

down provisions regarding working hours, leave entitlements, health and safety measures, and welfare facilities for workers. Although it primarily addressed labour rights and workplace conditions, it indirectly influenced corporate governance by emphasizing the well-being of employees within companies.

4. Industrial Policy Resolution, 1956

- ◆ Industrial development strategy

The Industrial Policy Resolution of 1956 was a policy document that outlined the government's approach to industrial development in India. It emphasized a mixed economy with a dominant role for the public sector and aimed to promote industrial growth while maintaining social justice. While the resolution set the stage for state intervention in economic affairs, it did not specifically address corporate governance practices or provide detailed guidelines for ensuring transparency, accountability, or shareholder protection. It mainly focused on industrial development strategies and the role of the public sector in economic planning.

- ◆ Weak governance before New Economic Policy

The pre-liberalization period in India was marked by a limited regulatory framework concerning corporate governance. The Companies Act of 1956 provided a basic legal structure for companies, but it lacked comprehensive provisions for transparency and shareholder protection. The SCRA primarily focused on regulating stock exchanges, and the Factories Act of 1948 addressed labour rights but not governance issues. The Industrial Policy Resolution of 1956 emphasized state intervention in the economy but did not explicitly tackle governance matters. These factors contributed to a relatively lax and opaque corporate governance environment in India during this period.

3.1.3.2 Governance in Post-liberalisation Period

- ◆ Strengthening of governance

During the post-liberalization period in India, corporate governance witnessed significant changes and reforms, reflecting a shift towards a more robust and transparent framework. The liberalisation of the Indian economy, which began in the early 1990s, brought about economic reforms, deregulation, and an increased focus on attracting foreign investment. This period marked a turning point in corporate governance practices, as the country recognised the need to strengthen regulatory oversight, enhance transparency, and protect shareholder rights. Some of the key aspects during this period are as follows:

1. Securities and Exchange Board of India (SEBI) Act 1992

The establishment of the Securities and Exchange Board of India (SEBI) in 1992 marked a crucial milestone in the evolution of corporate governance. SEBI became the primary regulatory body



overseeing securities markets and played a key role in formulating and enforcing corporate governance norms. It introduced various regulations and guidelines to ensure fair practices, transparency, and accountability among listed companies.

◆ Ensuring fair practices

2. Confederation of Indian Industry (CII) Initiatives

In 1998, the Confederation of Indian Industry (CII) launched its voluntary corporate governance code, emphasizing the principles of transparency, accountability, and ethical conduct. The CII code aimed to raise governance standards and promote responsible business practices among its member companies. The CII took the lead in developing a code of corporate governance, titled the “Desirable Corporate Governance Code,” which was released in April 1998.

◆ Responsible business practices

3. Clause 49

In 1999, the Birla Committee, headed by Kumar Mangalam Birla, was formed to recommend improvements to corporate governance practices. One of its key recommendations led to the introduction of Clause 49 in the listing agreement of stock exchanges. Clause 49 is a crucial provision within the listing agreement of stock exchanges in India that pertains to corporate governance. It was introduced in 1999 by the Securities and Exchange Board of India (SEBI) as a response to the need for enhancing transparency, accountability, and shareholder protection in listed companies. Clause 49 lays down comprehensive guidelines and obligations that companies listed on Indian stock exchanges must comply with. Clause 49 emphasizes the importance of a balanced and independent board of directors. It mandates a minimum number of independent directors on the board, ensuring objectivity and unbiased decision making. The composition requirements aim to prevent conflicts of interest and promote diversity in boardrooms.

◆ Independent directors

4. Murthy Committee

The Murthy Committee, led by N.R. Narayana Murthy, was constituted in 2003 to examine corporate governance practices in India. It made recommendations to strengthen the independence and effectiveness of boards, improve shareholder rights, enhance disclosures, and promote ethical conduct. The recommendations of the committee played a vital role in shaping subsequent governance reforms. In 2004, the Government of India formed the J.J. Irani Committee to advise on proposed revisions to the Companies Act of 1956. The committee aimed to create a simplified and dynamic law that could accommodate changes in the business environment while incorporating internationally accepted best practices. The recommendations of the committee sought to shift from

◆ Revision of Companies Act of 1956



a “Government Approval Regime” to a “Shareholder Approval and Disclosure Regime.”

5. Voluntary Guidelines 2009

- ◆ Best practices in corporate governance

The Ministry of Corporate Affairs issued the Voluntary Guidelines on Corporate Governance in 2009. These guidelines provided a comprehensive framework for companies to adopt best practices in corporate governance voluntarily. They covered aspects such as board composition, risk management, disclosure requirements, and the role of stakeholders.

- ◆ Strengthening corporate governance

The post-liberalization period in India witnessed a series of reforms and initiatives to strengthen corporate governance. The establishment of SEBI, the role of the Ministry of Corporate Affairs, and industry-driven initiatives like the CII code played significant roles. Committees such as the Murthy Committee and Kumar Mangalam Birla Committee made recommendations that led to the introduction of Clause 49 and other governance improvements. Collectively, these reforms aimed to enhance transparency, accountability, and investor confidence, setting the stage for a more robust corporate governance framework in India.

3.1.4 Corporate governance

Corporate governance is a set of principles and practices that guide the way a company is directed, controlled, and operated, with a focus on ensuring fairness, responsibility, transparency, and accountability. These core elements are essential pillars in maintaining the integrity and trustworthiness of a corporation.

- ◆ Stakeholder equity

- **Fairness:** Fairness in corporate governance refers to treating all stakeholders, including shareholders, employees, customers, suppliers, and the community, with impartiality and equity. This means that decisions and actions taken by the company’s leadership should be unbiased and consider the interests of all stakeholders. Fairness also involves ensuring that opportunities and benefits are distributed equitably and that conflicts of interest are managed transparently.

- ◆ Ethical sustainability

- **Responsibility:** Corporate governance demands that companies operate responsibly, both ethically and socially. Responsible governance entails taking into account the environmental and social impact of business practices. It involves adhering to relevant laws and regulations, adopting sustainable business practices, and being a responsible corporate citizen that contributes positively to society and the environment.

- **Transparency:** Transparency is a fundamental aspect of



corporate governance, and it involves openly sharing information with stakeholders. This includes disclosing financial information, business operations, strategic decisions, and any other material information that may influence stakeholders' decisions. Transparent governance builds trust among investors, employees, customers, and the public, and it enables stakeholders to make informed decisions about their involvement with the company.

♦ Open disclosure

• **Accountability:** Accountability is the concept of holding individuals and entities responsible for their actions and decisions. In corporate governance, it means that the company's board of directors, management, and other stakeholders are answerable for their conduct and the company's performance. Accountability is reinforced through oversight mechanisms, such as regular reporting, audits, and independent directors, to ensure that decision-makers act in the best interests of the company and its stakeholders.

♦ Responsibility oversight

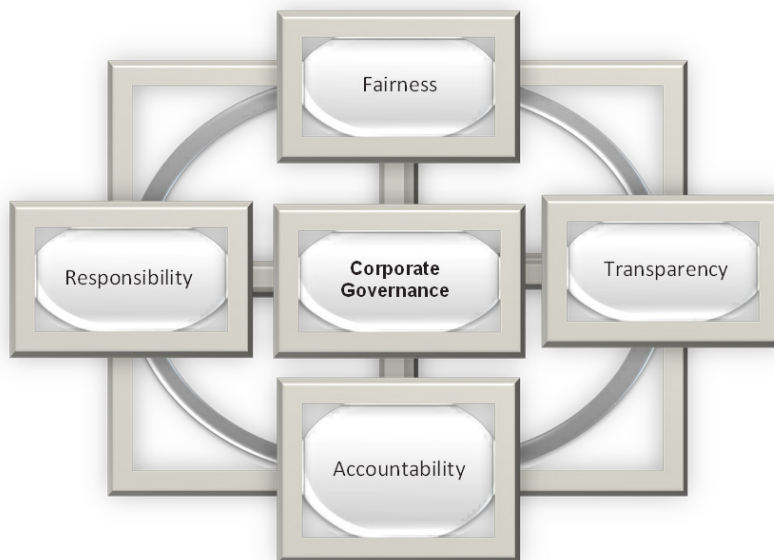


Fig. 3.1.1 Corporate Governance

By incorporating fairness, responsibility, transparency, and accountability into its governance practices, a company fosters a culture of trust, integrity, and ethical behaviour. This not only enhances its reputation but also contributes to sustainable growth and long-term success, benefiting all stakeholders involved. Companies with strong corporate governance are more likely to attract investors, retain talented employees, and maintain positive relationships with customers and the broader community.

♦ Ethical governance

3.1.5 Objectives of corporate governance

The corporate governance includes the following objectives:



- ◆ To create a sense of transparent and ethical administrative practices.
- ◆ To enable the management of companies to strike a balance between social and economic goals.
- ◆ To develop business practices that are value-driven more than profit-driven.
- ◆ To encourage participative and democratic styles of leadership.
- ◆ To add value to shareholders' wealth.
- ◆ To safeguard the interest of stakeholders.
- ◆ To build an environment of trust amongst investors and other stakeholders in the operations of the company.
- ◆ To create a sense of social responsibility.
- ◆ To maintain investors' confidence to enable the company to raise capital efficiently and effectively.
- ◆ To minimize waste, risk, mismanagement, and corruption.
- ◆ To build and maintain a strong brand reputation by bringing a high level of satisfaction to the employees, customers, investors, and the community at large.
- ◆ To provide adequate reporting to shareholders and other stakeholders through quarterly, semi-annual, and yearly performance and operating results.

3.1.6 Principles of Corporate Governance.

The listed entity which has listed its specified securities shall comply with the corporate governance principles under the following broad headings:

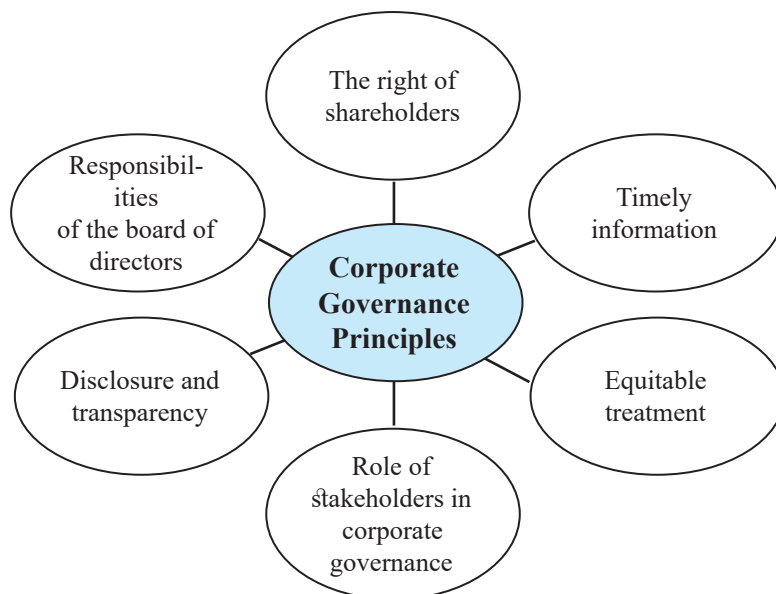


Fig. 3.1.2 Principles of corporate governance

The rights of shareholders: The listed company must work to safeguard and make it easier for shareholders to exercise the following rights: the right to take part in and get adequate information on policy matters and decisions made for the future programmes of the company, a chance to take part in general shareholder meetings and cast a vote. Being aware of the regulations governing general shareholder meetings, including voting procedures, to the general meeting agenda, and to offer resolutions. Effective shareholder involvement in important corporate governance decisions, like the selection and election of directors and the exercise of ownership rights by institutional investors as well as by all shareholders, provides an adequate process for resolving shareholder complaints. Protection of minority shareholders from abusive behaviour on the part of or in the interest of controlling shareholders acting either directly or indirectly, as well as efficient mechanisms of remedy.

♦ Protection to shareholders

Timely information: The listed company is required to give shareholders sufficient and timely information, including but not limited to: information regarding the time, place, and agenda of general meetings, as well as complete and timely information regarding the matters that will be debated at the meeting. Certain shareholders can achieve a level of power that is out of proportion to their equity holdings due to capital structures and arrangements. All series and classes of shares have rights attached, which must be communicated to investors prior to the purchase of shares.

♦ Information to shareholders on time

Equitable treatment: The listed company must ensure that all shareholders, including minority and foreign shareholders, are treated fairly in the following ways: The same rules apply to shareholders in the same series of a class. It must be made easier for shareholders to effectively participate in important corporate governance issues like the selection and election of the board's members. Foreign shareholders' ability to exercise their voting rights must be made easier. The listed entity must create a structure to prevent abusive self-dealing and insider trading. All shareholders must be treated fairly during general shareholder meetings by means of processes and procedures. Voting shall not be made unreasonably difficult or expensive by the listed entity's procedures.

♦ Equal consideration

Role of stakeholders in corporate governance: The listed entity shall recognise the rights of its stakeholders and encourage cooperation between the listed entity and the stakeholders in the following manner:

The listed organisation is required to respect stakeholder rights that have been established by law or by mutually agreed-upon

♦ Stakeholder's protection



agreements. Stakeholders must have the chance to seek effective remedies when their rights are violated. In order for stakeholders to participate in the corporate governance process, they must regularly and timely have access to information that is pertinent, sufficient, and trustworthy.

◆ Transparency in operation

Disclosure and transparency: The listed entity shall ensure timely and accurate disclosure of all material matters, including the financial situation, performance, ownership, and governance of the listed entity, in the following manner: Information shall be prepared and disclosed in accordance with the prescribed standards of accounting, financial, and non-financial disclosure. Channels for disseminating information shall provide for equal, timely, and cost-efficient access by users to relevant information. Minutes of the meeting shall be maintained, explicitly recording dissenting opinions if any.

◆ Power to govern

Responsibilities of the board of directors: Members of the Board of Directors and key managerial personnel shall disclose to the Board of Directors whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the listed entity. The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency for stakeholders while at the same time maintaining the confidentiality of information in order to foster a culture of good decision making. The board of directors under corporate governance principles is responsible for setting company strategy, overseeing management, ensuring financial transparency, risk management, ethical compliance, stakeholder consideration, and sustainable practices. They must select executives, monitor financial health, and communicate with shareholders. Accountability and transparency are essential for long-term success and shareholder protection.

3.1.7 Importance of Corporate Governance

Corporate Governance is integral to the existence of the company. Corporate Governance is needed to create a corporate culture of transparency, accountability, and disclosure.

◆ Enhanced performance

Corporate performance: Improved governance structures and processes ensure quality decision making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance. This can be linked with improved corporate performance- either in terms of share price or profitability.





Fig. 3.1.3 Importance of Corporate governance

Enhanced investor trust: As individuals and institutions invest capital directly or through intermediary funds, they look to see if well-governed corporate boards are there to protect their interests. Investors who are provided with high levels of disclosure and transparency such as relating to data on matters such as pay governance, pay components, performance goals, and the rationale for pay decisions, etc. are likely to invest openly in those companies.

◆ Investor confidence

Better access to global market: Good corporate governance systems attract investment from global investors, which subsequently leads to greater efficiencies in the financial sector. The relationship between corporate governance practices and the increasingly international character of investment is very important. International flows of capital enable companies to access financing from a much larger pool of investors. In order to reap the full benefits of the global capital market and attract long-term capital, corporate governance arrangements must be credible, well understood across borders, and should adhere to internationally accepted principles. On the other hand, even if corporations do not rely primarily on foreign sources of capital, adherence to good corporate governance practices helps improve the confidence of domestic investors, reduces the cost of capital, enables good functioning of financial markets, and ultimately leads to more stable sources of finance.

◆ Global investment

Combating corruption: Companies that are transparent, and have a sound system that provides full disclosure of accounting and auditing procedures, allow transparency in all business



BLOCK - 3

- ◆ Transparency benefits

transactions and provide an environment where corruption would certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organisation.

- ◆ Creditworthiness

Easy finance from institutions: Several structural changes like the increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need for good corporate governance. Evidence indicates that well-governed companies receive higher market valuations. The creditworthiness of a company can be trusted on the basis of corporate governance practices in the company.

- ◆ Increase goodwill

Enhancing enterprise valuation: Improved management accountability and operational transparency fulfil investors' expectations and confidence in management and corporations, and in return, increase the value of corporations.

- ◆ Risk management

Reduced risk of corporate crisis and scandals: Effective Corporate Governance ensures an efficient risk mitigation system in place. A transparent and accountable system makes the Board of a company aware of the majority of the risks involved in a particular strategy, thereby, placing various control systems in place to facilitate the monitoring of related issues.

- ◆ Social responsiveness

Accountability: Investor relations are an essential part of good corporate governance. Investors directly/ indirectly entrust the management of the company to create enhanced value for their investment. The company is hence obliged to make timely disclosures on regular basis to all its shareholders in order to maintain good investor relations. Good corporate governance practices create an environment whereby Boards cannot ignore their accountability to these stakeholders.

- ◆ Competition impact

3.1.8 Corporate Governance and Competition

According to Institute of Company Secretaries of India (ICSI), "Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders." Competition can significantly influence corporate governance practices within companies. When businesses face competition in their markets, they need to adapt and perform efficiently to maintain their competitive edge. This, in turn, affects the way corporate governance is approached and



implemented.

Here are some ways in which competition can influence corporate governance:

i) Performance pressure

In India, various sectors, including IT, manufacturing, and financial services, witness intense competition. To stay ahead, companies are under constant pressure to perform well. Corporate governance practices become critical to ensure efficient decision-making, risk management, and adherence to ethical standards. Boards need to set challenging targets and monitor performance closely. For instance, Tata Consultancy Services (TCS), being one of the leading IT companies in India, faces intense competition from global IT giants. To maintain its market position, TCS's board emphasizes strategic planning and performance evaluation.

♦ Success induced pressure

ii) Focus on long-term sustainability

In competitive markets, Indian companies recognise the need for long-term sustainability. This includes responsible environmental practices, social initiatives, and effective risk management. Corporate governance must ensure that sustainability is incorporated into the company's strategy. A prominent example is Hindustan Unilever Limited (HUL), which emphasises sustainability through its 'Sustainable Living Plan.' HUL's board focuses on reducing its environmental impact, promoting inclusivity, and enhancing livelihoods.

♦ Sustainable governance

iii) Innovation and risk-taking

Companies need to innovate to maintain a competitive edge. This requires fostering a culture that encourages creativity and calculated risk-taking. Corporate governance must support and monitor innovation efforts. A relevant example is Infosys, a major IT services company in India. The board encourages innovation through R&D investments and an entrepreneurial culture, enabling Infosys to adapt to evolving technologies and market demands.

♦ Preventing obsolescence

iv) Shareholder activism

With a rising awareness of shareholder rights, Indian companies face increased shareholder activism. Investors demand greater transparency and accountability from boards. Corporate governance practices need to address these concerns. For instance, when the Tata Group underwent a high-profile leadership change

♦ Investor advocacy



in 2016, it triggered significant shareholder activism, leading to more scrutiny of board decisions.

v) Executive compensation

◆ Talent retention

Companies in competitive sectors struggle to attract and retain top talent. This necessitates competitive executive compensation packages, linked to performance metrics. Corporate governance should ensure that executive pay aligns with the company's financial performance and long-term interests. An example is Reliance Industries Limited (RIL), where the board reviews the remuneration of its key executives based on business performance.

vi) Acquisitions and mergers

◆ Consolidation

Competitive industries often witness mergers and acquisitions as a strategy for growth and consolidation. Corporate governance plays a vital role in evaluating and approving such transactions. A notable example is the acquisition of Flipkart, one of India's largest e-commerce companies, by Walmart. The board's scrutiny of the deal's terms and potential benefits for shareholders was crucial.

vii) Stakeholder engagement

◆ Interaction with stakeholders

In a diverse country like India, companies must engage with various stakeholders, including customers, employees, suppliers, and communities. Corporate governance needs to ensure effective stakeholder communication and address their concerns. For example, Nestle India faced a major challenge in 2015 when its popular noodle product, Maggi, was found to contain excess lead. The board's response and communication with stakeholders were crucial in rebuilding trust and brand reputation.

3.1.9 Key Issues in Corporate Governance

◆ Diverse definitions

Corporate governance has various definitions depending on different writers and organisations. Some view it narrowly, focusing only on shareholders, while others believe it should consider all stakeholders. It is seen as a crucial tool for countries to achieve stability and a positive reputation. In developing societies and transitional economies, it encourages strong and dynamic business institutions. Although it may mean different things to different people, the common goal of corporate governance is to create long-term value for stakeholders. All experts agree that good corporate governance practices are essential for achieving this goal. They highlight certain governance issues as crucial to meeting these objectives. These are:



♦ Independence of directors

One of the recommendations of the Kumar Mangalam committee emphasised the importance of the role of independent directors. However, the independence of directors is still a question. In practice, independent directors are chosen based on their acquaintance with the Board of Directors and the company. The challenge is ensuring that directors are really independent to the company in question.

♦ Directors' autonomy

♦ Role of promoter/ founder

Promoters continue to exert greater influence on the management of the company in decision making of family-owned businesses. The board of directors is accustomed to listen to the directions of the promoters or founders which will act as a deterrent to the sound corporate governance practices.

♦ Promoter's dominance

♦ Conflict of interest

Conflicts of interest are bound to exist when a member on the board also holding stocks in another company with whom there is a commercial transaction. This can adversely affect the trust of the shareholders which can affect the governance of the company.

♦ Adversely affect shareholder's confidence

♦ Transparency

Corporates must have responsibility to present fair and transparent financial statements and disclose all the material factors to enable the users of the financial statement to make investment decisions. There is a tendency to either inflate expenses or suppress the incomes for tax evasion purposes or they may suppress the expenses in order to please the shareholders.

♦ Financial integrity

♦ Executive compensation

Most companies do not benchmark senior executive pay to industry averages. The company's performance is also not taken into account. Excess compensations to managers and board executives and when the employees are underpaid, they tend to have an issue with the excess payments which could have an impact on the morale of the employees. Compensation needs to be based on clearly defined metrics. Further companies need to transparently disclose the compensation paid to management in the annual report to build a sense of trust amongst its employees.

♦ Equitable and transparent executive pay



- ◆ Sustainability disclosure and investor interest

◆ Insufficient environment disclosures

Social and environmental issues are important and on top of the minds of the Board of Directors. Companies fail to disclose their initiatives toward climate change and environmental issues. Today investors largely look at non-financial factors as part of their analysis before making investment decisions.

- ◆ Unfair advantage due to information asymmetry

◆ Asymmetry of information

Asymmetry of information should be minimised as much as possible within the community of stakeholders. Asymmetry can result in people who have faster or better access to information taking unfair advantage of it, resulting in the unjust enrichment of some people.

- ◆ Equitable control: Managing dominance

◆ Minority shareholders and other stakeholders

A 'controlling shareholder' wields considerable power and influence within a corporation. He/she/they may occasionally misuse this power at the expense of minority shareholders and other stakeholders. While promoting the company's long-term interests, it should be ensured that the interests of any shareholder, whether controlling or minority, are not oppressed.

- ◆ Attaining goals and mission

3.1.10 Organisational Success

The accomplishment of an organisation's aims and objectives is referred to as organisational success. It is the consequence of the organisation's personnel working together, competent management, and strategic planning. Financial performance, market share, customer happiness, employee engagement, and innovation are just a few examples of the many variables that are frequently used to gauge an organisation's success. Successful organisations require both inspiring leaders and capable managers. Organisations must execute strategies and engage employees in order to achieve increased and sustainable results. Success is determined by examining where the organisation stands in relation to its goals and Mission.

3.1.10.1 Steps for Success

Organisations must consider the future of their business and devise new strategies for success. Organisations can view their challenges as either a source of competition or an opportunity to push them closer to reaching their full potential. The path they choose determines whether or not they are successful. The steps listed below can be used by leaders to ensure that their organi-



sations have a clear understanding of what needs to be done for them to succeed.

- ♦ The organisation's goals ought to be distinct and consistent with its mission. The goals are used to determine how well the organisation is doing at regular intervals. If not, management must intervene to correct the situation and put the company back on track.
- ♦ Define plans that are appropriate for the organisation: An organisation must develop a unique plan while remaining true to its mission and goals. Many organisations have failed not because of poor leaders or managers, but because their strategy did not align with their mission or goals.
- ♦ For an organisation to succeed, it's important for managers to make it easier for employees to point out potential problems or issues. They should also encourage those in senior positions to be more open about possible changes being talked about and to adapt to new realities and conditions in the market. Also, the whole team needs to look at the goals from time to time to make sure the organisation is on track to reach them.

♦ Consistency

♦ Clear planning

♦ Track problems

3.1.10.2 Important Factors that Affect Organisational Success

Key success factors (also known as competitive emphasis or strategic posture) state the important elements required for a company to compete in its target markets. In effect, it articulates what the company must do, and do well, to achieve the goals outlined in its strategic plan. Examples would include agility, reliability, diversity, and emotional connection with clients.

♦ Strategic focus (Leadership, Management, Planning)

Strategic focus is seen when an organisation is very clear about its mission and vision and has a coherent, well-articulated strategy for achieving those. While there are different schools of thought about how strategy comes about, researchers generally agree that strategic focus is a common characteristic across successful organisations.

♦ Effective strategy

♦ Personnel development

Personnel development is defined as “an educational process that involves the sharpening of skills, concepts, changing of attitude, and gaining more knowledge to improve personnel performance.” It is an organisational activity aimed at improving the

♦ Enhancing personnel performance



job performance of individuals and groups of individuals in organisational settings. It is an attempt to improve the performance of current or future personnel by increasing their ability to perform through learning, typically by changing their attitude or increasing their skills and knowledge.

♦ **Operation management**

- ♦ Organisation's engine room

Operations management is critical to the management of goods and services production. This is true regardless of the size or nature of the company or industry. People, equipment, technology, and information, as well as other resources required for the production of goods and services, are all managed by operations managers. Operations management, also known as an organisation's "engine room," is directly responsible for a number of decisions that, if not made prudently, can lead to problems. Operation management is critical to organisational success.

♦ **Marketing**

- ♦ Essential marketing strategies

Marketing refers to the management process of identifying, anticipating, and satisfying customer needs with the goal of increasing sales. Only when proper marketing strategies are implemented can an organisation succeed. Marketing determines the nature of an organisation's product production and distribution channels. Marketing is concerned with increasing sales through advertisements, public relations, and promotions.

♦ **Finance**

- ♦ Source and use of funds

Finance is regarded as the lifeblood of a business because it is the master key that provides access to all sources for use in manufacturing and merchandising activities. The availability and deployment of funds are critical to the success of any business organisation. The managerial talent and decision-making ability of a business organisation determine its success. Managing business finances is critical, and mismanagement can pose a significant risk to the company. Managers must monitor their finances to ensure that they are not mismanaged. Financial management is critical in cutting costs and making a small profit. As a result, the proper deployment, allocation, and utilisation of funds is regarded as critical to the success of the business concern.

♦ **Strong personal connection**

- ♦ Social connections: Work impact

People who have strong personal connections at work are happier, less stressed, and more engaged. These connections assist employees in learning, becoming involved in their work, and feeling loyal to the organisation. Not only do formal meetings



provide opportunities for connection; but those brief interactions that we take for granted, such as water cooler moments, also play an important role in our sense of belonging. Interaction between individuals within an organisation is critical to its success.

3.1.11 Consequences of Weak Corporate Governance

♦ Loss of shareholder confidence and trust

When shareholders lose trust in governance mechanisms, they tend to lose confidence in the management. This may eventually force shareholders to shift their investments to other corporations.

♦ Trust impact on shareholders

♦ Poor performance and shareholders' value

Weak control systems can negatively impact the company's performance and its brand value. The lack of effective controls can significantly influence the way they operate and can chain failures at different levels.

♦ Performance risk

♦ Poor investment decisions

Managers may end up making decisions for their personal interests which could be detrimental to the interest of the shareholders. Investment decisions should always be guided by long term benefits to shareholders. But poor governance mechanisms may prompt investors to invest for their personal gains.

♦ Personal interest vs. Shareholder benefit

♦ Poor financial reporting and disclosures

Weak governance deteriorates the quality of internal checks and audits leading to lack of quality in financial reporting systems. Observations by external auditors and reservations raised in the audit report could cause a huge damage to the value of the company in the long run.

♦ Financial reporting risk

♦ Poor customer relations

Weak governance affects customer relations in an organisation. Customer relations is the company-wide process of cultivating positive customer relationships. When a customer's expectations are not met, a bad customer relationship develops. People have preconceived notions about how a company will serve them. If customer service is poor, it can be disastrous for the brand. When customers have a bad service experience, they turn against and criticise the operations. Customer churn can be caused by poor customer service. Building a working relationship with customers

♦ Deteriorated customer relationship



is critical to a company's long-term success. A strong connection built on trust and communication makes customers feel more secure and connected to a brand, which can lead to increased customer retention that supports strongly sales volume.

♦ Loss of support from suppliers

♦ Strained supplier relation

Supplier support may be lost due to poor corporate governance. Suppliers play a critical role throughout the product life-cycle. Companies must collaborate closely with their suppliers to get the most out of their products, from sourcing raw materials to assisting with ramping up production and finding better raw material options as the market becomes saturated. Supplier relationship management is critical because a long-term relationship between your organisation and its suppliers allows for the free flow of feedback and ideas. Over time, this will result in a more streamlined, effective supply chain, which will have a positive impact on costs and customer service.

♦ Risk of fraud by insiders

♦ Insider threats from poor governance

Poor corporate governance may result in an insider threat. Insider fraud is a type of threat that originates from within an organisation: a current or former employee, contractor, or business partner can carry out a fraudulent scheme that takes advantage of the data or processes to which they have access as part of their job. An insider threat occurs when someone close to an organisation with authorised access misuses that access to negatively impact the organisation's critical information or systems. This person does not have to be an employee; third-party vendors, contractors, and partners may also pose a threat.

♦ Regulatory scrutiny due to governance issues

♦ Risk of attracting the attention of regulators

A government may designate an individual or organisation as a regulator to oversee an organisation's operations. Because of bad corporate governance, the company might attract the attention of the regulators.

♦ Alleviate negative impact on organisation

3.1.12 Risk Management

Risk management is the process of identifying, assessing, and prioritizing risks in order to minimize or mitigate their potential negative impacts on an organisation or project. It involves identifying potential risks, analysing their likelihood and potential consequences, and developing strategies to manage or reduce those risks. An organisation's risk management entails defining the risk, identifying it, evaluating its impact and likelihood of materialisa-

tion, and then establishing suitable procedures for handling important risks. Risk management of an organisation is one of the more recent concepts to be introduced in the framework of corporate governance, which offers a holistic viewpoint as an essential component of the organisation's elements as a whole. A common topic in the organisations' day-to-day concerns and expectations of excellent management and strong corporate governance was the enterprises' approach to risk management.

The risk management process is a systematic approach to risk analysis and solution. Thus, there is a logical scheme in the process of risk management and which in our opinion and corporate governance presupposes the following steps:

- **Risk identification:** The process of identifying risks involves doing a thorough review of every activity undertaken by the company as a whole. In this stage, documents and records related to the entity's finances, operations, and information flow are analysed. Here, it should be highlighted that although the pertinent exposures are typically obvious, expert analysis may be able to spot significant omissions as well as erroneous exposures to risk. Risk can come from various sources, such as internal factors (e.g., operational processes, human resources) or external factors (e.g., market conditions, regulatory changes).

♦ Internal and external factors

- **Risk assessment and measurement:** It is necessary to be able to appreciate the potential impact on the entity's financial situation. As a rule, in the case of each risk are considered several steps of materialisation, but, for each of these steps, two variables should be estimated, i.e., the probability of realisation and the costs of loss involved. Once risks are identified, they need to be assessed to determine their likelihood of occurrence and potential impact. This assessment helps prioritize risks based on their severity and enables decision-makers to allocate appropriate resources for risk mitigation.

♦ Prioritize risks based on their severity

- **Selection of risk management techniques:** It is mainly a problem of managerial decision influenced by the entity's objectives and strategy, as well as the risk aversion of management, the criteria envisaged is the overall of maximising the value of the entity. The major categories of risk management techniques avoidance, prevention and control, retention and transfer (insurance, coverage, diversification).

♦ Based on risk aversion

- **Implementation:** It requires technical information pertaining to the practical application of the chosen management strategy, including the creation of prevention measures, the making of specific investments, the building up of reserves, the choice of an insurer or stock market, the negotiation of contracts, and the

♦ Executing risk management plans



♦ Review of decisions

hedging of risks.

- **Monitoring:** In this last stage of risk management process includes the regular checks and reviews of previously taken risk decisions, the discovery of new exposures, changes in the likelihood and nature of risks, and the development of new methods for less expensive insurance. In addition, at this point, we also feel that internal audit and control activities should also be taken into account to prevent fraud that may occur when workers in charge of using risk-covering tactics go beyond their authority and responsibilities.

♦ Proactive approach

Effective risk management helps organisations anticipate and address potential threats, enabling them to make informed decisions, allocate resources efficiently, and protect their assets. It is a proactive approach that contributes to the overall success and resilience of an organisation.

3.1.13 The Risk Management under Indian Companies Act 2013

Under the Indian Companies Act of 2013, risk management for companies is primarily addressed through Section 134(3)(n) and Section 177(4)(vii). These sections emphasize the importance of risk management practices to safeguard the interests of stakeholders, ensure business continuity, and promote long-term sustainability. Here's an explanation of risk management under the Indian Companies Act 2013:

1. Section 134(3)(n)

♦ Disclosure by Board of Directors

This section deals with the contents of the Director's Report that must be included in the company's annual financial statements. Subsection (n) specifically requires the Board of Directors to disclose information about the company's risk management policy. The company's annual report must include details about the development and implementation of a risk management framework. It should outline the nature of risks that the company faces, their potential impact, and the steps taken to mitigate these risks. By mandating the disclosure of risk management policies, this section aims to enhance transparency and ensure that stakeholders are aware of the company's risk exposure and the measures in place to manage these risks.

♦ Audit committee

2. Section 177(4)(vii)

This section pertains to the duties of the Audit Committee, which plays a crucial role in overseeing risk management within



the company. Subsection (vii) mandates that the Audit Committee evaluates the risk management system. The Audit Committee's responsibilities include reviewing and assessing the risk management practices of the company, ensuring their effectiveness, and providing recommendations for improvement if necessary. Through this provision, the Act emphasises the importance of an independent body (the Audit Committee) overseeing the company's risk management processes to ensure objectivity and robust risk oversight.

3.1.14 Corporate Scandals

Corporate scandals refer to unethical or illegal activities that occur within a corporation or business organisation. These scandals often involve misconduct by corporate executives, managers, or employees, and they can have severe negative impacts on the company, its stakeholders, and sometimes the broader economy.

Here are some notable corporate scandals that have occurred in the past:

- ♦ Enron Scandal (2001): Enron Corporation, an energy company, was involved in accounting fraud and deceptive financial practices. Executives manipulated financial statements to hide debt and inflate profits, leading to the company's bankruptcy and the loss of thousands of jobs.
- ♦ WorldCom Scandal (2002): WorldCom, a telecommunications company, engaged in accounting fraud by inflating its assets and profits. The scandal led to the company's bankruptcy and the conviction of several top executives, including CEO Bernard Ebbers.
- ♦ Volkswagen Dieselgate (2015): Volkswagen, a leading automobile manufacturer, was found to have installed software in its diesel vehicles to cheat on emissions tests. The scandal resulted in billions of dollars in fines, lawsuits, and a significant blow to Volkswagen's reputation.
- ♦ Wells Fargo Account Fraud (2016): Wells Fargo, a major U.S. bank, faced controversy when it was revealed that employees had opened millions of unauthorized bank accounts for customers without their knowledge or consent. The scandal led to significant fines and the resignation of the company's CEO.
- ♦ Theranos Scandal (2016): Theranos, a biotech compa-

♦ Unethical activities within a corporation

♦ Fraudulent financial practices

♦ Inflation of assets and profits

♦ Volkswagen emissions cheating

♦ Opening unauthorised bank accounts



BLOCK - 3

- ◆ Fraudulent claims



- ◆ Data scandal

- 

- ◆ Manipulation of accounts

-

- ◆ PNB defraud scandal

-

- ◆ Mismanagement of funds

-

appointed a new board to address the crisis.

- ♦ Sahara Group-SEBI Case (2012): Sahara Group, a large conglomerate, faced a prolonged legal battle with the Securities and Exchange Board of India (SEBI). SEBI accused Sahara of raising funds from the public without issuing proper financial instruments and violating regulations. The dispute involved the repayment of billions of dollars to millions of investors. The case highlighted the need for stricter regulations and better investor protection measures in India.
- ♦ Vijay Mallya-Kingfisher Airlines Scam (2016): Business tycoon Vijay Mallya, the owner of Kingfisher Airlines, defaulted on massive loans taken from several Indian banks to fund the now-defunct airline. Mallya was accused of financial mismanagement and diverting loan funds for personal use, including buying properties abroad. In 2016, he left India and sought refuge in the UK to avoid facing the legal consequences. The case exposed weaknesses in India's banking system and raised questions about the accountability of borrowers and the need for better loan recovery mechanisms.

♦ Fundraising violation

♦ Loan default

♦ Corporate ethics impact

These scandals and others serve as reminders of the importance of ethical conduct, transparency, and accountability in the corporate world. They have prompted regulatory changes, increased corporate governance measures, and raised public awareness about the potential risks associated with unethical business practices.

3.1.15 Whistle-Blowing and Corporate Governance

Let's consider an example involving a large pharmaceutical company, XYZ Pharmaceuticals. Suppose an employee named Sarah, who works in the research and development department of XYZ Pharmaceuticals, discovers that the company is knowingly covering up the side effects of one of its best-selling drugs. The drug, used to treat a common chronic condition, has been linked to severe health complications in some patients, including heart problems and organ damage.

♦ Unethical practices

Sarah learns that the company's top executives are aware of these side effects, but they are suppressing the information to avoid damaging their profits and reputation. Despite being instructed to stay silent about the issue, Sarah believes it is her moral obligation to protect the public and the patients who use the drug.

♦ Intentional



◆ Information to public

In this scenario, Sarah faces a significant dilemma. She must decide whether to remain silent, thus allowing the company to continue hiding the potential dangers of the drug, or become a whistleblower and disclose the hidden information to the appropriate authorities or media outlets.

◆ Reporting of wrongdoing

If Sarah decides to blow the whistle, she might report the situation to government regulators, such as the Food and Drug Administration (FDA), or to a reputable investigative journalist. She could provide evidence and documentation to support her claims. As a whistleblower, Sarah would likely face challenges within the company, including potential retaliation, such as termination or harassment. However, by stepping forward, she exposes the unethical behavior and helps protect the public's health, leading to investigations, potential fines or legal actions against the company, and increased public awareness.

◆ Exposing illegal information

Whistleblowing is the act of exposing or reporting illegal, unethical, or harmful activities within an organization or institution, usually to the public or authorities. Whistleblowers are individuals who bring attention to misconduct or wrongdoing, often at great personal risk, in order to promote transparency, accountability, and justice.

◆ Altering public

The term whistle-blowing probably arises by analogy with the referee or umpire who draws public attention to a foul in a game by blowing a whistle, as in soccer. Some trace its emergence from the practice of English Bobbies who would blow their whistle when they noticed the commission of a crime. The blowing of the whistle would alert both law enforcement officers and the general public of danger. In simple words, whistle-blowing is an act by a member or former member of an organisation to disclose wrongdoing in or by the organisation.

According to Boatright (2002) "Whistle-blowing is the release of information by a member or Former employee of an organisation to disclose what he proclaims to be wrongdoing in or by that organisation."

Sekhar (2002) defines whistle-blowing as "an attempt by an employee or a former employee of an organisation to disclose what he proclaims to be wrongdoing in or by that organisation."

According to Koehn (2003), "Whistle-blowing occurs when an employee informs the public of inappropriate activities going on inside the organisation."

Salient characteristics of whistle-blowing

Following are some salient characteristics that flow from above definitions of whistle-blowing:

- ♦ **There must be real information to release to be called ‘whistle-blowing.’**

That is merely to dissent publicly with an employer without the real information is not in itself to blow the whistle. Whistle-blowing necessarily involves the release of misdemeanour to the public. Thus, whistle-blowing is different from sounding the alarm in the sense that the former releases the information that the public do not know because it has been kept secret, while the latter tries to get people alarmed about the facts that are already known to the public.

♦ Substantial information

- ♦ **The information is evidence of wrongdoing on the part of organisation.**

The matters that cause harm to the public interest usually fall under the purview of whistle-blowing. Thus, the matters that merely influence the course of action but are not contrary to the public interest are not commonly treated as ‘whistle-blowing’.

♦ Evidentiary value

- ♦ **Whistle must be blown with moral motive to correct some wrongdoing.**

At times, members of an organisation may go public for all sorts of reasons. Therefore, information released to public with a motive to take revenge does not constitute whistle-blowing.

♦ Ethical intent

- ♦ **Whistle against wrongdoing of an organisation can be blown only by its members or former member.**

Information about wrongdoings informed or stitched by an internal member of an organisation is called “whistle blowing”. It, then, means blowing whistle about wrongdoings of an organisation by outsiders like a journalist, social activist, political leader, etc. is not considered whistle-blowing. The reason is that such informers have incriminating information about the organisational wrongdoings and no obligation prevents them from making it public. But the situation is different for employees who, of course, are aware of wrongdoings in their organisations, but, at the same time, they also have obligations to their organisations.

♦ Limited to insiders

- ♦ **It must be clear to whom the whistle regarding wrongdoing is to be blown.**



◆ Clear reporting channels

Only then a desired change or correction can be brought about. Merely revealing information about wrongdoing to an outside party does not necessarily constitute whistle blowing but simply an instance of ordinary snitching.

The information about the wrongdoing in the organisation must be released outside normal channels of communication prescribed by the organisation.

◆ External disclosure

In many organisations, an established procedure is to be followed by the employees to report instances of wrongdoings to their immediate superiors or to the designated officials, like ombudsman in the Life Insurance Corporation of India. However, following an established procedure for reporting wrongdoings is not called 'whistle-blowing'. Though, whistle-blowing does not necessarily involve "going public" and releasing wrongdoing outside the organisation, "going public" is found often effective because the information ultimately reaches the appropriate authorities who can correct the wrongdoing.

3.1.16 Benefits of Whistle-blowing Mechanism

Whistle-blowing has the following benefits:

- ◆ Whistleblowing promotes transparency and accountability within organizations by bringing to light illegal or unethical activities that would otherwise remain hidden.
- ◆ It safeguards the public interest and protects consumers from potential harm caused by unsafe products or services.
- ◆ Whistleblowing helps prevent financial fraud, corruption, and other forms of misconduct, thereby preserving the integrity of businesses and institutions.
- ◆ It encourages a culture of ethical behaviour within organizations, fostering trust among employees, customers, and stakeholders.
- ◆ Whistleblowers play a crucial role in exposing systemic issues and promoting necessary reforms, leading to improved governance and regulations.
- ◆ By reporting wrongdoing, whistleblowers contribute to the fair and just enforcement of laws, ensuring that powerful entities are held accountable for their actions.
- ◆ Whistleblowing can lead to positive societal change, as it

empowers individuals to stand up against injustice and protect the greater good, even in the face of personal risks and challenges.

3.1.17 Causes of Whistle-Blowing

Be that as it may be, whistle-blowing by disclosing wrongdoing of an organisation to outsiders causes harm of one type or other to the organisation. Hence, whistle-blowing is not welcome. This, then means that organisation need to avoid whistle-blowing to take place. It is always better for an organisation to be proactive than reactive in the matters of whistle-blowing. Because, prevention is better and cheaper, than cure. One way to be proactive in this regard is to have the knowledge about what actually causes whistle-blowing in an organisation. The following as the usual causes of whistle-blowing in an organisation:

♦ Proactive understanding of whistleblowing triggers

- ♦ Misuse of official funds for private purposes.
- ♦ Official powers used for private gain.
- ♦ Discrimination by age, race, or sex.
- ♦ Corruption.
- ♦ Dumping of industrial pollutants causing harm to public.
- ♦ Deceptive advertising.
- ♦ Non-enforcement of laws.
- ♦ Adulteration
- ♦ Sexual harassment.
- ♦ Monopolist price-rigging.
- ♦ Use of official funds for political campaign.

3.1.18 The Indian Companies Act and Whistle Blowing Mechanism

The company shall establish a vigil mechanism for the directors and the employees to report concerns about unethical behaviour, actual or suspected fraud or violation of the company's code of conduct or ethical policy. The mechanism should also provide for adequate safeguard against victimization of director (s)/ employee (s) who avail of the mechanism and also provide for direct

♦ Vigil mechanism



access to the Chairman of the Audit Committee in exceptional cases. The details of establishment of vigil mechanism shall be disclosed by the company on its website and in the Board's Report. Similar requirement under section 177 (9) of the Companies Act, 2013 for listed companies is to establish a Vigil Mechanism for Directors and Employees to report genuine concerns (before amendment of Clause 49, it was non-mandatory requirement.)

3.1.19 Technology and Information Governance

Information governance is a broad range of activities that covers all aspects of information within the organisation. It is business-, legal and compliance-driven. Components of information governance include categorization, information use definition, access management, records management, document handling, information lifecycle, secure removal (disposition), eDiscovery, cybersecurity, and data governance. In this sense, data governance is a subset of information governance. Information governance professionals have expertise in records management, privacy, collaboration, discovery, and disposition. Information governance is the creation of a framework for decision making and accountability that establishes acceptable practices for the production, evaluation, use, sharing, archiving, and deletion of information. It covers the guidelines for the efficient and effective use of information for an organisation to achieve its goals, including policies, standards, procedures, metrics, and roles.

♦ Frame work for decision making

3.1.20 Importance of Information Governance

Information governance is a discipline that is still developing. However, a well-executed information governance programme should at least bring the business the advantages listed below.

- ♦ Organisations have a strategic opportunity and duty to analyse their data and maintain its security throughout the entire information lifecycle.
- ♦ In accordance with organisational culture and resource availability, support business objectives, priorities, and needs.
- ♦ By enabling intelligent collaboration through information sharing, increase productivity. The same version of a document is used in real-time by staff members from all departments of the company.
- ♦ Because it is better classified, supported, and secured, you can access the information you need more quickly and easily.



- ♦ Reduce costs, eliminating duplication and optimize information management expenditure
- ♦ Reduce breaches by maintaining the safety and security of information.
- ♦ Increasing organisational agility. Give the people who make the big decisions an overall view of the company that recognises the effects on other stakeholders.

♦ Enhancing organisational efficiency through data management

3.1.21 Key Components of Information Governance

These are some of the components of effective information governance

♦ Information mapping and evaluation

Find information, seize it, manage it, and store it anywhere it may be found within the company. The various categories of structured and unstructured information in the organisation should be identified.

♦ Information Discovery and Management

♦ Records management

Records management is an organisational function that oversees the management of information in an organisation from the time it is created or received to its eventual disposition. Identifying, classifying, storing, securing, retrieving, tracking, and destroying or permanently preserving records are all part of this process. Records management is the management discipline in charge of the efficient and systematic control of the creation, receipt, maintenance, use, and disposition of records, as well as the processes for capturing and storing evidence of and information about business activities and transactions in the form of records.

♦ Systematic control of records

♦ Knowledge management

It is the process of creating, disseminating, utilising, and managing information held by the organisation in order to achieve business goals.

♦ Managing organisational knowledge

♦ Content management

Content Management means creating, sharing, utilising, and managing information held by the organisation in order to meet corporate objectives. This term emphasises the importance of the stored information in terms of what it presents, i.e., as content. Because this discipline is frequently associated with compliance initiatives, the need for enterprise-scale rigour and security necessitates the use of labels such as Secure Content Management (SCM) or Enterprise Content Management (ECM).

♦ Stored information presented as contents



Summarised Overview

Corporate governance, whistleblowing, and information governance are interconnected elements that contribute to the overall integrity, transparency, and responsible management of organizations. Effective corporate governance establishes the framework for ethical decision-making and accountability within a company, ensuring that stakeholders' interests are protected and promoting sustainable practices. In this context, whistleblowing plays a crucial role by providing a mechanism for employees and stakeholders to expose misconduct and unethical behaviour, thereby upholding the principles of corporate governance. Whistleblowers often reveal critical information related to fraud, corruption, or data breaches, emphasizing the significance of robust information governance. Information governance ensures the proper management and security of data and sensitive information, fostering trust and compliance with regulatory requirements. By safeguarding the quality, accessibility, and confidentiality of information, information governance bolsters corporate governance efforts and supports the role of whistleblowers in uncovering irregularities. Together, these three elements create a cohesive system that reinforces an organization's commitment to transparency, accountability, and ethical conduct, ultimately strengthening its reputation and sustainable growth.

Self-assessment Questions

1. Discuss in brief the development of the concept of corporate governance in the UK
2. What is whistle-blowing?
3. What are the elements of good Corporate Governance?
4. Discuss briefly the corporate governance developments in India.
5. What is information governance?
6. What is risk management?
7. What is organisational success?
8. Discuss the factors affecting organisational success.
9. How does the corporate scandal affect the concerned industry?



Assignments

1. Describe fully what you mean by corporate governance and how it benefits all parties involved.
2. Go to any adjacent public sector and have a private conversation with each stakeholder about the advantages of good corporate governance.
3. Make a report on corporate governance for any BSE-listed firm you choose.
4. How does whistleblowing benefit society?
5. Is whistleblowing a wrongful act? Explain.
6. List out the recent scandals in Indian companies and check how they affect the shareholders.
7. Explain the relevance of information governance in companies in the modern world.
8. How does competition influence corporate governance?
9. What are the causes of whistle blowing in Indian scenario?

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.





Unit 2

Corporate Social Responsibility

Learning Outcomes

Upon finishing this unit, the learner will achieve the following objectives:

- ◆ know the concept of CSR
- ◆ familiarise the strategies of CSR
- ◆ identify Ackerman's model of social responsibility
- ◆ aware of the corporate social reporting

Background

Business corporation run within the society. Hence, these are considered as a sub-system of the society. Business gets its inputs from the society and society gets goods and services from the business. In this way, business and society are interdependent. Just like a citizen, business as a corporate citizen has an obligation towards society to reciprocate for what it receives from the society. A business can run only when it enjoys acceptance and sanction from the society. Without it, business is sure to flounder and fizzle. As Mahatma Gandhi said way back during 1930's, "Organisations, like men, if they are to command respect and grow, must have a sense of honour and must fulfill their promises."

It had nothing to do with business and was more of a charitable endeavour. It resembled construction institutions more closely, such as research and educational institutions. Corporates are now beginning to see CSR as strategic philanthropy tied to responsibility and leaning towards community development through various programmes as the mentality has changed. So, it's no longer considered coerced generosity or responsibility to check a box, according to current thought. It involves spending real money or resources to benefit society and enhance a company's reputation.



Keywords

CSR, Strategies, Ackerman's model of social responsibility, Corporate Social Reporting

Discussion

3.2.1. Corporate Social Responsibility (CSR)

- ♦ Voluntary to mandatory

Corporate Social Responsibility (CSR) has undergone significant changes over the years. It started as a voluntary choice made by individual companies and has now become a mandatory requirement at various levels - regional, national, and international. While many businesses now go beyond legal requirements to incorporate the concept of “doing good” into their business models, genuine CSR must be deeply integrated into a company’s culture and operations to be perceived as authentic in today’s socially conscious environment.

- ♦ Absence of universal agreement

CSR covers a broad range of issues, and there is no universal agreement on its definition. It emerged to address inappropriate corporate behaviour related to social issues or those not directly impacting the bottom line. This includes concerns about external environmental, labour, and human rights abuses, especially in developing countries. Initially, CSR was defined as voluntary actions taken by businesses to address such issues, leading to the adoption of various codes and initiatives to showcase their commitment to social responsibility.

- ♦ Mutual relation

Additionally, CSR has been associated with philanthropic and charitable activities that businesses engage in to portray themselves as good corporate citizens. However, this aspect has raised questions about executives’ right to give away money that doesn’t belong to them. While CSR was once believed to be primarily about improving a company’s public perception and bottom line, it has become evident that it is more about the interaction between business and society. A damaged relationship between the two can lead to repercussions for businesses, affecting not only their reputation but also their ability to operate freely.

According to **European Union**, CSR as:

“The voluntary integration of companies’ social and ecological concerns into their business activities and their relationships with their stakeholders. Being socially responsible means not only fully satisfying the applicable legal obligations but



also going beyond and investing ‘more’ in human capital, the environment, and stakeholder relations.”

According to **ISO**, CSR is defined as: “The responsibility of an organisation for the impacts of its decisions and activities on society and the environment, resulting in ethical behaviour and transparency which contributes to sustainable development, including the health and well-being of society; takes into account the expectations of stakeholders; complies with current laws and is consistent with international standards of behaviour; and is integrated throughout the organisation and implemented in its relations.”

3.2.2 Corporate Social Responsibility: Concept and Rationale

Corporate Social Responsibility (CSR) is mandatory for certain companies in India. The requirement for CSR in India is laid out in Section 135 of the Companies Act, 2013, and subsequent amendments. According to this law, qualifying companies meeting specific financial criteria are obligated to spend a certain percentage of their average net profits made during the preceding three financial years on CSR activities.

◆ Legal provision

As per the Companies Act, the following criteria determine the mandatory CSR obligation:

- ◆ Companies with a net worth of INR 500 crore or more.
- ◆ Companies with a turnover of INR 1,000 crore or more.
- ◆ Companies with a net profit of INR 5 crore or more.

The Board of Directors shall make sure that the qualifying company spends in every financial year, a minimum of 2% of the average net profits made during the 3 immediately preceding financial years as per CSR policy. In case a company has not completed 3 financial years since its incorporation, the average net profits shall be calculated for the financial years since its incorporation. These activities can include projects related to education, healthcare, environmental sustainability, poverty alleviation, and other socially beneficial initiatives.

◆ Proportion of CSR

Non-compliance with the CSR mandate may result in penalties and legal consequences for the company and its directors. However, companies that are not eligible under the criteria mentioned above or those that fail to meet the financial thresholds are not

◆ Legal consequences



legally obligated to undertake CSR activities.

CSR Applicability in India

The provisions of CSR apply to:

- Every company
- Its holding company
- Its subsidiary company
- Foreign company

Having in the preceding financial year:

- Net worth > 500 crore
- Turnover > 1000 crore
- Net profit > 5 crore

♦ Corporate citizenship

Organisations that practise CSR accept responsibility for the impact of their activities on customers, employees, shareholders, communities, and the environment in all aspects of operations. This effort goes beyond simply following local laws, as organisations voluntarily take steps to improve the quality of life for their employees and their families, as well as society as a whole. CSR is also known as “corporate citizenship,” which means that a company should be a good neighbour to the communities impacted by its presence.

There are many good reasons for businesses to take part in initiatives that prioritise social welfare. Four justifications have been put forth by CSR proponents: moral obligation, sustainability, operating authority, and reputation.

♦ Ethical duty

- ♦ Moral obligation means that a growing number of companies’ stakeholders are only satisfied when the company balances the impact of its business with socially responsible practises.

♦ Finding sustainable solutions

- ♦ Sustainability entails meeting current needs without jeopardising future generations’ ability. Significant progress can be made by investing in socially, environmentally, and financially sustainable solutions.

♦ Operating authority

- ♦ Furthermore, the licence to operate and critical contracts with governments and other entities may be conditional on such obligation.



- ◆ Finally, CSR initiatives may be supported because they will improve a company's image and possibly increase the value of its stock. Increased clientele, the ability to charge higher prices, and the retention of more productive employees are all examples of reputation benefits. Companies typically manage risks to their reputation and brand in a reactive manner, dealing with crisis events only after they occur. Companies facing boycott threats, such as Nike in the 1990s, or high-profile lawsuits, such as McDonald's over obesity concerns, may see CSR as a strategy for presenting a friendlier face to the public.

◆ Reputation enhancement

The increasing social awareness of developed countries has resulted in a significant increase in investment in CSR activities across all OECD (Organisation for Economic Co-operation and Development) nations.

Infosys - Rural Electrification Project:

Infosys, a major IT services company, has taken up the task of electrifying remote and off-grid villages in India. Through its "Energizing Dreams" initiative, Infosys aims to provide sustainable energy solutions to underserved communities. The project involves setting up solar-powered microgrids to bring electricity to these villages, which not only improves the quality of life but also promotes economic development and access to education and healthcare.

Tata Group - Community Development Initiatives:

The Tata Group, one of India's oldest and most respected conglomerates, has a long-standing commitment to CSR. Tata companies have undertaken various community development initiatives across sectors. For example, Tata Steel has implemented sustainable livelihood programs for tribal communities, Tata Motors focuses on skill development for rural youth, and Tata Chemicals promotes water conservation and agriculture practices in drought-prone regions.

ITC Limited - Social and Farm Forestry:

ITC Limited, a diversified conglomerate, has been actively involved in promoting social and farm forestry to enhance environmental sustainability and rural livelihoods. The company's "Greening India" initiative focuses on increasing the green cover, promoting sustainable forestry



practices, and supporting rural communities through agroforestry projects. The initiative aims to create a positive environmental impact while providing a source of income for farmers.

Mahindra & Mahindra - Project Nanhi Kali:

Mahindra & Mahindra, a prominent automobile and agricultural machinery manufacturer, has partnered with Naandi Foundation for Project Nanhi Kali. Similar to Tata Group's initiative, Mahindra's Project Nanhi Kali supports the education of underprivileged girls. The program provides educational support, including digital learning tools, scholarships, and mentoring, to empower girls from marginalized communities.

3.2.3 Arguments for CSR

Corporate Social Responsibility (CSR) is a management concept in which businesses incorporate social and environmental concerns into their business operations and interactions with stakeholders. The following are the arguments for CSR activities.

♦ Morality

♦ Ethical obligation

Due to the rise of large corporations, modern industrial society is now confronted with a slew of serious social issues. As a result, these large corporations have a moral responsibility to address these issues. Furthermore, because business consumes so many resources in our economy, it is responsible for allocating some of these resources to the overall development of society.

♦ Public requirements

♦ Social demands

Business can exist only with public support and if it meets societal needs. One of the most compelling arguments for corporate social responsibility is that public expectations of businesses have shifted. As a result, if a business wishes to survive in the long run, it must respond to society's needs and provide what society desires.

Because the demand for products or services comes from customers who are members of society, the business must live up to public expectations in order to survive. Because business is a part of society, it must consider its responsibilities.



♦ Government regulations

Noncompliance with social norms may result in legal consequences. The government has a direct influence on organisations through regulations that dictate what they should and should not do. Various agencies keep an eye on business activities. For example, the Central Pollution Control Board is concerned with environmental pollution, the Securities and Exchange Board of India is concerned with investor protection, and the Employees State Insurance Corporation is concerned with employee health. Organisations that violate these rules face fines and penalties. Organisations have risen to the cause of social concerns in order to avoid such interventions.

♦ Legal implications and regulatory compliance

♦ Socio-cultural norms

A business that promotes social equality, healthy employer-employee relations, and consumer service will enjoy a better social position in a country like India, where social and cultural values have a long and rich heritage. Society will criticise a company that violates traditional values.

♦ Societal recognition for ethical business practices

♦ Protect the interests of stakeholders

The labour force is organised into unions, which demand that business enterprises protect their rights. To gain the support of their employees, organisations must accept responsibility for their employees.

Caveat emptor ('let the buyer beware') is no longer applicable. Today's consumer is the central figure around whom all marketing activities revolve. The consumer does not purchase what is offered to him. He purchases what he desires. Firms that fail to meet the needs of their customers will fail sooner or later. There are also consumer redressal cells to protect consumers from anti-consumer activities. Thus, consumer sovereignty has compelled businesses to assume social responsiveness to them. Firms that assume social responsibilities may incur losses in the short run, but fulfilling social obligations is beneficial to the firms' long-term survival. Short-term costs are thus investments for long-term profitability.

♦ Employee rights, consumer focus, and social responsibility

♦ Favourable for business

The fulfilment of social obligations by business will be beneficial not only to society but also to the business itself. The firm that is more responsive to improving community quality of life will



♦ Mutual benefits

have a better community in which to conduct business. People with a healthy environment, good health, and an education will make good customers and employees. High-quality labour will be recruited. Turnover and absenteeism will be reduced. A business that does not care about social welfare may be rejected by society. The crime rate will also fall as a result of social improvements.

♦ Reciprocal relationship: Business and society

Society benefits business units. In exchange, it owes certain societal obligations. Business makes use of a vast pool of resources, including men, talents, expertise, and money. With the help of these resources, business can work toward social goals. Furthermore, corporations, unlike citizens, are created by society and thus have civic duties and responsibilities.

♦ Self-satisfaction

♦ Self-enlightenment

With an increase in the level of education and understanding among businesses that they are the creations of society; they are motivated to work for the common good. Managers shape public expectations by voluntarily setting and adhering to moral and social responsibility standards.

They ensure that taxes are paid to the government, that dividends are distributed to shareholders, that workers are paid fairly, that consumers receive high-quality goods, and so on. Firms assume social responsibility on their own, rather than as a result of legislative intervention.

♦ Enhancing reputation through social responsibility

♦ Public image

Only that firm can enjoy a better public reputation, which supports social goals. Each company strives to improve its public image in order to gain more customers, better employees, more responsive money markets, and so on. It is only possible if a business takes its social responsibilities seriously, which will increase the value of the owners' shares and debentures.

♦ Internal policy goals

3.2.4 Ackerman Model

For many years, businesses believed that their sole responsibility was to maximise shareholder value. Corporate social responsibility (CSR) is a new concept in which the business sector incorporates social and environmental concerns into its strategies and takes on a more responsible role in the world. In 1976, Robert Ackerman and Robert Bauer created a model. The model has placed an emphasis on internal policy goals and their relationship



to CSR. This model depicts four critical stages that must be completed before the social performance audit stage can be evaluated. The four stages of CSR are briefly described below:

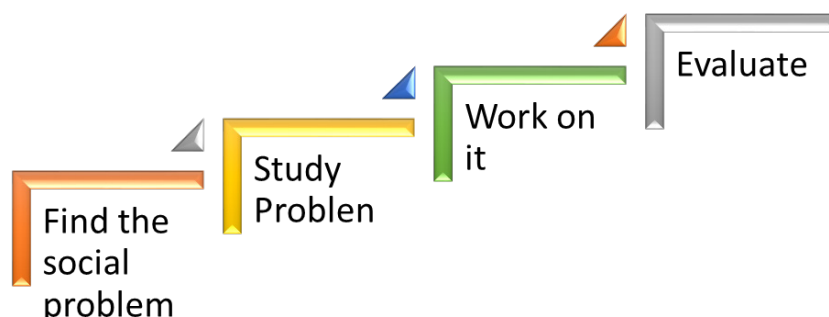


Figure 3.2.1 Stages of Ackerman Model

The **first stage** is marked by the selection of the project to be used for social delivery. It develops project strategies as well. The company's top executives learn about the most common social problems and then express a willingness to take on a specific project that will solve some social problems. The social problem is perceived as a weak signal. At this stage, the challenges that must be addressed include identifying the social issue, assessing its relevance, and determining the level of political support it can garner in society. The nature and scope of the problem remain unknown. At this point, the stakeholders are not well organised.

- ◆ Selection of the project

The **second stage** is devoted to a thorough examination of the problem by hiring experts and soliciting their advice on how to make it operational. The company has not declared the project's adoption at this time. It is kept private. The intention to take on the project is only known within the firm. The issue is emerging and unresolved during Stage 2, but its importance among the general public grows. The primary issues that must be addressed at this point are how to identify and resolve the problem, who the stakeholders with vested interests are, what new competencies must be developed, and how corporate can be made to respond. Stakeholders have become more organised.

- ◆ Examination of the problem

The **third Stage** is critical for the project because it not only becomes public but is also implemented. However, until the company is advised by a public body, work on the social project moves slowly at first (government). Ackerman advises managers to engage in the project actively and work hard early on so that managerial discretion can play its proper role throughout the du-

- ◆ Implimentation stage



ration of the social project. The problem has been characterised and solutions have been identified in Stage three. The company is in a position to assess the issue's economic impact. New norms or laws have been enacted; institutionalising stakeholder demands. As a result, socially responsible corporate behaviour has been established.

♦ Evaluation stage

The **fourth stage** is the evaluation stage. The needs of society are considered minutely at this stage, and problems and issues are addressed.

In the Ackerman model, various types of learning strategies for project completion are explicitly recognised. There is specialised learning, administrative learning, organisational commitment to and institutionalisation of the project philosophy, as well as a systematic evaluation of the firm's social responsibility performance.

3.2.5 Strategies in the adoption of CSR

There are basically six strategies in the adoption of CSR:



Figure 3.2.2 Ackerman Model of CSR Strategy

♦ Rejection strategy

- ♦ First, the company expresses reluctance to engage in any social work or project (rejection strategy).

♦ Adversary strategy

- ♦ Second, the firm vehemently opposes any CSR-based project unless and until external pressure is applied. This is known as adversary strategy.

♦ Resistance strategy

- ♦ Third, in the case of a resistance strategy, the firm works slowly and attempts to demonstrate that it is unable to carry out corporate social responsibility due to a lack of certain factors. However, if the government applies pressure, the firm will yield and accept the project.

- ♦ Fourth, once the CSR is accepted, the firm implements the compliance strategy and works to complete the project.
- ♦ The fifth strategy is one of accommodation. This strategy enables the firm to accommodate shareholder or government agency requests to work in specific ways to fulfil CSR.
- ♦ The sixth strategy is one of proactive strategy. Proactive Corporate Social Responsibility refers to voluntary business practises adopted by firms to actively support sustainable economic, social, and environmental development, and thus contribute broadly and positively to society.

♦ Compliance strategy

♦ Accommodation strategy

♦ Proactive strategy

3.2.6 Corporate Social Reporting

The practice of businesses sharing information about their environmental, social, and governance (ESG) performance and impacts is referred to as corporate social reporting, also known as corporate social responsibility reporting or sustainability reporting. It entails documenting and sharing an organisation's initiatives, accomplishments, and reporting in areas including corporate governance, social impact, employee wellbeing, and environmental stewardship. Companies can use corporate social reporting to show transparency and accountability to all of its stakeholders, including shareholders, consumers, employees, communities, and regulatory agencies. Stakeholders can evaluate a company's performance in terms of sustainability and its overall impact on the environment and society.

♦ Disclosure of business activity

Key features of corporate social reporting may include:

- **Environmental reporting:** This includes information about a company's environmental impacts, such as greenhouse gas emissions, energy consumption, waste generation, water usage, and initiatives to mitigate these impacts.

♦ Reports environmental impacts

- **Social reporting:** This covers a company's social initiatives, including employee welfare programs, diversity and inclusion efforts, labour practices, human rights, community development projects, philanthropy, and engagement with local communities.

♦ Reports social initiatives

- **Governance reporting:** This involves disclosing information about a company's governance practices, board structure, executive compensation, risk management processes, and adherence to ethical standards and legal compliance.

♦ Transparency

- **Key Performance Indicators (KPIs):** Companies often report on specific metrics and KPIs that measure their progress



BLOCK - 3

- ◆ Sustainability metrics

- ◆ External verification



- ◆ Framework for sustainability reporting



- ◆ Balancing the interests of stakeholders

1

- ◆ Performance measurement and corporate disclosure

1

3.2.7 Importance of Corporate Social Reporting

The importance of corporate social reporting lies in several key aspects:

◆ Transparency and accountability

- ◆ Environmental Social Governance transparency

1

♦ Stakeholder engagement and trust

Reporting on social and environmental performance fosters meaningful engagement with stakeholders. It allows them to understand a company's values, commitments, and progress in areas such as environmental sustainability, human rights, labour practices, and community development. This engagement builds trust and credibility, as stakeholders can evaluate a company's impact and alignment with their own values.

♦ Builds trust and credibility

♦ Risk management

Corporate social reporting helps companies identify and manage ESG risks. By reporting on their ESG practices and performance, companies can better understand potential risks and take proactive measures to mitigate them. For instance, reporting on greenhouse gas emissions can help identify energy inefficiencies and develop strategies to reduce carbon footprints.

♦ ESG risk identification

♦ Competitive advantage

Companies that prioritize CSR reporting can gain a competitive edge. In today's business landscape, consumers, investors, and employees increasingly consider a company's social and environmental performance when making decisions. By effectively communicating their CSR initiatives, companies can attract conscious consumers, differentiate themselves from competitors, and attract socially responsible investors and talent.

♦ Distinctive edge

♦ Sustainable development goals

Corporate social reporting aligns with the United Nations Sustainable Development Goals (SDGs). The SDGs provide a globally recognized framework for addressing the world's most pressing social and environmental challenges. Reporting on progress towards the SDGs helps companies contribute to these goals and demonstrate their commitment to sustainable development.

♦ Address social and environmental challenges

♦ Regulatory compliance

In many jurisdictions, there is a growing trend towards mandatory CSR reporting or integrated reporting frameworks that require companies to disclose their ESG performance. By embracing corporate social reporting voluntarily, companies can proactively adapt to changing regulations and avoid potential legal and reputational risks associated with non-compliance.

♦ Compliance mandates



♦ Sustainable impact

Corporate social reporting plays a crucial role in promoting sustainable business practices, fostering stakeholder trust, and driving positive social and environmental change. By integrating ESG considerations into their reporting, companies can demonstrate their commitment to responsible and ethical business conduct, contributing to long-term value creation for both their shareholders and society as a whole.

Summarised Overview

Corporate Social Responsibility (CSR) is the voluntary integration of social and environmental concerns into business operations, aiming to positively impact society and the environment beyond legal compliance. Corporate Social Reporting involves communicating CSR initiatives and performance to stakeholders through various channels, fostering transparency, accountability, and informed decision-making. Both CSR and Corporate Social Reporting play crucial roles in modern business, promoting ethical practices, sustainability, and social consciousness for a more responsible and sustainable future.

Self-assessment Questions

1. What is Corporate Social Responsibility
2. What are the objectives of CSR?
3. What is Ackerman Model of CSR
4. What is the rejection strategy of Ackerman Model of CSR
5. Explain the Compliance strategy of Ackerman Model of CSR
6. Write a note on sustainability
7. Explain the best practices of CSR
8. Discuss CSR in Indian Perspective

Assignments

1. Explain the different stages of the Ackerman Model of CSR.
2. Evaluate the strategies involved in the Ackerman Model of CSR.
3. Evaluate the common CSR practises followed by reputed Indian companies.
4. Identify the CSR practices implemented in your environment and validate them.
5. Explain the impacts of CSR on stakeholders.
6. How does the firm gain from CSR activities?
7. Explain the legal compliance of CSR in India.
8. List the CSR initiatives of pharmaceutical companies operating in India.
9. Do CSR practices of companies directly involve scholarships for students? If yes, list these companies and identify the beneficiary groups.

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



04 BLOCK

Knowledge Management

Block Content

Unit 1 Knowledge Management

Unit 2 Corporate Excellence



Unit 1

Knowledge Management

Learning Outcomes

Upon finishing this unit, the learner will achieve the following objectives:

- ◆ get an idea about the concept and objectives of knowledge management
- ◆ identify the importance of knowledge management
- ◆ familiarise the term knowledge workers
- ◆ recognise corporate image and its importance

Background

Throughout human history, one central topic has sparked intense discussions and captured the interest of great philosophers like Confucius, Plato, and Aristotle. This topic is the concept of knowledge, which is not clearly defined and has various interpretations. An important question related to knowledge is what it means to truly know something. Should we just accept uncertainty and make decisions based on our best judgment? No, to influence others, we must make informed decisions based on reason and knowledge. However, there are only theories and opinions about this, with no one definitive answer. As a result, researchers and businesses are now exploring innovative management systems to handle and modify knowledge effectively. These knowledge management systems aim to efficiently manage practical knowledge. However, there are challenges in using human-oriented knowledge representation models to design and implement these systems, as many knowledge models primarily focus on people and their experiences. This unit will cover the definition, idea, goals, and significance of knowledge management.

Keywords

Knowledge, Management, Knowledge workers, Corporate image

4.1.1 Meaning of Knowledge Management

The term “knowledge management” as a concept started to appear only in the late 1990s. Knowledge Management (KM) is a deliberate, systematic business optimization strategy that selects, distils, stores, organizes, packages and communicates information essential to the business of the company in a manner that improves employee performance and corporate competitiveness. Successful knowledge management includes maintaining information in a place where it is easy to access. It is a management technology that helps to gather, organize and share information across different levels of the organisation and also with its customers. The most important aim of knowledge management is not only to collect information but also to store the same effect so as to use it for the benefit of the organisation, its employees, and its customers.

♦ Sharing of knowledge

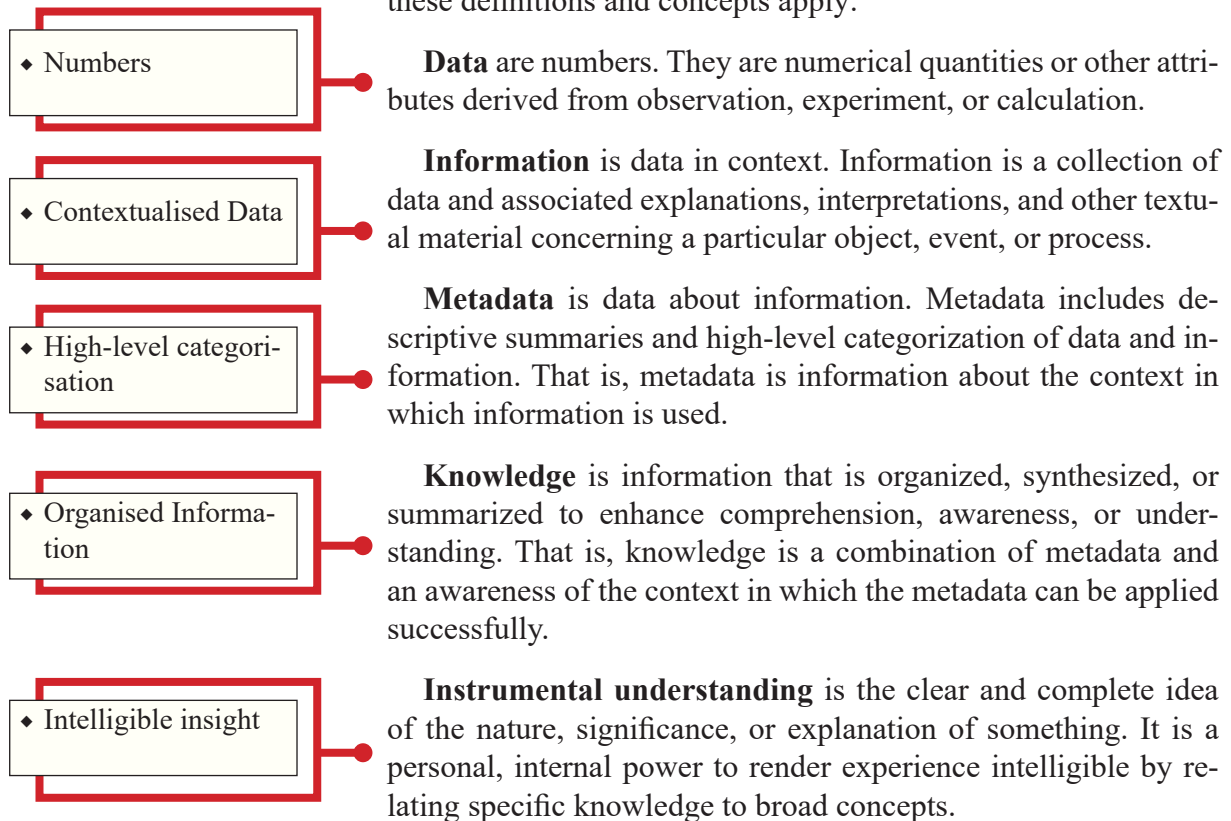
Knowledge management is a company optimisation tactic that is not dependent on any one technology or information source. Because they save time and effort compared to manual processes, a wide range of information technologies typically play a significant role in KM initiatives. Knowledge Management is agnostic when it comes to the type and source of information, which can range from the mathematical description of the inner workings of a machine to a document that describes the process used by a customer support representative to escalate customer complaints within the business organisation. Take the legal firm as an example, where the senior partners produce textual templates (the information) to make the creation of particular papers easier. Such a business has a knowledge management system that can significantly boost output. The simplicity of drafting a new legal document may increase by many orders of magnitude if the templates were transferred to a word processing programme. Another illustration is a small business owner who switches from using bound notebooks for bookkeeping to using a computerised system. In contrast to the paper-based system, the electronic system may display income related to the same period last year and the percentage of revenue spent on advertising at a glance using sim-

♦ Time saving



ple business graphics.

Given the range of business activities that can be considered examples of Knowledge Management, one of the most confusing aspects of the practice is clarifying exactly what constitutes knowledge, information, and data. Although the academic community has spent decades debating the issue, for our purposes, these definitions and concepts apply:



The concept defining knowledge are related hierarchically, with data at bottom of the hierarchy and understanding at the top.

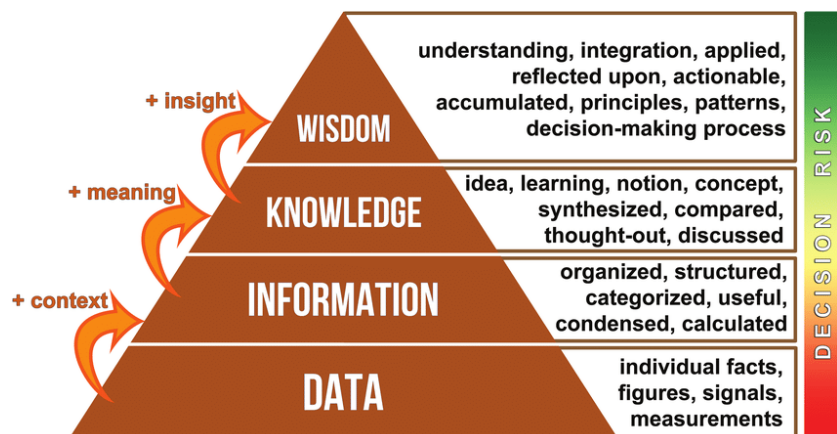


Fig. 4.1.1 Knowledge Management Process

Knowledge management refers to an integrated system for accumulation, integration, manipulation, and access of data across people and systems in and out of the organisation. This is a way that the company uses to actively collect, store and organize internal and external information. This is a management discipline that ensures the intellectual capabilities of that organisation are shared, maintained, and effectively managed.

♦ Wise use of knowledge

4.1.2 Importance of Knowledge Management

You are familiar with the product (photocopier) and the company (Xerox Corporation). The 100-year-old company sells high-quality print and digital document products all over the globe covering more than 160 countries. Xerox faced a tremendous problem of knowledge management in its organisation. The communication gap between service engineers was very prominent so it was difficult to fix equipment repairs for customers. Though the company had effective solutions to equipment issues, these solutions were not shared among its strong customer service team of more than 24,000 in number! This issue has been solved by Xerox with the implementation of Eureka – a professionally designed knowledge management solution where service engineers could document their solutions with their names which increased reputation among colleagues and boosts participation from service engineers. It also saved \$40,000 in one jump for Xerox.

♦ Knowledge management success

The case study given here will guide you to the importance of knowledge management solutions to organisations. Here are the key indicators which list the importance of the KM system:

♦ Accelerate access to information and knowledge

According to Law Platt, CEO – Hewlett Packard, “If HP knew what HP knows, we would be three times more productive”. The statement indicates an effective knowledge management solution will help to find information or the people who hold the information to increase efficiency and productivity to work better.

♦ Productivity

♦ Improves decision making process

Decision making will undoubtedly be effective if one takes it with sufficient reliable information. It improves the quality, speed, and accuracy of decision making. Knowledge management platforms will allow collaborations and facilitate discussions so as to get access to the experiences of different people and such expertise will open various perspectives and possibilities of the

♦ Enhanced decision making



current decisions that the organisation takes.

◆ **Promote innovation and sharing of ideas**

◆ Promoting idea generation

Enabling discussions and collaboration will generate newer ideas to meet changing business requirements. If there is an effective KM solution in place, it will promote deliberations with experts and clearing of apprehensions.

◆ **Improve overall efficiency of the organisation**

◆ KM and Performance

A study conducted by McKinsey & Co in 2011, covering more than 4,200 employees across various sectors, found that the use of social collaboration systems and KM systems will improve the efficiency of communication and boost the overall performance of the organisation.

◆ **Increase customer satisfaction**

◆ KM and customer satisfaction

The ultimate success of every organisation depends on the satisfaction of customers. A study by Gartner (2014) says an effective KM operation will drastically reduce the time that the provider requires to settle the query by 20-80 percent by reducing the cost of Customer Relations Management (CRM) activities by 25%. Technology plays a very important role in it.

4.1.3 Objectives of Knowledge Management

The basic premise of this knowledge management system is to share perspectives, opinions, ideas, experience, expertise, and information required so as to avail this information to the right people, in the right place at the right time. Knowledge management system in any organisation works with the following objectives:

- ◆ To gather, store, analyse, share, use, and maintain information and knowledge throughout the organisation.
- ◆ To provide access to data, information, and knowledge for each stakeholder of the organisation for the appropriate usage.
- ◆ To make the communication line between different levels of management stronger and thicker so as to avoid a gap in communication and resultant confusion.
- ◆ To improve the quality and accuracy of decision making made at different layers of management.



- ♦ To provide more efficient and improved quality of services and reduce the cost of the services extended.
- ♦ To have a common understanding of the values of the organisation by each stakeholder and the ways in which it has been realised by the organisation.
- ♦ To reduce the cost of “reinventing the wheel”. An effective communication system will help to reduce the mistakes and cost of rediscovering. It can be summarized with the figure given below:

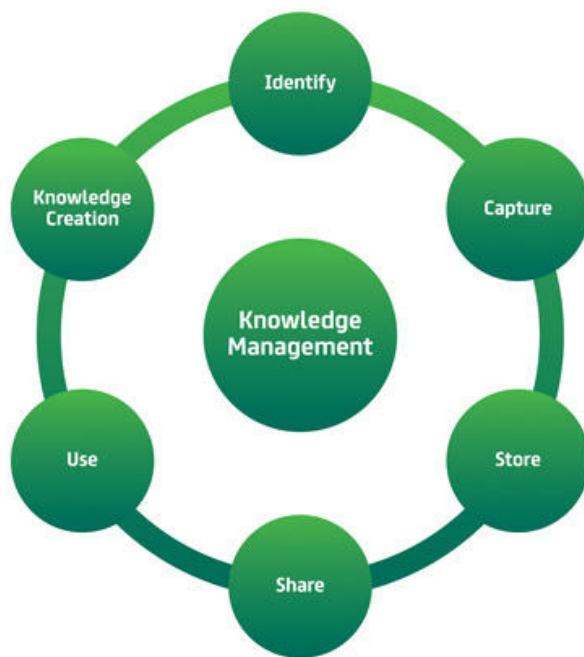


Fig. 4.1.2 Knowledge Management

4.1.4 Knowledge Workers

The term ‘Knowledge Worker’ was first coined by Peter F. Drucker in 1959 in his book ‘Landmark of Tomorrow’. He defined knowledge workers as “high-level workers who apply theoretical and analytical knowledge acquired through formal training to develop products and services”. A knowledge worker is a professional who has experience and expertise in the field with proper education and training. They use their thinking and designing capabilities to provide proper direction to the employees and other stakeholders. They are different from other workers because of their ability to solve complex business problems. Also, they differ from information workers, task workers, and skilled workers as they use their expertise to strategize work activities and plan of action for effective implementation in the future. The other work-

♦ Intelligent workers



ers will work under the knowledge workers to apply information, complete specific tasks assigned to them, or finish a task.

For example, take the case of a garden designer (knowledge worker). He would make a plan about pricing, labour, creative design layout, and plant types matching the client's wish. At the same time, a horticulturist (information), gardeners (skilled), and laborers (task) work on manual work required to carry out the garden designer's creative design.

4.1.5 Importance of Knowledge Workers

A knowledge worker transforms corporate and personal experiences into knowledge by capturing, assessing, applying, sharing, and disseminating it within the organisation to solve specific business problems or create more value. In the era of the Knowledge age, a company's wealth is based on the ability to gather sufficient information and use that knowledge accurately to gain corporate excellence.

The following points summarise the importance of knowledge workers in an organisation.

◆ Knowledge worker in the knowledge age

◆ Most valuable asset

The knowledge workers are becoming the largest group in the workforce as they are the creators of the future of the company. They are considered to be the most valuable asset of the company.

◆ Valuable knowledge workers

◆ Increases productivity of the organisation

According to Peter F. Drucker, "the challenge of the developed countries is no longer to make the manual work to be productive, it will be to make knowledge workers to be productive". The overall productivity of the organisation depends on the productivity of the knowledge workforce.

◆ Productivity of knowledge workers

◆ Manages an organisation's information assets

The primary moto of knowledge management is to capture, store and retrieve the necessary information for the people within an organisation.

◆ Capture, Store, Retrieve

◆ Improves efficiency of the workforce

By enabling fast and transparent communication, knowledge workers will help to improve efficiency and it removes barriers to communication among workers.

◆ Efficiency through transparent communication

♦ Reduces wastage of time

It is important to keep the workforce informed about all the latest information and updates of the business world. It is equally important to eliminate unnecessary and irrelevant information overload which may affect the productivity of the employee badly.

♦ Balancing information flow

4.1.6 Types of Knowledge Workers

It is true that all types of the job require some or the other skill sets. However, there are certain kinds of jobs that depend heavily on knowledge to complete job responsibilities. Some examples of such knowledge workers are IT professionals, medical practitioners, lawyers, accountants, financial consultants, teachers, etc.

♦ Knowledge-intensive professions

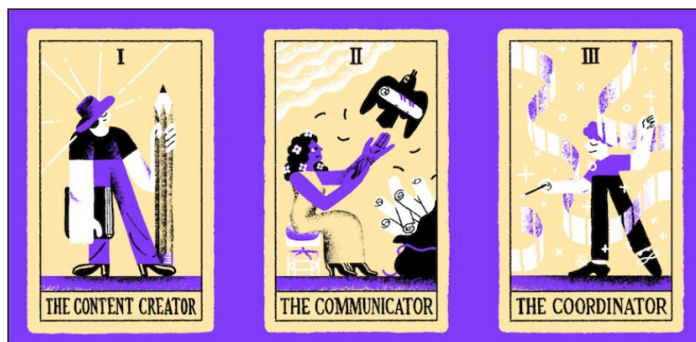


Fig. 4.1.3 Types of knowledge workers

- a. **Content creator:** They focus on value to customers than any other thing. They will produce their best output in an environment without interruptions. Content creators include writers, designers, programmers, advertisement creators, etc.
- b. **Communicators:** They believe in the communication of things that are happening around them in real-time. They mostly prefer to communicate through meetings and conferences. They expect people to respond immediately.
- c. **Coordinators:** They strive hard to interconnect between departments, people, and systems. These categories of knowledge workers will help to collaborate, have diverse teams, and come together.

♦ Value-oriented content creators

♦ Real-time communicators

♦ Interconnectors and collaborators

4.1.7 Functions of Knowledge Workers

Major functions of knowledge workers include:

- ♦ Identification of relevant information from a large data pool



of information by eliminating less useful information

- ◆ Sharing factual and useful information to the workforce in an organisation
- ◆ Communicating between co-workers, subordinates, customers, etc. in a meaningful manner and getting the thing done.
- ◆ Motivating workers to grow continuously by keeping them up with technical and technological advancements
- ◆ Thinking outside the box and innovating unorthodox perspectives for the growth of the organisation.

4.1.8 Corporate Image

- ◆ Collective mental picture

Corporate image is how a business is perceived by outsiders. Corporate image, also known as corporate reputation or corporate identity, refers to the perception, impression, and overall impression that the public, stakeholders, customers, employees, and the general public have about a company or organization. It is the collective mental picture people form when they think about the company, based on their interactions, experiences, and the information they have received about it.

- ◆ Factors influencing corporate image

A positive corporate image is crucial for any business, as it can influence consumer trust, brand loyalty, investor confidence, and employee morale. It is shaped by various factors, including the company's products and services, customer service, public relations, marketing efforts, social responsibility initiatives, and overall business practices.

- ◆ Positive and negative corporate image

Companies work hard to build and maintain a favourable corporate image through effective branding, consistent messaging, transparent communication, high-quality products or services, and responsible business practices. It is the product of a company's performance and activities. The image of the company is not static and it keeps on changing according to the performance of the company. Good corporate governance and business ethics play a major role in creating a good name and a bright image for the company. A positive corporate image can enhance a company's competitive advantage, attract and retain customers, and strengthen its position in the market. Conversely, a negative corporate image can lead to reputational damage, loss of trust, and potential negative impacts on the company's bottom line.



4.1.8.1 Importance of Corporate Image

It is a difficult task to build a positive image in the minds of the people by any company. It requires the company to work relentlessly to deliver quality products, services, employee treatments, and customer relationship management. It is a 360-degree angled strategy. Once the image is ruined, it is difficult to get it back. Hence, it plays an important role in all areas of management like marketing, finance, human resource or any other functional areas.

◆ Reputation building importance

The main reasons why the corporate image is considered to be important are given below:

- **Improve the customer base** by providing quality products/services and managing good customer relationships. A good corporate image will increase the customer loyalty.
- **Striving in the era of cutthroat competition** requires goodwill among the customers and other stakeholders. The competitors are also equally strong with almost the same market share.
- **Influence good actions of the employees** is a side benefit of good corporate image. A company with a strong customer reputation and core values will definitely reflect in the dealings and actions of the employee.
- **Strengthen the business image of the company** by repeatedly providing quality products at a reasonable price. This will automatically improve the sales figure and customer base.
- **Enhanced product performance of the company** by keeping and up keeping the values of production and marketing.

4.1.9 Building Corporate Image

A company's corporate image, also known as reputation, refers to how customers and other stakeholders view the business, its operations, and its goods and services. Many companies actively attempt to develop and express a positive image to their clients, shareholders, the financial community, and the general public in a competitive business environment. A business that neglects or poorly maintains its image is likely to experience a number of issues. A business analyst claims that reputation issues "grow like weeds in the garden," and that "direct and indirect costs escalate geometrically."

◆ Recognition



◆ Future orientation

High employee turnover, the loss of key clients, a decline in stock value, and strained relations with suppliers or government representatives are some of the warning indicators that a company may have an image issue. A corporation may notice that many of its operating expenses, such as those for product development, sales assistance, staff compensation, and shareholder dividends, are rising sharply if an image issue is not addressed. Additionally, given the majority of consumers rely at least partially on trust when making purchases, it's likely that both present and future sales levels will suffer.

◆ Long term benefit

It is crucial that managers in companies of all sizes understand the value of building and sustaining a great reputation and that they also inform staff members of this fact. Corporate image starts in the management offices of a corporation. Instead of focusing on repairing the harm caused by poor company policies, it should be built on the creation of good company policies. Business owners and managers are advised to focus on the company's long-term reputation, base activities on fundamental policies, demand candour in all business dealings, and respect stakeholders' right to know in order to improve the company's image. After all, a positive business image can be built over many years and destroyed in a matter of seconds.

Building a strong corporate image is a comprehensive and on-going process that involves various strategies and actions.

Here are some key steps to help you build a strong corporate image:

◆ Mission, Values, and USP Clarity

◆ **Define your brand identity**

Clearly define your company's mission, values, and unique selling proposition (USP). Your brand identity should reflect what your company stands for and what makes it different from competitors.

◆ Consistent messaging across channels

◆ **Consistent messaging**

Ensure that your messaging is consistent across all communication channels, including your website, social media, marketing materials, and customer interactions. Consistency builds trust and reinforces your brand image.

◆ Corporate image

◆ **Quality Products and Services**

Deliver high-quality products and services that meet or exceed customer expectations. Positive customer experiences are crucial



for building a strong corporate image.

♦ Customer focus

Place a strong emphasis on customer satisfaction. Listen to customer feedback, address their concerns promptly, and make improvements based on their needs.

♦ Customer-centric focus

♦ Responsible business practices

Demonstrate corporate social responsibility by integrating sustainable and ethical practices into your business operations. Show commitment to environmental and social issues that align with your brand values.

♦ Corporate Social Responsibility (CSR) integration

♦ Engage with stakeholders

Engage with various stakeholders, including customers, employees, investors, and the community. Transparent communication and involvement foster trust and a positive perception of your company.

♦ Stakeholder engagement for trust

♦ Thought leadership

Position your company as a thought leader in your industry. Share valuable insights, expertise, and knowledge through content marketing, blogs, and speaking engagements.

♦ Thought leadership in industry

♦ Corporate culture

Foster a positive and inclusive corporate culture that values employees, promotes innovation, and encourages collaboration. A happy and motivated workforce reflects positively on your corporate image.

♦ Positive and inclusive corporate culture

♦ Engage with the community

Get involved in community initiatives, sponsor events, and support social causes that align with your company's values. Active community engagement enhances your reputation.

♦ Community engagement for reputation

♦ Monitor and adapt

Continuously monitor your corporate image through feedback, surveys, and online reputation management tools. Be prepared to adapt and make improvements based on feedback and changing market conditions.

♦ Continuous monitoring and adaptation



Summarised Overview

Knowledge management and corporate image are interconnected aspects of a successful organization. Knowledge management involves effectively harnessing the collective expertise and intellectual assets of the company, which, in turn, contributes to shaping the corporate image. When a company implements efficient knowledge management practices, it can improve its products, services, and overall business operations, leading to positive customer experiences and a stronger corporate image. A positive corporate image, built on customer trust and loyalty, can also attract and retain talented employees who contribute to knowledge creation and sharing. Therefore, a strong corporate image reinforces the importance of knowledge management in fostering innovation, competitiveness, and sustainable growth within the organization. The two concepts complement each other, creating a virtuous cycle where knowledge management enhances the corporate image, and a positive corporate image, in turn, supports effective knowledge management.

Self-assessment Questions

1. What do you mean by knowledge management?
2. How is knowledge management different from information management?
3. What are the types of knowledge workers?
4. Explain the knowledge management functions.
5. Is it easy to build a corporate image for a company?
6. Describe the concept corporate image?
7. What is the importance of corporate image? Do this necessary for a business?

Assignments

1. Write a short note on the knowledge-intensive situations that are important for the success of organisations?
2. Explain the term corporate image. Evaluate the importance of corporate image?
3. Assess the factors determining corporate image?

4. How does knowledge management benefit the organization?
5. Write a note on the factors determining knowledge management?
6. How do you build a corporate image?
7. Explain the importance of knowledge workers in an organization?

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.





Learning Outcomes

Upon finishing this unit, the learner will achieve the following objectives:

- ♦ gain an understanding of the concept of corporate excellence
- ♦ know the importance of corporate excellence
- ♦ identify the role of the board of director and his qualifications, powers, duties, and responsibilities
- ♦ get an idea about Board Committees

Background

Organisations have gone through many changes. They have reinvented themselves to meet the changing needs of their customers, the external influences, and the cost pressures over which they have limited control. With the changes required as a result of the housing transfer, there is an opportunity to refresh and invigorate what they are about as an organisation and work towards aspirational goals that will make us proud of what we achieve. In “Shaping Up for Excellence,” this effort outlines a strategy for organisations to continue their journey of improvement. It can be argued that the fine words in this paper, by themselves, do not improve anything. The key to change is in the culture of the organisation: how they deliver services to their customers and the improvements that will come from ensuring the skills, experience, motivation, and tools to deliver excellent service are developed and available. The purpose of this document is to set a corporate framework and improvement plan for how we can “shape up” collectively and achieve our goal of excellence in all aspects of our approach and delivery. Shaping Up for Excellence: The organisation becomes a leader in all aspects of our business and tries to gain a reputation for delivering excellence. To achieve excellence, the organisation needs to ensure focus, clarity, capacity, and capability. We begin with a solid foundation—our Core Values: 9 Perform well and get things done.

Keywords

Corporate Excellence, Board of director, Board Committee



4.2.1 Meaning of Corporate Excellence

♦ Excellent performances

Corporate Excellence is the ability of the company to outperform other competitive companies in the same field consistently over a period of time. Corporate excellence is often described as outstanding practices in managing the organisation and achieving results, all based on a set of fundamental concepts and values. The essence is to be better and have a competitive advantage over others in the industry. Companies need to shift from physical technology to information technology, from material growth to sustainable development from a hierarchical pattern to a decentralized organisation, and from conflict to a cooperative working relationship. Corporate excellence is the combination of people, system, product, and marketing excellence. Out of these, people excellence is important because it has a direct bearing on the system, product, and marketing.

The ten P's which are required for corporate excellence are as follows:

- ♦ **Purpose:** Purpose basically is the goal, vision and business aim of the organisation.
- ♦ **Perspective:** It is the direction – a mental view of the relative importance of things.
- ♦ **Positioning:** The image of the company and its products in the market.
- ♦ **Politics:** Judicious and expedient behaviour of people in the organisation.
- ♦ **Partnership:** A joint business, within or outside organisation.
- ♦ **Plans:** Proper plans of action, translated to business policies.
- ♦ **Product:** The product should be innovative, qualitative and cost effective.
- ♦ **Principles:** Set of values, culture and philosophy.
- ♦ **People:** Challenging, ethical, Committed, high performance, self-driven.
- ♦ **Performance:** Output of the organisation, results in terms of both quantity and quality.

4.2.2 Importance of Corporate Excellence

Successful organisations are different from excellent organisations because success is just one element of excellence. But corporate excellence is multi-dimensional. The following points will indicate the importance of corporate excellence.

- ◆ Corporate excellence will enable enhanced innovation and idea generation.
- ◆ It will help in increased customer satisfaction,
- ◆ It aids in organisational growth (employees),
- ◆ It results in increased employee satisfaction and involvement,
- ◆ It is helpful to get improved efficiency and effectiveness, and
- ◆ It will improve product reliability

4.2.3 Achieving Excellence in the Corporate Workplace

The corporates are striving to achieve excellence in all fields of business in order to compete with their competitors, deliver good quality products, and transfer value. The following are the steps by which a corporate can attain excellence in its field:

- ◆ Identify and communicate the organisation's vision
- ◆ Understand the organisation's purpose
- ◆ Recognise newer developments in the field and train people accordingly
- ◆ Generate collaborative teams
- ◆ Accept changes and challenges
- ◆ Encourage employees to attain mastery of their roles
- ◆ Instil a pioneer mental state

4.2.4 Board of Directors and Corporate Excellence

There is an increasing awareness that corporates owe their



◆ Voluntary action

existence to the shareholders and the long-term sustainability of companies depends on winning their confidence through disclosures and transparency in the operations and accountability for their actions. This is achieved through voluntary actions on the part of the board of directors and through a regulatory framework such as stock exchanges, securities and exchange boards, and other regulatory bodies.

◆ Board of directors' impact

The Board of Directors plays a crucial role in ensuring corporate excellence and the overall success of a company. Their responsibilities extend beyond governance and compliance, as they are instrumental in shaping the company's strategy, fostering a culture of excellence, and driving long-term sustainable growth.

Here are some key roles the Board of Directors plays in achieving corporate excellence:

◆ Strategic Vision and Direction

◆ **Strategy and vision setting**

The Board is responsible for setting the company's long-term vision and strategic direction. They work closely with the executive team to define objectives and ensure that the company is on the right path to achieve its goals.

◆ Ethical governance and compliance oversight

◆ **Governance and oversight**

The Board oversees the company's management and ensures that the business is conducted ethically, responsibly, and in compliance with relevant laws and regulations. They approve major decisions, monitor performance, and mitigate risks.

◆ Leadership Team Appointment

◆ **Executive leadership and CEO selection**

The Board appoints the CEO and other senior executives, ensuring that the leadership team has the necessary skills and experience to lead the company towards excellence.

◆ Risk identification and management

◆ **Risk management**

The Board identifies and manages risks that could impact the company's performance and reputation. They implement risk management strategies to safeguard the company's assets and ensure its long-term viability.

◆ Performance evaluation and improvement

◆ **Performance evaluation**

The Board evaluates the company's performance, including financial results, operational efficiency, and adherence to strategic goals. Regular assessments help identify areas for improvement and drive continuous enhancement.



♦ Accountability and transparency

The Board is accountable to shareholders and stakeholders. They ensure transparency in financial reporting, communicate with stakeholders effectively, and promote open and honest communication.

♦ Accountability to stakeholders

♦ Culture and Corporate Social Responsibility (CSR)

The Board shapes the company's culture by fostering values such as integrity, diversity, and innovation. They also oversee the implementation of CSR initiatives to contribute positively to society and the environment.

♦ Culture shaping and CSR oversight

♦ Succession planning

The Board is responsible for succession planning, ensuring that the company has a pipeline of talented leaders who can take on critical roles when needed.

♦ Succession planning oversight

♦ Advisory role

Directors bring their diverse expertise and experience to the table, providing valuable insights and advice to the management team. They act as mentors and guides, supporting the company's growth and development.

♦ Directors as mentors and advisors

♦ Mergers and acquisitions

The Board may be involved in major decisions related to mergers, acquisitions, or divestitures, ensuring they align with the company's strategic objectives and create value for shareholders.

♦ Involvement in strategic decisions

4.2.5 Role of Directors

The board of directors has to shoulder a larger responsibility than the CEO, whose role is limited to being actively engaged with routine management functions. However, "there are many boards that overlook more than they oversee". This is more so in family-owned enterprises which are common in Asia and Latin America. In India, for instance, it is common to find family-owned concerns being run by promoters as their personal fiefdoms. Though their investments may be meagre, they manage the firms, holding positions of CEOs, managing directors, chairmen, and members of the board of directors. In such a setup, the board acts more like a rubber stamp, rather than shouldering large responsibilities. Some of the functions are as follows:

♦ Family owned enterprises



- ◆ Stakeholder-focused, not stock-price driven

- ◆ **Directors should exhibit a total commitment to the company**

An efficient and independent board should be conscious of protecting the interests of all stakeholders and not be concerned too much with the current price of the stock.

- ◆ Directors' role in setting priorities

- ◆ **Directors should steer discussions properly**

Another important function of the director is to set priorities and to ensure that these are acted upon. The directors should see that all important issues concerning the company's business are discussed and decisions are taken, and nothing trivial dominates and bogs them down. A good director rarely dominates or hijacks the discussion to his line of thinking, but steps in when the discussion needs to be directed or adds newer thoughts after letting others have their say.

- ◆ Directors' duty to disagree and challenge

- ◆ **Directors should make clear their stand on issues**

A director is also expected to have the courage of conviction to disagree. A good, responsible, and duty-bound director should be willing to register dissent, when and where needed. The management led by the CEO should know that they are being challenged, should be kept on alert, and should not take things for granted. Directors should be alert to any deteriorating situations in the functional areas of finance, stock market, sales, personnel, and especially those relating to moral issues.

- ◆ CEO recruitment and evaluation by directors

- ◆ **Directors' responsibility to ensure efficient CEOs**

Directors have a great responsibility in the matter of the employment and the dismissal of the CEO. The board as a whole should recruit the best CEO they can probably hire, based on antecedents and market reports, and evaluate objectively on a continuing basis his or her implementing effectively proactively government, help avoid big mistakes, strategies, and most importantly the best leadership is in place with the resources to lead".

- ◆ Challenges in approving acquisitions

- ◆ **Challenges posed by decisions on acquisitions**

One of the toughest challenges confronted by boards arises while approving acquisitions. It so happens in most cases that the board takes up the issue of acquisition only when the process has been set in motion and substantially gone through by the management. It will lead to terrible embarrassment both to the CEO and the board if the halfway-gone-through proposal has to be shelved. More of these none-too-worthy proposed acquisitions have to be accepted because of these predicaments.



♦ A board should anticipate business events

An efficient board should be able to anticipate business events that would spell success or lead to disaster if proper measures are not adopted in time. The directors should be alert to such ensuring situations and be ready with the strategy to meet them so that either way the company stands to gain.

♦ Anticipating business events for strategy development

4.2.6 Qualification of a Board of Director

To be appointed as a director of a company, public authorities prescribe some qualifications.

“No corporate, association, or firm can be appointed as director of a company.” A director must (i) be an individual; (ii) be competent to enter into a contract; and (iii) hold a share qualification, if so, required by the Articles of Association. As there are qualifications for being a director, there are some disqualifications too.

The following persons are disqualified for appointment as the director of a company: (i) A person of unsound mind; (ii) an undischarged insolvent or one whose petition for declaring himself so is pending in a court; (iii) a person who has been convicted by a Court for any offense involving moral turpitude; (IV) A person whose calls in respect of shares of the company are held for more than 6 months have been in arrears; and (v) a person who is disqualified for appointment as director by an order of the Court on grounds of fraud or misfeasance in relation to the company. And, of course, the directors can be removed by (i) the shareholders; (ii) the Central (Federal Government; and (iii) The Company Law Board.

♦ Disqualification

4.2.7 Powers of the Board

Under Section 292 of the Companies Act, it is stipulated that a company's board of directors shall exercise the following powers on behalf of the company by means of resolutions passed at the meeting of the board: (i) make calls on the shareholders in respect of money unpaid on their shares; (ii) issue debentures; (iii) borrow money otherwise (for example, through public deposits); (iv) invest the funds of the company; and (v) make loans.

Furthermore, there are certain other powers specified by the Companies Act under various sections that shall be exercised by the board of directors only at the meeting of the board. These powers include: (i) to fill vacancies in the board; (ii) to sanction or give assent for receiving the notice of disclosure of directors'

♦ Power



♦ Power in meeting

interest in any contract or arrangement with the company; (iv) to receive the notice of disclosure of shareholdings of directors; (v) to appoint as managing director or manager a person who is already holding such a post in another company; and (vi) to make investments in companies in the same group.

♦ Delegating power

Every resolution delegating the power to borrow money, other than debentures, shall specify the total amount outstanding at any time up to which money may be borrowed by the delegate. Likewise, every resolution delegating the power to invest the funds of the company shall specify (i) the total amount up to which the funds may be invested; and (ii) the nature of the investments which may be made by the delegate. So, every resolution delegating the power to make loans shall specify: (i) the total amount up to which loans may be made by the delegate; (ii) the purposes for which the loans may be made; and (iii) the maximum amount of loans which may be made for each such purpose in individual cases.

Key functions of the board of directors:

♦ Strategic oversight and guidance

- ♦ Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets, and business plans, setting performance objectives, monitoring implementation, and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.

♦ Governance oversight and executive leadership evaluation

- ♦ Monitoring the effectiveness of the listed entity's governance practices and making changes as needed. Selecting, compensating, monitoring, and, when necessary, replacing key managerial personnel and overseeing succession planning.

♦ Longer-term interests

- ♦ Aligning key managerial personnel and remuneration of the board of directors with the longer-term interests of the listed entity and its shareholders.

♦ Transparent nomination process for board diversity

- ♦ Ensuring a transparent nomination process for the board of directors with the diversity of thought, experience, knowledge, perspective, and gender in the board of directors.

♦ Conflict of interest management

- ♦ Monitoring and managing potential conflicts of interest of management, members of the board of directors, and shareholders, including misuse of corporate assets and abuse in related party transactions.

♦ Financial integrity and control oversight

- ♦ Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in partic-



ular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

- ♦ Overseeing the process of disclosure and communications.
- ♦ Monitoring and reviewing the board of directors' evaluation framework.

♦ Disclosure and communication oversight

♦ Board evaluation framework monitoring

4.2.8 Key Responsibilities of BODs

Directors are in a position of trust and are in charge of the affairs of the company. They may take advantage of their position in order to profit at the expense of their company, and thus the shareholders of the company. As a result, the law imposes a number of duties, burdens, and responsibilities on directors in order to prevent abuse. Much of company law can be viewed as a balancing act between allowing directors to profitably manage the company's business and preventing them from abusing this freedom. Directors are responsible for maintaining proper accounting records. The primary responsibilities of BODs are as follows:

♦ Directors' legal duties and responsibilities

- ♦ The directors must always use their powers for a 'proper purpose,' that is, to further the reason for which the shareholders gave them those powers.
- ♦ Directors must act in good faith in what they honestly believe is in the best interests of the company, not for any other reason. This means that, in the event of a conflict of interest between the interests of the company and their own.
- ♦ The directors must always favour the company.
- ♦ Directors must exercise due skill and care, and they must consider the interests of the company's employees.

Other responsibilities:

- a. The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management, and shall be accountable to the listed entity and the shareholders.
- b. The board of directors shall set a corporate culture and the values by which executives throughout a group shall behave. Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the share-



holders.

- c. The board of directors shall encourage continuing directors' training to ensure that the members of the board of directors are kept up to date.
- d. Where decisions of the board of directors may affect different shareholder groups the board of directors shall treat all shareholders fairly.
- e. The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.
- f. The board of directors shall exercise objective independent judgment on corporate affairs.
- g. The board of directors shall consider assigning a sufficient number of non-executive members of the board of directors capable of exercising independent judgment to tasks where there is a potential for conflict of interest.
- h. The board of directors shall ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the listed entity to excessive risk.
- i. The board of directors shall have the ability to 'step back to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures, and the key areas of the listed entity's focus.
- j. When committees of the board of directors are established, their mandate, composition, and working procedures shall be well-defined and disclosed by the board of directors.
- k. Members of the board of directors shall be able to commit themselves effectively to their responsibilities.
- l. In order to fulfil their responsibilities, members of the board of directors shall have access to accurate, relevant, and timely information.
- m. The board of directors and senior management shall facilitate the independent directors to perform their role effectively as a member of the board of directors and also a member of a committee of the board of directors.
- n.



4.2.9 Board Committees

The Board will constitute sub-committees to focus on specific areas and make informed decisions within the authority delegated to each of the Committees. Each Committee of the Board is guided by its charter, which defines the scope, powers, and composition of the Committee. All decisions and recommendations of the Committees are placed before the Board for information or approval.

- ◆ Sub-committees

The sub-committees are:

1. Audit Committee
2. Nomination and Remuneration Committee
3. Risk management Committee
4. Corporate Social Responsibility and ESG Committee
5. Stakeholders Relationship Committee

Almost all the committees on corporate governance at the global and national level has high-lighted the role and the importance of the board of directors and the board committees in this respect. Among the three aspects considered by the Cadbury Committee the first were the structure, the role and the responsibilities of board of directors, followed by the role of auditors and the responsibility of accounting profession and the rights and responsibilities of the shareholders in a company as investors. In this aspect the committee examined the issue of, board composition, board structure, role of independent directors, internal control system, board committee, Chairman's role. Secretary's role, training to the board of directors, etc., and made the following recommendations:

- ◆ Cadbury committee

- ◆ The board must compose of an optimum number of executive and non-executive directors. The executive directors must have good knowledge of business and the non-executive directors have a broader view about the activities of the company and the environment in which the company is working.
- ◆ The executive and non-executive directors must work together with one objective of maximising the shareholder's wealth.
- ◆ All board members will have equal responsibility in the actions of company board.



- ♦ The Non-executive directors will have additional responsibilities of reviewing the performance of the executive directors in addition to reviewing the performance of the board as such and must take a lead when potential conflict of interest arises.
- ♦ The chairman is primarily responsible for the working of the board and also in ensuring that all executive and non-executive directors are encouraged to play their full role.
- ♦ The Non-executive directors should bring an independent judgement on the issues of strategy formulation, performance resource use and fixing the standard of performance.
- ♦ There should be a formal selection process of the non-executive directors to ensure the independence of them through a nomination committee.
- ♦ The independent directors must be allowed to seek outside professional advice on issues related to the company at the company's cost, whatever necessary.
- ♦ Sufficient training must be given to the directors for improving their performance.
- ♦ The board should recognise the importance of the finance function by making it the designed responsibility of a non-executive director who should be a signatory of the annual report and accounts on the behalf of the boards.
- ♦ There must be a board committee such as audit committee, nomination committee, remuneration committees, etc., for the effective functioning of these activities.
- ♦ The audit committee should be formally constituted to ensure that they have a clear relationship with the boards to whom they are answerable and to whom they should report regularly. They should be given written terms of reference which deal adequately with their membership, authority and duties, and they should normally meet at least twice a year.
- ♦ The audit committee must have three independent directors only.
- ♦ The company secretary has a key role in ensuring that the board procedures are strictly followed.



- ◆ The remuneration of both the executive and the executive directors must be clearly disclosed in the annual report.
- ◆ The financial report should be presented in a balanced and understandable manner to the shareholders and should ensure the highest level of disclosure, the financial reporting council must develop a format for this purpose and all listed companies must follow it.
- ◆ The nomination committee should have a majority of non-executive directors on it and be chaired either by the Chairman or a non-executive director.

Summarised Overview

In the new era, the board of directors has to shoulder larger responsibilities to meet the increasing demand of the market place. Running a corporation only to earn profits for the shareholders is an old concept. In today's world, the corporate as a social entity, has to look beyond its shareholders, to embrace all stakeholders and to perform its ethical obligations to society through corporate governance practices. The need to have proactive, socially conscious and upright board of directors to guide and run corporations is keenly felt not only in the United States, Europe and Australia, but also in developing countries like India and South Korea. Several corporate bodies such as Tata Steel, Infosys Technologies, ICICI, Dr. Reddy's Labs and Orchid Chemicals not only project but also promote corporate governance practices all around them by their shining examples. The board of directors is expected to play a powerful role in such a metamorphosis the world is waiting to see happen.

Self-assessment Questions

1. Who is the board of directors?
2. What are the duties of a Board of Directors?
3. Explain the powers of a Board of Directors?
4. Write about the Board Committee.
5. What is corporate excellence?
6. What is the importance of corporate excellence?
7. What are the role Board of Directors on corporate excellence?



Assignments

1. Prepare a short note on the roles of the Board of Directors.
2. Explain the powers of the board of directors in detail.
3. Explain the functions of the board committees in connection with public sector organizations in Kerala.
4. How does an organization gain corporate excellence?
5. Write a note on the importance of corporate excellence?
6. Explain the qualifications and disqualifications of board directors.

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Suggested Readings

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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വിദ്യാൽ സ്വതന്ത്രരാകണം
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നീതിവൈജയന്തി പാറണം

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ബോധരശ്മിയിൽ തിളങ്ങുവാൻ
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