

Business Ethics and Corporate Governance

Block

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BUSINESS ETHICS

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Business Ethics and Corporate Governance

Course Introduction

With the growing strength of consumer movements and rising levels of awareness among stakeholders, corporations are realizing that stakeholders and consumers are no longer indifferent to unethical practices like financial irregularities, tax-evasion, poor quality products and services, kick-backs, non-compliance with environmental issues, and hazardous working conditions. Many Indian companies too have recognized the importance of integrity, transparency, and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains.

Today, investors want to ensure that the companies they invest in are not only managed properly, but also have proper corporate governance. They regard corporate governance as a control mechanism that ensures the optimum use of the human, physical, and financial resource of an enterprise. Companies have now begun to integrate ethics into their corporate culture and concentrate on putting appropriate corporate governance mechanisms in place.

The course, Ethics and Governance, discusses the theories of ethics and corporate governance. It also explains how these theories can be applied in business situations.

This edition has added a large number of contemporary examples and deleted old examples and exhibits.

Block 1

Business Ethics

The first block of the course on Ethics and Governance deals with the fundamental concepts in business ethics. The block contains five units. The first unit discusses the basic concepts involved in business ethics. The second focuses on the importance of ethics in business. The third and the fourth units discuss the concept of ethical organization and its corporate code, and ethics and the rule of law, respectively. The fifth unit discusses business ethics and environment.

The first unit, Business Ethics – An Overview, explains the concept of ethics, its nature, and its objectives, and discusses the concept and nature of business ethics. It discusses the relationship between business and ethics, and the various stages involved in the ethical consciousness in business. The unit ends with a discussion on the need for business ethics.

The second unit, Importance of Ethics in Business, explains the ethical theories, and discusses the market system, its components, and the impact of unethical behavior on the market system. The unit describes the importance of trust in business relations, and the impact of unethical behavior on trust in business relations. The unit ends with a discussion on the integrative social contract theory and its elements.

The third unit, The Ethical Organization and its Corporate Code, focuses on the definition of an ethical organization, and discusses how to judge whether an organization is ethical or not. The unit also discusses the concept and importance of the corporate code. The unit ends with a discussion on the ways to develop and implement a corporate code.

The fourth unit, Ethics and Rule of Law, talks about the relationship between law and moral standards. The unit discusses the processes involved in the formulation of laws. It ends with a discussion on the problems involved in transforming moral standards into legal requirements.

The fifth unit, Business Ethics and Environment, discusses environmental ethics and the various approaches related to environmental ethics. It discusses the environmental issues, particularly those in Western Europe and India. It also discusses the benefits of greening and the green initiatives. The unit ends with a discussion on the future outlook on environmental issues in India.

Unit 1

Business Ethics – An Overview

Structure

- 1.1 Introduction
- 1.2 Objectives
- 1.3 Ethics - An Overview
- 1.4 Nature of Ethics
- 1.5 Objectives of Ethics
- 1.6 Business Ethics
- 1.7 Nature of Business Ethics
- 1.8 Relationship between Business and Ethics
- 1.9 Stages of Ethical Consciousness in Business
- 1.10 Need for Business Ethics
- 1.11 Summary
- 1.12 Glossary
- 1.13 Self-Assessment Test
- 1.14 Suggested Readings / Reference Material
- 1.15 Answers to Check Your Progress Questions

“If ethics is poor at the top, that behavior is copied down through the organization.”

- Robert Noyce, Physicist and Entrepreneur,
nicknamed Mayor of Silicon Valley.

1.1 Introduction

In this unit, we introduce you to business ethics. In recent years, business ethics has gained lot of importance with the increased awareness that it is critical to a company's success. Till the 1990s, Indian organizations considered business ethics as just an extension of philanthropy. However, the definition of the term broadened with the entry of multinationals into the country.

Over the years, stakeholders have become generally more aware and this has forced organizations to follow ethical business practices. Organizations have realized that today, stakeholders are concerned about financial irregularities, tax evasion, poor quality products and services, kickbacks, non-compliance with environmental issues, and hazardous working conditions. They have come to understand that integrity, transparency, and open communication are the norms of modern-day business, and that the goodwill gained from adopting a code of

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business ethics would, in the long run, turn into economic gains in the form of growing stock market capitalization.

This unit will first discuss the concept of ethics, its nature, and its objectives. It also discusses the concept and nature of business ethics. We shall then move on to discuss the relationship between business and ethics. We shall also discuss the various stages involved in the ethical consciousness in business. Finally, we shall discuss the need for business ethics.

1.2 Objectives

By the end of this unit, you should be able to:

- Explain the concept of ethics, its nature, and its objectives.
- Discuss the concept and nature of business ethics.
- Identify the relationship between business and ethics.
- Define the various stages involved in the ethical consciousness in business.
- Recognize the need for business ethics.

1.3 Ethics-An Overview

The word ‘ethics’ is derived from the Latin word ‘ethics’ and the Greek word ‘ethikos’. Meaning character or manners. It also implies systematizing, defending, and recommending concepts of right and wrong behavior. Ethics is thus called the science of moral conduct, moral principle, and recognized rules of conduct.

A man’s character is expressed in terms of his conduct or actions, which can be good or bad; right or wrong; moral, immoral, or amoral. Amoral actions are neither moral nor immoral. An amoral person has no moral standards or is indifferent about right or wrong. A baby, for example, is said to have amoral conduct. Making a judgment on whether an act is right, wrong, moral, or immoral is called a moral judgment and it is done on the basis of moral standards by which one evaluates human conduct.

Some philosophers view ethics as a system of moral principles and the methods for their application. To them, ethics deals with values relating to human conduct of whether an action is right or wrong, and whether the motives and ends of such actions are good or bad. Others consider emerging, ethical beliefs to be ‘State of Act’ legal matters, i.e., what is an ethical guideline today will often be translated into a law or regulation. Though different thinkers view the concept of ethics differently, they all agree that in essence, ethics deals with the right or wrong behavior of individuals.

Example: Ethical Compromise Turns Tragic

On 28th September, 2021, a three-storey building, housing residents, collapsed in Bengaluru. On 21st September 2020, a three-storey building in Bhiwandi, Thane district, collapsed killing 13 residents, while they were asleep. Earlier, in June 2019, two apartments, one under construction and another four-year-old apartment, came down crashing and an entire family perished under the debris and many others became homeless. The reasons for these building collapses range from weak foundation, poor construction quality, to negligence of Municipal Corporations that give occupancy certificates, without conducting proper quality checks.

Customers, who buy apartments are not able to ascertain building quality. The amoral, unethical actions and negligence of builders, contractors, and approving authorities can result in such man-made tragedies.

Source: “Three-storey Jilhani building collapsed in Bhiwandi”, *surfaces reporter*, 21/9/2020
<https://surfacesreporter.com/articles/72045/three-storey-jilhani-building-collapsed-in-bhiwandi>
Accessed on 24/6/2022.

Activity:

Somnath is a small town businessman who sells vegetables, fruits, groceries, clothes, and gold. He began to face stiff competition from other local sellers of vegetables, fruits, and groceries, and on one or two occasions, he also faced losses. During a particular year, due to some reasons, the supply of vegetables, fruits, and groceries was stopped to all the sellers. However, thanks to personal influence, Somnath managed to get the required supplies for his shops. To cash in on the situation, Somnath began to price them high and charged Rs. 10 more per product. Do you think what Somnath did was right in this situation? Why? What kind of impact do you think this pricing strategy could have on his business in the future?

Answer:

1.4 Nature of Ethics

The nature of ethics can be understood as follows:

- Ethics deals with human beings who are capable of judging between right and wrong, and good and bad behavior. The question of ethics arises as ethics is associated with values and morals.
- According to experts, ethics is more a science than an art as it is systematic knowledge about the moral behavior and conduct of human beings.
- Ethics is a normative science. The term normative implies a guide or control

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of action. So, ethics tells us what we should do.

- Ethics deals with human conduct that is voluntary and not forced by any person/sor circumstances.

Example: Ethics Determines What is Right or Wrong

On 14th May 2022, massive fire broke out in a four-storey-building near Delhi's Mundka Metro Station. A total of 28 casualties were reported. The fire reportedly started after a short circuit happened in a generator. Further, the Delhi Fire Service reported that the building's ventilation was inadequate and the fire protocols were not adhered to. As the building did not have an emergency exit point, residents got trapped inside and this led to deaths.

Basic standards and rules are framed by regulating bodies keeping in mind the safety concerns. All over the world, it is accepted that builders need to give primary importance to the safety of residents. Safety standards have been framed, based on such widely accepted Dos and Don'ts. Hence, not following the safety protocols is wrong and unethical

Source: "No emergency exits, no fire extinguishers-how illegal buildings in Delhi's Mundka turned death trap", The Print, 14/5/2022; <https://theprint.in/india/no-emergency-exit-fire-extinguishers-how-illegal-building-in-delhis-mundka-turned-death-trap/955807/>; Accessed on 24/6/2022.

Check Your Progress-1

1. Identify the statements that correctly define ethics.
 - i. Ethics is the science of moral, moral principle, and recognized rules of conduct.
 - ii. Ethics is a system of moral principles and the methods for their application.
 - iii. Ethics deals with the right or wrong behavior of individuals.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
2. A milk vendor mixes water in milk and sells it to customers. This act is said to be
 - a. moral
 - b. ethical
 - c. immoral
 - d. moral and ethical
3. Which of the following statements is true?
 - a. Immoral refers to the principles of right and wrong.
 - b. Morality is a system of moral principles governing the conduct of individuals and groups.

- c. Amoral means beyond morality; having no moral principles.
 - d. Ethics refers to standards of conduct that are accepted as right or proper.
4. Identify the statement that incorrectly states about the nature of ethics.
- a. Ethics is more a science than an art.
 - b. Ethics deals with human beings.
 - c. Ethics is a normative science.
 - d. Ethics deals with human conduct that is forced by persons or circumstances.

1.5 Objectives of Ethics

Inculcating ethics into an organization's life is important as it serves the following objectives:

- Ethics deals with human behavior that assesses whether a particular act or decision taken by an individual is moral or not.
- It deals with establishing moral standards and norms of human behavior and involves judging the behavior based on them.
- It deals with assessing human behavior and expressing an opinion or attitude about the behavior.
- It involves setting a standard or code for the moral behavior and making recommendations about the desired behavior.

Example: Objectives of Codes of Conduct and Moral Standards

The codes of conduct of the 'TATA GROUP' Companies' employees, on the matter of receiving gifts, is reproduced here.

"A TATA Company and its employees shall neither receive nor offer or make, directly or indirectly, any illegal payments, remuneration, gifts, donations or comparable benefits, which are intended to or perceived to obtain business or un-competitive favours, for the conduct of its business. However, a TATA Company and its employees may accept and offer nominal gifts, which are customarily given and are of commemorative in nature, for special events."

The main aim of such moral standards and codes of conduct is to give guidelines and provide employees, with the means for dealing with ethical dilemma and moral complications. When the organization as a whole (employees including) takes ethical decisions then workers are more satisfied, there is less monitoring and regulation cost and customer satisfaction is high.

Source: [https://www.tata.com/](https://www.tata.com;); <https://www.tata.com/content/dam/tata/pdf/Tata%20Code%20Of%20Conduct.pdf>, Copyright 2022, Accessed on: 24/6/2022.

1.6 Business Ethics

Business is a primary economic institution through which people carry on the task of producing and distributing goods and services. Business ethics refers to the

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application of ethical judgments to business activities. Broadly, it is concerned with what is right or wrong at the workplace. Some philosophers have defined business ethics as ‘the normative study of moral standards as they apply to business policies, institutions, and human behavior, while others regard it as an ‘ethical analysis of business practices. Business expansion leads to the application of ethical practices, and its implications lead to the need for practicing business ethics. There is a lot of value attached to ethical business practices and the ethical implications of business decisions.

Human beings choose between right and wrong or good and bad by choosing from among alternatives. As businesses are run by people, they too should be able to distinguish between right and wrong decisions. Thus, businesses have choices or alternatives like whether to maximize profits, increase sales volume, provide employee benefits, or have concern for society.

At times, profits and social responsibility cannot coexist, as while focusing on earning profits, entrepreneurs could overlook social responsibility. Sometimes, it becomes difficult for a company to maximize profits and promote social responsibility. At other times, a business finds it difficult to explain its actions on ethical grounds. Such a situation leads to managerial dilemmas where the managers need to choose between organizational profit and social consideration. To survive in the long run, organizations should achieve a balance between their social obligations and economic objectives. These obligations may be complex and costly to discharge. But to be ethical, the organization has to discharge its social obligations.

Example: Indian IT Companies, Most Ethical

Infosys, Wipro, and Tata Steel have made it to the list of the World’s Most Ethical Companies for the year 2021. The list, compiled by Ethisphere Institute, a global leader in defining and measuring corporate ethical standards, recognizes companies that have a positive impact on society. The three Indian honorees were ranked high on various parameters such as their impact on society and the impact of company norms and ideology on employees, customers, and other stakeholders.

Due to health concerns and high cost of living, many IT employees left metros to stay in their hometowns, during the covid pandemic time period. Indian IT companies created many small centers in Tier-II and Tier-III cities and connected them to the bigger center located in metros. This hub-and-spoke strategy addressed the concerns of employees during the covid pandemic period. Out of the four honorees recognized in IT sector (3 Indian companies), Infosys was ranked at position No.1 and was distinguished for its commitment and dedication towards integrity and making value-based decisions.

Source: Pavan Kumar Bandari, “Infosys, Tata steel and Wipro from India make it to world’s most ethical companies”, The Hans India 25/2/2021; <https://www.thehansindia.com/business/infosys-tata-steel-and-wipro-from-india-makes-it-to-worlds-most-ethical-companies-list-674015>; Accessed on 24/6/2022.

Check Your Progress-2

5. Which of the following are the objectives of ethics?
 - i. To assess whether a particular act or decision taken by an individual is moral or not
 - ii. To establish moral standards and norms of the behavior
 - iii. To assess human behavior and express an opinion or attitude about the behavior
 - iv. To set a standard or code for the moral behavior
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
6. Which of the following statements refers to business ethics?
 - i. The application of ethical judgments to business activities.
 - ii. The normative study of moral standards as they apply to business policies, institutions and human behavior.
 - iii. The ethical analysis of business practices.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii

1.7 Nature of Business Ethics

Businesses encounter two types of ethical problems overt and covert. Overt ethical problems are clear (transparent) and reprehensible, and deal with bribery, theft, collusion, etc. Covert ethical problems are complex and have deft ethical solutions, and occur in corporate acquisitions, marketing and personnel policies, capital investment, etc. An ideal ethical decision should be right (morally correct), equitable (just and equal), good (the highest good of all concerned), proper (appropriate and acceptable), fair (honest), and just (action).

The concept of ethics is vague, abstract, and unstructured. It does not have a clear definition as it is dependent on moral standards, which are in turn dependent on a value system. The value systems are again dependent on an individual's background which differs based on his/her experience. Thus, the ethical practices of different people are different.

1.7.1 Characteristics of Ethical Decisions in Business

Ethical or unethical decisions depend upon individual actions, and have wide ramifications, which affect other situations. Ethical decisions result from voluntary human actions and not from situations that are beyond one's control.

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They differ according to an individual's perspective. Individual view the ethical decisions within their frame of reference or value system. Hence, there could be a multitude of ethical decisions rather than one unique decision. The consequences of most unethical decisions are ambiguous in nature. For example, an individual might bribe an official to get a job. However, he/she might still be unsure of whether he/she will get the job or not.

1.7.2 Business Ethics and Profits

To survive in the market, businesses operate on the premise that profit is not linked to ethical considerations. But there are instances which nullify this principle. To days' marketplace no longer accepts businesses that operate on the 'only profit' principle. Businesses, big or small, have to earn profit and justify their existence in the marketplace. A loss-making company is considered a liability and burden to society as it fails to discharge its responsibility to the community. Such a company is bound to misuse scarce resources, have huge liabilities, destabilize the business, promote inefficiency, and finally fail to discharge its social responsibility. Therefore, it is unethical for a firm to make a loss, and such companies cannot exist in the marketplace as they force their employees into economic insecurity. So, profit has become a characteristic for the success of a business and a justification for its existence.

Example: Business Ethics Revolves around Customer Centricity

Trader Joe's, an American grocery store chain always prioritizes employees and customers. The company gives excellent financial benefits and promotion opportunities to employees and it passes on the savings made, by selling private labels (all products sold are Trader Joe's brand) to customers.

Once when it was heavily snowing in Pennsylvania, an 89-year-old man was stuck inside his house and was unable to move out of his house to buy groceries/ food. His daughter was frantically calling several stores to find out if anyone would deliver some food to her father.

Trader Joe's delivered items that fit the old man's low-sodium diet, free-of-charge in 30 minutes. The kind-hearted gesture of Trader Joe's staff illustrates their concern for customers. In the above case, the organizational culture motivated employees concerned to break company policies, to help a person who desperately needed help.

Source: Elizabeth Wellington, "8 Companies with exceptional customer service", Help Scout, 9/9/2020 <https://www.helpscout.com/helpu/exceptional-customer-service-companies/>; Accessed on 24/6/2022.

1.8 Relationship between Business and Ethics

It is difficult to establish a relationship between business and ethics as people believe that the two are incompatible. Classical thinkers like Adam Smith (Smith) opined that the objective of a business was to generate only profits and that

business did not have any relationship with ethics. Others were of the view that business was not an extension of morality and ethics, and that it could not keep itself away from the ethical practices of the society in which it existed and operated. Economists like Milton Friedman (Friedman) and Talcott Parsons (Parsons) expressed varied views about the relationship between ethics and business. This led to the Unitarian, Separatist, and Integration views of ethics.

1.8.1 The Unitarian View of Ethics

According to the Unitarian view, business is a part of moral structure and moral ethics. To exist and survive in the long run, businesses should not separate morality and ethics from their operations. This view also stresses that the business should focus on society, serve it, and help in its welfare.

1.8.2 The Separatist View of Ethics

Smith and Friedman proposed the separatist view. They opined that businesses, to flourish, should concentrate on their goal of profit maximization and that morality and ethics had no role to play in business.

Friedman believed that business should concentrate on production and distribution of goods and services, and on generating profits, rather than on tackling social problems, which, he felt, were more a matter of concern for the government and concerned individuals. Smith opined that business was a distinct entity, and did not include ethics and morality. Introduction of ethics into business would lead to imbalanced market dynamics. He emphasized business concerns like reducing production costs and optimizing labor, which were relevant to the marketplace rather than ethical and moral issues.

Many thinkers believe that the entry of ethics and morality into the field of business would lead to the domination of social values over business values, and that this would ruin the business' efficiency. They are also of the view that business should concentrate on profits and focus on achieving its economic objectives, and managers should manage or concentrate on the shareholders' interests.

Example: India Findings of EY Global Integrity Report-2022

India findings of EY's (Ernst & Young) Global Integrity Report -2022 are not very encouraging. The study surveyed 4,700 business executives across 54 countries. In India, 100 executives comprising senior management and board members were surveyed. The India findings reveal that 33% of the respondents said that their organization had experienced some fraud in the aftermath of the covid-19 outbreak. 63% of Indian executives surveyed said that they would not mind indulging in some form of unethical conduct such as falsifying information, changing financial or customer records, paying bribes to get work done, or for career progression. 52% of Indian respondents said that top management often tolerates unethical behavior of high performers.

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The India findings of EY Global Integrity Report suggests that top executives in India have a separatist view of ethics. They view that profit maximization and financial goals are primary and ethics is separate or disconnected from the former.

Source: Corporate India staring at an integrity crisis in the second year of pandemic: EY Global Integrity Report, Press Release, 24/1/2022; https://www.ey.com/en_in/news/2022/01/corporate-india-staring-at-an-integrity-crisis-in-the-second-year-of-pandemic-ey-global-integrity-report-2022; Accessed on 24/6/2022.

1.8.3 The Integration View of Ethics

Talcott Parsons proposed the integration view. He believed that ethical behavior and business should be integrated or combined into 'Business Ethics'. He argued that business being an economic entity, it had the right to make profits but it also had to discharge certain social obligations. According to the integration view, business and morality are interrelated and are guided by external factors like government, the market system, law, and society. The government and the market system are related to business, i.e., the rules laid down by the government directly or indirectly affect the business, and may thus affect the market system. Laws also guide business, and decide what is right or wrong in the business.

Activity: Match the following terms with their respective descriptions	
1. Unitarian View	p Business to flourish, should concentrate on their goal of profit maximization; morality and ethics play no role in business.
2. Separatist View	q Business being an economic entity, it has the right to make profits besides discharging certain social obligations.
3. Integration View	r Business is a part of moral structure and moral ethics. To exist and survive in the long run, businesses should not separate morality and ethics from their operations.
Answer:	

Check Your Progress-3

7. Identify the statements that do not hold true regarding ethical problems (overt and covert) in business.
 - i. Overt ethical problems deal with bribery, theft, collusion, etc.
 - ii. Covert ethical problems are clear (transparent) and reprehensible.
 - iii. Covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment, etc.

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- iv. Overt ethical situations are complex, clear, and have deft ethical solutions.
 - a. Only i and ii
 - b. Only i and iv
 - c. Only ii and iv
 - d. Only iii and iv
- 8. Which of the following statements is/are true regarding overt ethical problems?
 - a. They deal with bribery, theft, collusion, etc.
 - b. They are clear and reprehensible.
 - c. They occur in corporate acquisitions, marketing and personnel policies, capital investment, etc.
 - d. Both (a) and (b)
- 9. Which of the following statements is/are true regarding covert ethical problems?
 - i. They deal with bribery, theft, collusion, etc.
 - ii. They are complex and have deft ethical solutions.
 - iii. They occur in corporate acquisitions, marketing and personnel policies, capital investment, etc.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
- 10. Which of the following is not a characteristic of ethical decisions?
 - a. They differ according to an individual's perspective.
 - b. They have a unique solution.
 - c. They depend on individual actions.
 - d. They result from voluntary decision that depends upon individual actions
- 11. The Unitarian view of ethics emphasizes on which of the following?
 - a. Business should concentrate on society and it has a major role to play in serving the society and ushering in society welfare.
 - b. Businesses in order to flourish should concentrate on its goal profit maximization.
 - c. Business and morality are inter-related and are guided by external factors like government, market system, law, and society.
 - d. All of the above
- 12. The separatist view of business ethics was proposed by
 - i. Adam Smith
 - ii. Milton Friedman
 - iii. Talcott Parsons
 - iv. George A. Steiner

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- a. Only i and ii
 - b. Only i and iv
 - c. Only ii and iii
 - d. Only iii and iv
13. Which of the following views emphasized that business and morality are inter-related and are guided by external factors like government, market system, law, and society?
- a. Unitarian view
 - b. Separatist view
 - c. Integration view
 - d. Both (a) and (c)
14. Which of the following statements is not true according to the integration view of ethics proposed by Talcott Parsons?
- a. Businesses have the right to make profits, but they also have to discharge their social obligations.
 - b. Business and morality are inter-related and are guided by external factors.
 - c. Laws will guide business and decide what is right or wrong in business practices.
 - d. Business is a distinct entity and morality and ethics had no role in business.
15. Match the following views with their descriptions.
- i. Unitarian view
 - ii. Separatist view
 - iii. Integration view
 - p. Ethical behavior and business should be integrated or combined in a new area called business ethics
 - q. Morality and ethics have no role in business
 - r. Business is a part of moral structure and moral ethics
- a. i/r, ii/q, iii/p
 - b. i/q, ii/r, iii/p
 - c. i/r, ii/p, iii/q
 - d. i/q, ii/p, iii/r
-

1.9 Stages of Ethical Consciousness in Business

Ethical standards vary between cultures and countries. These variations are more evident among entrepreneurs or corporations in a given nation. One can better understand these variations if the different levels of ethical consciousness in business are well defined. It has been found that moral (ethical) development follows a specific sequence of stages, irrespective of cultures and countries. Table 1.1 lists the various stages of ethical consciousness in business along with their respective descriptions.

Table 1.1: Stages of Ethical Consciousness in Business

Stage	Description
Laws of Jungle	<ul style="list-style-type: none"> • Business were run on brute strength and decisions were driven by the Philosophy of ‘might makes right’. • Problems such as price fixing were common.
Anything for profit	<ul style="list-style-type: none"> • Business had only one goal, i.e., profit and they were ready to do anything to make a profit. • To generate profits, business resorts to false representation of products, bribery of government officials, tax evasion etc., • The belief was that anything goes as long as one does not get caught by the law or by the customer.
Profit maximizing in the short-term	<ul style="list-style-type: none"> • Businesses operated according to socially and generally accepted business practices, and the belief was that ‘good business is good ethics’. • Performance was measured based on short-term growth in sales and profits, and the main aim of the business was to maximize profits within the constraints of the law.
Profit maximizing in the long-term	<ul style="list-style-type: none"> • A shift in focus from ‘business’ to ‘ethics and business that ‘sound ethics is good business in the long acknowledgedrun. • Shareholders’ interests remained the primary business concern, and there was an equal concern for businesses being conducted in a right and profitable manner over the long term, even if other alternatives might lead to greater short-term profits.
Stakeholder concept	<p>Concentration on profits was to have a social as well as economic mission.</p> <p>Business objectives included profit sharing, development of community service projects, and philanthropy.</p> <p>The driving assumption was that business wanted to strike a balance between providing services to stakeholders and working for the good of society.</p> <p>The focus was on building and maintaining mutually enabling relationships, which in turn created value for others and justified the firm s profit.</p> <p>Success was measured in both financial terms as well as interms of contribution to society.</p> <p>Some companies also published regular annual social reports similar to their annual financial reports.</p>

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Corporate citizenship	<p>There is a higher level of ethical consciousness and redefining of the mission of business in society.</p> <p>The World Business Academy and Business for Social Responsibility, both associations and networks of business leaders, are among the principal proponents of this higher level of ethical consciousness.</p> <p>This stage is also present in the previous stage, but to a lesser degree, and maintains that business has a major responsibility to contribute to the necessary transformation of what they consider to be a very unhealthy society today.</p> <p>The belief is based on the premise that a business can be healthy only if the society around it is healthy and that no other institution in society, including governments and religious institutions, has the resources or the credibility to bring about this transformation.</p> <p>Entrepreneurs operating on this level seek to achieve certain social objectives such as promoting community health, participating in job creation, employing handicapped people, and self-realization of employees as well as company's financial success.</p>
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Example: Aflac, an Insurance Company with a High Level of Ethical Consciousness

Ethisphere Institute, a global leader in defining and measuring corporate ethical standards, recognizes companies that have a positive impact on society. Aflac, the largest provider of supplemental insurance in the US, has been an Ethisphere honouree for 16 consecutive years. The company issued sustainability bonds (fixed income financial instruments, where the proceeds of the bond will be used exclusively for green or social projects) in March 2021. A year later the company allocated the bond proceeds for projects like Green Buildings, Renewable Energy, and other socio-economic projects.

Aflac's policy of fair employment is evident in the fact that 64% of its board members are either women or ethnic minorities.

Aflac's contribution of more than \$172 million, to children with cancer, underscores their commitment to extending help for social causes.

Based on its good work, it can be concluded that Aflac is not just a good corporate citizen, but a corporate citizen with high level of ethical consciousness. Clearly Aflac embodies a social purpose beyond profit.

Source: Nikola Gemes, "44 of the world's most ethical companies" Green Citizen, 10/04/2022. <https://greencitizen.com/blog/ethical-companies/>; Accessed on 24/6/2022.

Activity:

Claire Limited is a 25-year-old oil and gas company. The company was facing a lot of criticism from environmental groups and consumers as its business was becoming a threat to the environment. To tackle this, the top management of the company decided to become more environmentally conscious. It began to acknowledge that ethics in business would prove to be profitable for it in the long run. As a result, the company decided to invest in green products. It also appointed an ethics officer to supervise the ethical aspects of its business. Which stage of ethical consciousness in business is the company going through? Name the other stages of ethical consciousness in business.

Answer:

1.10 Need for Business Ethics

Businesses exist and operate within a society and should therefore contribute to the society's welfare. Businesses, big or small, should gain loyal customers, carry out their social responsibility, operate on ethical grounds, and discharge their social obligations to survive in the long run. According to George A. Steiner, "managers of the biggest companies know as a business gets larger, the public takes more interest in it because it has a greater impact on the community. The antennae of these managers are tuned to public opinion and they react to it. They seek to maintain a proper image of their company in the public mind. This leads to the assumption of greater social responsibilities".

Business ethics faced certain criticisms as there was the feeling that business being an economic entity should not be concerned about ethics or morals. Experts opined that business was an economic entity which was guided by principles to determine performance, and its purpose was to produce goods and services, and maximize shareholder profits.

Thinkers like Friedman were of the view that business should aim at earning profits by employing resources and indulging in open and free competition without deception or fraud. They opined that allowing ethics to be a part of corporate culture would lead to the consumer bearing the extra cost. His belief was that social responsibility of business was contrary to the basic business function, and that a manager need not keep in mind public interest as it was a concern for organizations, individuals, and the state.

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Theodore Levitt was of the view that if businesses became concerned about ethics, it would lead to the domination of social values over business values. In the mid-1950s and 1960s, philosophers had varied views about business ethics. They feared that any ethical conduct or embracing of moral philosophies would lead to sacrificing efficiency and productivity; and the competitiveness of the marketplace would fade away. Lately, this misconception has changed with businesses beginning to realize that being ethical and moral would provide them with loyal customers. Business ethics is now being accepted by businesses as part of business conduct.

Example: Need for Business Ethics Exists to Safeguard Employees and Stakeholders

The “Ethics and Compliance Initiative” (ECI) operates with a mission, to empower organizations to build and sustain high quality ethics and compliance program. ECI identifies practices that improve ethical compliance and cultural strength. Since 1995, ECI has been conducting cross-sectional and longitudinal study of workplace conduct from the perspective of employees. The Global Business Ethics Survey (GBES) provides benchmarks on the state of ethics and compliance in organizations. GBES- 2021 surveyed over 14,000 employees in 10 countries, to study different types of misconduct in workplace. The study reported that 49% of employees confirmed that they observed misconduct, 22% confirmed that they observed behavior that may be called abusive and 86% of respondents said that they promptly reported the misconduct that they observed. Further, 79% of the employees, who reported misconduct confirmed that they faced retaliatory action.

The findings of the GBES-21 underscore the need for business ethics. Business ethics is important because it impacts people at different levels. It is needed to safeguard employee and stakeholder interest.

Source: “The State of Ethics & Compliance in the Workplace: A Look at Global Trends”, Global Business Ethics Survey (GBES), 2021 Report; <https://www.ethics.org/global-business-ethics-survey/>; Accessed on 24/6/2022.

Check Your Progress-4

16. In the business context, following are the stages of ethical consciousness.

- i. Profit maximizing in the long-term
- ii. Anything for profit
- iii. Law of the jungle
- iv. Corporate citizenship
- v. Stakeholder concept
- vi. Profit maximizing in the short-term

Which of the following options gives the correct sequence of the stages?

- a. iii-iv-v-vi-i-ii
 - b. iii-v-iv-vi-ii-i
 - c. iii-ii-vi-i-v-iv
 - d. iii-vi-ii-i-v-iv
17. Identify the stage of ethical consciousness in business in which businesses wererun on brute strength and business decisions were driven by the philosophy of ‘might makes right’.
- a. Law of the jungle
 - b. Anything of profit
 - c. Might makes right
 - d. Corporate citizenship
18. In the ‘anything for profit’ stage of ethical consciousness in business.
- i. businesses were ready to do anything to make a profit.
 - ii. businesses operated on the socially and generally accepted business practices.
 - iii. businesses believe that anything goes as long as one does not get caught by thelaw or by the customer.
 - iv. businesses resort to false representation of products, tax evasion, etc., in order toearn profit.
- a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
19. In which of the following stages of ethical consciousness in business did firms shifted focus from business to ethics and supervised the ethical aspect of the business?
- a. Corporate citizenship
 - b. Stakeholder’s concept
 - c. Maximizing profits in the short-term
 - d. Maximizing profits in the long-term
20. Which of the following is false regarding the “stakeholders’ concept” stage of ethical consciousness in business?
- a. Businesses wanted to strike a balance between providing service to stakeholdersand working towards the good of society.
 - b. Success was measured only in financial terms and not in terms of contribution tosociety.
 - c. The main aim was to build and maintain mutually enabling relationships, which in turn create value for others and justified the firms’ profit.

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- d. Business objectives included profit sharing, development of community service projects, and philanthropy.
21. Which of the following statements is incorrect regarding the corporate citizenship stage of ethical consciousness in business?
- This stage proposes a higher level of ethical consciousness and redefines the mission of business in the society.
 - This stage is supported by the World Business Academy and Business for Social Responsibility.
 - Entrepreneurs, in this stage, would seek to achieve certain social objectives like promoting community health, participating in job creation, etc.
 - This is the fifth and the last stage of ethical consciousness in business.

1.11 Summary

- Business ethics in recent years has gained a lot of importance as it has been seen to be critical to a company's success
- The word 'ethics' means character or manners, and implies systematizing, defending, and recommending concepts of right and wrong behavior. It is more a science than an art, and is normative in that it tells us what we have to do.
- Different thinkers have had different views about ethics. However, they have all agreed that ethics deals with human beings, who are capable of judging between right and wrong, and good and bad behavior.
- Business ethics refers to the application of ethical judgments to business activities. It states that business can generate profits by being ethical.
- Ethical problems, encountered by businesses, are of two types – overt and covert.
- There was an argument whether ethics should form a part of business or not. This resulted in three different views: Unitarian view, Separatist view, and Integration view.
- There are six stages of ethical consciousness in business. These are law of the jungle, anything for profit, profit maximizing in the short term, profit maximizing in the long term, stakeholder concept, and corporate citizenship.
- Businesses, big or small, should gain loyal customers, carry out social responsibility, operate on ethical grounds, and discharge their social obligations to survive in the long-run.

1.12 Glossary

Amoral: Beyond morality; having no moral principles.

Business ethics: Business ethics studies the moral justification of economic systems, whether national or international. Within a given system it studies the moral justification of the system's structures and practices.

Covert ethics: They are complex, ethical issues that have deft ethical solutions. Covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment etc.

Ethics: is a system of moral principles governing the conduct of individuals and groups.

Immoral: Contrary to accepted moral principles.

Integration view: emphasis business being economic entity has the right to make profits, but at the same time it should discharge the social obligations.

Moral standards: Moral standards deal with desired right and wrong human behavior. They focus on what ought to be done and what ought not be done by an individual or group in a given situation.

Moral: The principles of right and wrong.

Morality: Standards of conduct that are accepted as right or proper.

Overt ethical problems: These refer to ethical problems that are easy to identify: bribery, theft, collusion etc.

Separatist view: According to this view business should concentrate on the goal of profit maximization.

Unitarian view: According to this view, business is a part of moral structure and moral ethics.

1.13 Self-Assessment Test

1. Ethics has been gaining a lot of importance in recent years, and has been seen to be critical to the success of a business. Explain the concept, nature, and objectives of ethics in detail.
2. Business ethics refers to the application of ethical judgments to business activities. Explain the nature and objectives of business ethics. Why is it important to have ethics in business?
3. Many people believe that business and ethics are incompatible. In this context, what were the views of classical thinkers regarding the relationship between business and ethics?
4. Irrespective of cultures and countries, it has been found that ethical development follows a specific sequence of stages. Explain these stages.

1.14 Suggested Readings / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

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1.15 Answers to Check Your Progress Questions

1. (d) i, ii, and iii

The word 'ethics' is derived from the Latin word 'ethicus' and the Greek word 'ethikos' - both meaning character or manners. Ethics is said to be the science of moral, moral principle, and recognized rules of conduct. Ethics is a system of moral principles and the methods for their application. It deals with right or wrong behavior of individuals.

2. (c) immoral

Immoral is something that is contrary to the accepted moral principles. In the given situation, the milk vendor mixes water in milk and sells it to the customers. This is an immoral conduct.

3. (c) Amoral means beyond morality; having no moral principles.

Amoral means beyond morality; having no moral principles. Moral refers to the principles of right and wrong. Immoral is something that is contrary to the accepted moral principles. Morality refers to the standards of conduct that are accepted as right or proper. Ethics is a system of moral principles governing the conduct of individuals and groups.

4. (d) Ethics deals with human conduct that is forced by persons or circumstances.

Ethics is a subject that deals with human beings. Experts view that ethics is more a science than an art as it is a systematic knowledge about moral behavior and conduct of human beings. Ethics is a normative science, i.e. it tells us what we ought to do. Ethics deals with human conduct that is voluntary and not forced by any persons or circumstances.

5. (d) i, ii, iii, and iv

Ethics deals with human behavior. It assesses whether a particular act or decision taken by an individual is moral or not. The main objectives of ethics are: to establish moral standards and norms of the behavior, to judge human behavior based on these standards and norms, to assess human behavior and express an opinion or attitude about the behavior, and to set a standard or code for the moral behavior and make recommendations about the desired behavior.

6. (d) i, ii, and iii

Business ethics refers to the application of ethical judgments to business activities. Broadly, business ethics concerns itself with what is right or wrong at the workplace. Some philosophers define business ethics as the normative study of moral standards as they apply to business policies,

institutions, and human behavior. Others regard business ethics as an ethical analysis of business practices. Business ethics explains that business can generate profits by being ethical.

7. (c) Only ii and iv

Most businesses encounter two types of ethical problems overt and covert ethical problems. Overt ethical problems deal with bribery, theft, collusion, etc. They are clear (transparent) and reprehensible. Covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment, etc. They are complex and have deft ethical solutions.

8. (d) Both (a) and (b)

Most businesses encounter two types of ethical problems overt and covert ethical problems. Overt ethical problems deal with bribery, theft, collusion, etc. They are clear (transparent) and reprehensible. Covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment, etc. They are complex, clear, and have deft ethical solutions.

9. (c) Only ii and iii

Most businesses encounter two types of ethical problems -- overt and covertethical problems. Overt ethical problems deal with bribery, theft, collusion, etc. They are clear (transparent) and reprehensible. Covert ethical situations occur in corporate acquisitions, marketing and personnel policies, capital investment, etc. They are complex, clear, and have deft ethical solutions.

10. (b) They have a unique solution.

Ethical decisions differ according to an individual's perspective. An individual views the ethical decisions in his/her frame of reference or value system. Hence, ethical decisions do not have a unique solution, but a multitude of alternatives. The consequences of most unethical decisions are ambiguous in nature. Ethical or unethical decision depends upon individual actions. Ethical decisions result from the voluntary human actions and not from situations that are beyond one's control.

11. (a) business should concentrate on society and it has a major role to play inserving the society and ushering in society welfare.

According to the Unitarian view of ethics, business is a part of moral structure and moral ethics. This view emphasizes that business should concentrate on society and it has a major role to play in serving the society and ushering in society welfare. According to the separatist view,

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businesses in order to flourish should concentrate on its goal of profit maximization. According to the integration view, business and morality are inter-related and are guided by external factors like government, market system, law, and society.

12. (a) Only i and ii

Adam Smith and Milton Friedman proposed the separatist view. They viewed that businesses in order to flourish should concentrate on its goal of profit maximization. They argued that morality and ethics had no role in business. Talcott Parsons proposed the integration view.

13. (c) Integration view

The integration view was proposed by Talcott Parsons. According to this, business and morality are inter-related and are guided by external factors like government, market system, law, and society. The government and market system are related to business, i.e., rules laid down by the government directly or indirectly affect the business, and may therefore, affect the market system. Similarly, laws will guide business, and decide what is right or wrong in the business.

14. (d) Business is a distinct entity and morality and ethics had no role in business.

The integration view of business ethics was proposed by Talcott Parsons. He opined that ethical behavior and business should be integrated or combined in a new area called 'Business Ethics'. He believed that business being an economic entity, has the right to make profits, but at the same time it should discharge its social obligations. According to the integration view, business and morality are inter-related and are guided by external factors like government, market system, law, and society. The government and market system are related to business, i.e., rules laid down by the government directly or indirectly affect the business, and may thus affect the market system. Similarly, laws will guide business, and decide what is right or wrong in the business. The separatist view of business ethics proposed by Adam Smith and Milton Friedman. They viewed that businesses in order to flourish should concentrate on its goal of profit maximization. They argued that morality and ethics had no role in business.

15. (a) i/r, ii/q, iii/p

According to the Unitarian view, business is a part of moral structure and moral ethics. This view emphasizes that business should concentrate on society and it has a major role to play in serving the society and ushering in society welfare. According to the separatist view, businesses in order

to flourish should concentrate on its goal of profit maximization. According to this view, morality and ethics has no role in business. According to the integration view, business and morality are inter-related and are guided by external factors like government, market system, law, and society. According to this view, ethical behavior and business should be integrated or combined in a new area called business ethics.

16. (c) iii-ii-vi-i-v-iv

Moral or ethical development follows a specific sequence of stages, irrespective of cultures and countries. In the business context, the various stages of ethical consciousness are as follows: law of the jungle, anything for profit, profit maximizing in the short-term, profit maximizing in the long-term, stakeholder concept and corporate citizenship. In the first stage of 'law of the jungle', businesses were run on brute strength; business decisions were driven by the philosophy of 'might makes right'. In the second stage of 'anything for profit' maximizing in the short-term', businesses operated on the socially and generally accepted business practices. The fourth stage of 'profit maximizing in the longtem', saw a shift in focus from business to ethics. In the fifth stage, 'stakeholders' concept', companies concentrated on profits to have a social as well as economic mission. The sixth stage, Corporate Citizenship', proposes a higher level of ethical consciousness and redefines the mission of business in society.

17. (a) Law of the jungle

The Law of the jungle is the first stage of ethical consciousness in the business context. In this stage, businesses were run on brute strength and business decisions were driven by the philosophy of 'might makes right'. Business ills like price fixing etc., were common in this stage.

18. (b) Only i, iii, and iv

In the 'anything for profit' stage of ethical consciousness in business. Businesses were ready to do anything to make a profit. Businesses at this stage had only one goal, i.e., profit. To generate profits, businesses resort to false representation of products, bribery of government officials, tax evasion, etc. Businesses in this stage of ethical consciousness strongly believe that anything goes as long as one does not get caught by the law or by the customer, In the 'maximizing profits in the short-term stage of ethical consciousness in business, businesses operate on the socially and generally accepted business practices.

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19. (d) Maximizing profits in the long-term

Maximizing profits in the long-term is the fourth stage of ethical consciousness in Business. In this stage, businesses shifted their focus from 'business' to 'ethics'. Businesses acknowledged that sound ethics is good business in the long run. Though the interest of the shareholders remained the primary concern of businesses, there was equal concern for conducting business in a manner that is both right and which will also prove to be profitable over the long term, even if other alternatives might produce greater short-term profits. At this stage, firms also created the post of an 'ethics officer' to supervise the ethical aspect of the business.

20. (b) Success was measured only in financial terms and not in terms of contribution to society.

Stakeholders' concept is the fifth stage of ethical consciousness in business. In this stage, companies concentrated on profits to have a social as well as economic mission. Business objectives included profit sharing, development of community service projects, and philanthropy. The driving assumption of this concept is that businesses wanted to strike a balance between providing service to stakeholders and working towards the good of society. The focus at this stage is on building and maintaining mutually enabling relationships, which in turn create value for others and justified the firms' profit. Success was measured not just in financial terms but also in terms of contribution to society.

21. (d) This is the fifth and the last stage of ethical consciousness in business.

The corporate citizenship stage is the sixth and the last stage of ethical consciousness in business. This stage proposes a higher level of ethical consciousness and redefines the mission of business in society. The World Business Academy and Business for Social Responsibility are among the principal proponents of this higher level of ethical consciousness. Entrepreneurs believe that a business can be healthy only if the society around it is healthy and that no other institution in society, including governments and religious institutions, has the resources or the credibility to bring about this transformation.

Unit 2

Importance of Ethics in Business

Structure

- 2.1 Introduction
- 2.2 Objectives
- 2.3 Ethical Theories
- 2.4 Market System
- 2.5 Importance of Trust in Business Relations
- 2.6 Integrative Social Contract Theory
- 2.7 Summary
- 2.8 Glossary
- 2.9 Self-Assessment Test
- 2.10 Suggested Readings/Reference Material
- 2.11 Answers to Check Your Progress

“The real threat to business is from within, from poor ethical standards and lack of integrity that can do incalculable harm.”

- Azim Premji, Founder and Chairman of Wipro Ltd.

2.1 Introduction

In the previous unit, we have discussed the basic concepts in business ethics. In this unit, we shall discuss the importance of ethics in business.

Ethical theories are grouped into three subject areas: meta-ethics, normative ethics, and applied ethics. In this unit, we shall discuss these ethical theories, the effect of unethical behavior on business, and the integrative social contracts theory.

This unit will first discuss the ethical theories. It also discusses the market system, its components, and the impact of unethical behavior on the market system. We shall then move on to discuss the importance of trust in business relations, and the impact of unethical behavior on trust in business relations. Finally, we shall discuss the integrative social contract theory and its elements.

2.2 Objectives

By the end of this unit, you should be able to:

- Discuss the ethical theories.
- Analyze the market system, its components, and the impact of unethical behavior on the market system.
- Identify the importance of trust in business relations.

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- Explain the integrative social contract theory and its elements.

2.3 Ethical Theories

Ethics or moral philosophy is the study of right and wrong behavior, with the final aim of defining what is right and what is wrong. Ethics is the field of enquiry, while morality is the object of that enquiry, the code(s) of behavior acceptable within a particular group at a particular time. Ethical theories are commonly divided into three subject areas meta ethics, normative ethics, and applied ethics.

2.3.1 Meta ethics

Meta ethics can be defined as the study of the origin and meaning of ethical concepts. It deals with the entire group of ethical issues. It is not very well defined but broadly, deals with three issues metaphysical issues that involve the question of whether moral values exist independently of human beings or whether they are simply human conventions; psychological issues that deal with the psychological basis of moral action; and linguistic issues that deal with the meaning of the key moral terms we use. For example, sometimes we question whether an action is good or bad, instead of asking what it means for the action to be good or bad.

2.3.2 Normative Ethics

Normative refers to something that guides or controls. Normative ethics guides human conduct, and sets out certain moral standards that help us determine what is right and what is wrong. An example of the normative principle is the Golden Rule. There are also other normative theories that lay down a set of fundamental principles like the moral right to life and liberty, which serve as a guide to ethical behavior. Ethicists do not agree on which moral principles are the right ones. However, they believe that if a moral principle is to be accepted, it should be:

- Prescriptive - formulated as an imperative or command, to emphasize that the proposed action is obligatory;
- Universal - not restricted to a particular group but applicable to any person in a given situation;
- Overriding - should be a primary consideration in action assessment;
- Public - presupposes social interaction; and
- Practical - must be achievable by an average individual in ordinary circumstances.

There are three different normative theories teleological ethical theory, deontological ethical theory, and virtue ethics each with its own set of moral principles, and each representing a particular approach to resolving the normative questions of 'how should one act in particular circumstances'.

Teleological ethical theory

'Teleological' is a term derived from two Greek words telos, 'Teleological' and logos meaning 'logical' reason thinking rationally about ends. Teleological

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theories, also called consequentialist theories, hold that an action is considered morally correct if the consequences of that action are more favorable than unfavorable. The favorability or unfavorability of the consequences can be found out by first listing the good and bad consequences of that action, and then by determining whether the good consequences outweigh the bad consequences or vice versa. The action is morally right if the good consequences are greater than the bad ones.

It is difficult to quantify the consequences of actions in teleological theory. Also, terms like good, bad, right, and wrong are perceived and interpreted differently by different persons. Consequentialists have offered three definitions of good each of which give us a different consequentialist moral theory.

These three theories are:

- *Egoism*: An action is morally right if the consequences of that action are more favorable than unfavorable to the individual performing the action.
- *Utilitarianism*: An action is morally right if the consequences of that action are more favorable than unfavorable to everyone.
- *Altruism*: An action is morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual.

The three theories focus on the consequences of actions for different groups of people, and lead to different conclusions. Let us examine this with the help of an example. A woman traveling in a car witnesses an accident. She wants to stop and help the victim and asks the driver to assist. But the driver ignores the instructions and drives past the scene. Later, the driver explains to the woman that a person assisting an accident victim is often held responsible for the accident itself. If the victim dies, the person who assisted him/her might even be held responsible for the death. Because of these problems, road accident victims are usually left unattended.

Was the driver's action right or wrong? If we apply the three theories just outlined to judge the driver's action. We arrive at different conclusions. According to the principle of ethical egoism, the driver's decision is correct, as the consequences of his action are more favorable than unfavorable to himself and the woman. Had they stopped, they might have been harassed by the police. On the principle of ethical altruism, however, the driver's decision is not morally correct, as its consequences for others (here, the accident victim) are unfavorable. To determine whether the driver's action is morally correct on the basis of utilitarianism, one must consider the consequences of the act, both for the driver and the woman, and the victim and weigh the overall good consequences against the bad consequences of the act.

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Example: Amul's Argument for Dairy Milk as Against Vegan Milk is Based on Utilitarianism

In May 2021, PETA (The People for the Ethical Treatment of Animals), a US-based animal rights protection organization, urged AMUL to switch to producing vegan milk, in response to the increasing vegan consumption trends. R.S.Sodhi, MD of GCMMF (Gujarat Co-operative Milk Marketing Federation Ltd.) that manages AMUL, the Indian dairy co-operative society, put forward the following points, in favour of dairy milk.

1. AMUL provides livelihood to over 10 crores dairy farmers, 70% of whom are landless. Discontinuing dairy milk and switching to vegan milk would mean snatching the livelihood of the poor and handing over the resources and markets built by poor farmers, to genetically modified soya milk producers.
2. Lab manufactured vegan milk is expensive and unaffordable, to most of the Indian population.
3. Dairy milk is nutritious and rich in calcium, vitamins and carbohydrates, fats, minerals, and proteins.

As per the moral theory of 'Utilitarianism' (a version of consequentialism), the consequences of any action are the only standards of right and wrong. In the above case, Amul's continuance with dairy milk appears to be morally correct, from the perspective of 'Utilitarianism'.

Source: "AMUL MD replies to PETA, asks who will give livelihood to dairy farmers", Hindustan Times, 29/05/2021. <https://www.hindustantimes.com/india-news/amul-replies-to-peta-asks-who-will-give-livelihood-to-100-million-dairy-farmers-101622263509226.html> Accessed on 4/8/2022

Deontological ethical theory

'Deontological' is a term derived from the Greek word "deno" meaning 'duty' or 'obligation'. Deontological theories highlight fundamental duties such as not committing murder or theft that stress that the rightness of an act is derived from some feature of the action itself, with reference to its consequences. The duties supported by the deontological theory may be classified under three headings: duties to God, including honoring him and praying to him; duties to oneself, including preserving one's life and sharing happiness; and duties to others, including family, social, and political duties.

Virtue ethics

Greek philosopher Aristotle uses the term 'virtue' to explain our moral obligations. Virtue may be defined as any disposition of character or personality that an individual desires in himself or others. Virtues are those dispositions of character considered good by an individual. Virtue ethics is concerned with attaining these dispositions, and emphasizes character development rather than the articulation of abstract moral principles that guide actions.

Applied Ethics

Applied ethics deals with specific, often controversial moral issues like abortion, female feticide and infanticide, displacement of tribal people due to huge hydro-electrical projects, cloning, and testing drugs on animals. Apart from the medical field, business also faces many controversial moral issues such as misleading advertising, insider trading, bribery, and corruption.

Certain moral standards are laid down by ethical theories that provide a reference Point for judging a decision's moral value. These theories, when applied to business, should enable the manager to differentiate between right and wrong, and help take morally acceptable decisions.

Check Your Progress-1

1. What is the study of the origin and meaning of ethical concepts called?
 - a. Meta ethics
 - b. Normative ethics
 - c. Applied ethics
 - d. Integrative social contract theory
2. Which of the following related to Normative ethics?
 - a. the study of the origin and meaning of ethical concepts.
 - b. specific controversial issues like capital punishment, abortion, and nuclear war.
 - c. moral standards that help us to decide what is right and what is wrong.
 - d. Both (a) and (b)
3. Which of the following statements is true regarding ethical theories?
 - a. Normative ethics is the study of the origin and meaning of ethical concepts.
 - b. Meta ethics deals with moral standards that help us to decide what is right and what is wrong.
 - c. Applied ethics deals with specific controversial issues like capital punishment, abortion, and nuclear war.
 - d. All of the above
4. Identify the terms that relate to the field of enquiry and the object of that enquiry.
 - a. Ethics, codes
 - b. Codes, morality
 - c. Ethics, morality
 - d. Morality, ethics
5. Metaphysical issues, linguistic issues, and psychological issues are dealt in
 - a. Meta ethics

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- b. Normative ethics
 - c. Applied ethics
 - d. Both (a) and (c)
6. Which of the following issues deal with the question whether the moral values exist independently of humans or whether they are simply human conventions?
- a. Metaphysical issues
 - b. Psychological issues
 - c. Linguistic issues
 - d. Both (a) and (b)
7. Which of the following statements relate to linguistic issues?
- a. deal with the psychological basis of the moral action.
 - b. deal with the question whether the moral values exist independently of humans or whether they are simply human conventions.
 - c. deal with the meaning of the key moral terms we use.
 - d. Both (a) and (c)
8. Identify the statements that hold true regarding normative ethics.
- i. It is a branch of ethics that guides human conduct.
 - ii. It is the study of the origin and meaning of ethical concepts.
 - iii. It sets out certain moral standards that help us to determine what is right and what is wrong.
- a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii

Activity:

Excel Limited, a software development firm, put out an advertisement inviting applications from experienced as well as fresh candidates for the post of software development engineer. Only two candidates do you think Shireen's action was Shireen and Vikas excelled in the written test, and they were selected for the interview. Shireen was experienced, and had been working with a company for two years. Vikas was just out of college, and was desperately looking for a job due to the financial problems he was facing. After knowing about Vikas situation. Shireen decided not to attend the interview. Vikas succeeded in the interview, and he was offered the job. Considering the consequentialists theory do you think Shireen's action was morally right? Why or why not?

Contd.

Answer:

2.4 Market System

Developed as well as developing nations depend on the market system to allocate goods and services. To work efficiently, the market system should comprise the right to own and control private property, freedom of choice in buying and selling goods and services, and access to quick, reliable, and precise market information.

Exchange of goods can take place if individuals own private property. A buyer must offer the seller something that he owns in exchange for the product being sold, and this must be accepted by the seller. If the buyer takes possession of the goods without the seller's consent, it would amount to theft. If private property is not protected, there will be no suppliers of goods and services, as they will not be compensated for the goods and services they offer. Freedom of choice in buying and selling goods and services and the availability of accurate information go together. An individual who wants to buy a product may buy it if he has the required money. But to select the type of product and the outlet from where he wants to buy the product, he needs to have access to accurate information.

It is difficult to find a perfectly efficient market system with all these characteristics. Unethical behavior decreases the efficiency of a market system.

2.4.1 Impact of Unethical Behavior on Market System

Coercion, deceptive information, theft, and bribery are all unethical behaviors. These are described in Table 2.1. All these lead to a misallocation of resources and a lack of trust between the parties involved in a business transaction, thus hampering the effective functioning of the market system.

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Table 2.1: Unethical Behaviors and their Respective Descriptions

Unethical Behaviors	Descriptions
Coercion	The use of threat or force to prevent sellers from dealing with certain customers, and buyers from purchasing from certain sellers. Decreases effective competition and results in fewer resources being allocated to producing goods and services than in case of free competition.
Deceptive information	Misleading product/service information leads customers to make a wrong purchase. Decreases customer satisfaction as the products and services fail to meet customer expectations.
Theft	The marketer or supplier is compelled to increase his product price to make up for his losses due to theft of product/services.
Bribery	Offering or receiving something of value for the purpose of influencing the action of an official in the discharge of his public or legal duties. The decision maker is induced to choose an alternative that may bring him some personal gain, but may not really be the best one. Bribes may take the form of kickbacks, expensive sponsorships for travel abroad, parties, etc. Bribery distorts the market system as the cost of the bribe is built into the cost of the project or the final product.

Example: Government of India's Action on Misleading Advertisements

In June 2022, the CCPA (Central Consumer Protection Authority) announced new guidelines for stopping misleading advertisements, across all platforms, regardless of form, format, or medium. Further the Government of India put a complete ban on surrogate advertising and imposed new norms for commercials that seek to attract customers with free offers and discounts and advertisements targeting children.

Ban on surrogate advertisements assumes importance, considering that these ads promote unhealthy products like cigarettes and alcohol, in the guise of harmless products like music CDs and soda.

The new rules also hold celebrities appearing in misleading ads accountable for endorsement or promotion of products. The public get lured to buy products, because of celebrity endorsement and, hence, celebrities are made accountable for the impact of the misleading ads, on innocent public.

Contd.

In the market system, misleading advertisements amount to providing wrong information. Government's action, on such misleading advertisements, is intended to ensure that people make correct choices, based on true information and facts

Source: Dipak K Dash, "Government cracks whip on misleading advertisements", *Times of India*, 11/06/2022. <https://timesofindia.indiatimes.com/india/government-cracks-whip-on-misleading-advertisements/articleshow/92136746.cms> Accessed on 5/8/2022

Check Your Progress-2

9. If a moral principle is to be accepted, it must
 - i. be formulated as an imperative or command to emphasize that the proposed action is obligatory.
 - ii. be restricted to a particular group but is applicable to any person in a given situation.
 - iii. be achievable by an average individual in ordinary circumstances.
 - iv. be a primary consideration in action assessment.
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
10. Teleological ethical theory, deontological ethical theory, and virtue ethics are
 - a. metaethics
 - b. applied ethics
 - c. normative theories
 - d. None of the above
11. Which of the following theories are also called as the consequentialist theories?
 - a. Virtue ethics
 - b. Applied ethics
 - c. Teleological theories
 - d. Deontological theories
12. Match the following actions with their descriptions.
 - i. Egoism
 - ii. Utilitarianism
 - iii. Altruism
 - p. An action is morally right if the consequences of that action are more favorable than unfavorable to everyone.

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- q. An action is morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual.
 - r. An action is morally right if the consequences of that action are more favorable than unfavorable only to the individual performing the action.
 - a. i/p, ii/q, iii/r
 - b. i/q, ii/r, iii/p
 - c. i/r, ii/p, iii/q
 - d. i/q, ii/p, iii/r
13. Identify the statement that holds true regarding teleological theory.
- a. Teleological theory emphasizes character development rather than the articulation of abstract moral principles that guide actions.
 - b. In teleological theory, it is very easy to quantify the consequences of our actions.
 - c. Teleological theories hold that an action is considered morally correct if the consequences of that action are more favorable than unfavorable.
 - d. Teleological theories focus on certain fundamental duties that we have as human beings such as not committing murder or theft.
14. All the statements given below are true regarding deontological theories, except:
- a. They focus on certain fundamental duties that we have as human beings.
 - b. They emphasize on character development.
 - c. The duties stress that rightness of an act is derived from some feature of the action itself, with reference to its consequences.
 - d. The duties are classified as duties to God, duties to oneself, and duties to others.
15. Which of the following refers to any disposition of character or personality that an individual desires in himself or others?
- a. Virtue
 - b. Normative
 - c. Teleological
 - d. Deontological
16. Which of the following theories is associated with the Greek philosopher Aristotle?
- a. Meta ethics
 - b. Virtue ethics
 - c. Teleological theories
 - d. Deontological theories

Activity:

Jai Power is a privately-held power transmission company. The company has been incurring losses over the past two years. When the top management of the company investigated the reasons for the losses, it came to know that some small companies and some highly influential individuals in the city were stealing the power generated by the company. How would this kind of an incident impact the market system? Suggest some measures that the company can take to prevent losses.

Answer:

2.5 Importance of Trust in Business Relations

To operate smoothly, an organization should maintain healthy relations with its stakeholders. Such relations are developed through trust. In a business set-up, trust is the confidence that the other party has that you will not exploit its vulnerabilities. Trust comprises three elements predictability, dependability, and faith. Predictability eliminates unforeseen actions or risks, which are not usually welcome in business. Dependability provides assurance that a person will perform as expected. Faith is the belief that one will continue to be predictable and dependable. Trust can be referred to as a risk reducing mechanism, as the perceived risk of dealing with a person or firm declines when trust is built up over a period of time.

2.5.1 Impact of Unethical Behavior on Trust in Business Relations

To function smoothly and achieve success in the long run, an organization has to build up a relationship of trust with all its stakeholders, and this can be done by avoiding unethical practices. The role of trust in supplier, customer, and employee relations is given here.

Supplier relations

Suppliers provide raw materials and services that the businesses need to be able to function. An ongoing buyer-supplier relationship, called an exchange relationship, is built in an organization that deals with its suppliers over a period of time. This relationship succeeds when both the parties honor their commitments, which in turn builds up mutual trust and cooperation. A buyer who engages in unethical practices (like playing off one supplier against another, or lying in order to gain an unfair price advantage) not only loses the trust of the supplier he is dealing with, but also of other suppliers in the market.

Customer relations

The sales force plays a key role in building a relationship of trust with customers,

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and acts as a mediator between the company and the customer. The salesperson interacts with his/her customers and earns their trust by being dependable, honest, competent, and customer-oriented. A salesperson provides customers with relevant product information and good quality products. Customer orientation encourages the sales staff to give top priority to the customer. This in turn enhances customer satisfaction and helps the supplier to establish a relationship of trust with the customers.

Employee relations

Trust is also important within an organization. It leads to greater predictability and dependability, and thus, to greater confidence among employees. Honest relationships among all the employees lead to a conflict-free workplace and help reduce employee turnover. Jitendra Mishra and Molly Morrissey carried out a study about trust in employee and employer relationships. They identified certain factors that promoted trust in an organization. These are open communication, sharing of critical information, encouraging employee participation in decision making, and sharing of perceptions and feelings.

Example: IBM: Building Trust in Communities and Stakeholders

IBM prioritizes ethical considerations such as renewable energy, gender equality, and responsible production, to gain the trust of all its stakeholders.

In 2022, IBM is commemorating 30 years of its strong environmental policies and its long history of engagement with the communities, in the business areas (hardware, software and consultancy), where it operates.

IBM's pioneering role in promoting energy efficiency is well known. It is a founding participant of EPA's (Environmental Protection Agency) 'Energy Star' program. It was also one of the first corporations, to publish corporate environmental reports.

IBM has an excellent relationship of trust with all its suppliers and its first-tier suppliers have developed objectives, for minimizing emissions, waste, and use of fuel. These suppliers also submit annual sustainability reports.

As a pioneer in advancing ethical AI (Artificial Intelligence), IBM engages with stakeholders worldwide, to explore critical issues and ethical challenges, posed by AI driven technologies to build trust on AI solutions.

*Source: Nisha Jain, TECHSTORY, "Top 10 most ethical companies in the world", 25/03/2022
<https://techstory.in/top-10-most-ethical-companies-in-the-world/> Accessed on 4/8/2022*

2.6 Integrative Social Contract Theory

The integrative social contract theory was proposed by Thomas Donaldson and Thomas Dunfee. According to Donaldson, business organizations gain legality when they enter into a social contract with the society. A social contract is an informal agreement relating to behavioral norms that are developed from shared

goals, beliefs, and attitudes of groups of people or communities.

According to Donaldson, a productive organization is one that ensures customer satisfaction and protects workers' interests, thereby enhancing the welfare of the society to which it belongs. He opines that social contract can be used as a tool to measure the performance of productive organizations. If the terms of the contract are fulfilled, then the organization is said to have performed well. If not, then the society is morally justified in condemning it. The main elements of the social contract theory are hypernorms, macro social contract, and micro social contract.

2.6.1 Hypernorms

These are universal norms that apply equally to all individuals. These include basic human rights, including right to personal freedom, physical security and well-being, political participation, informed consent, ownership of property, and the right to subsistence; and the duty to respect the dignity of every human being.

2.6.2 Macro Social Contract

These provide global norms such as:

- Local communities must be allowed moral free space (i.e. they should be able to define by themselves the most important aspects of their business morality) to spell out obligatory ethical norms for their members.
- The macro social contract must be based on the free consent of the parties involved, all of whom have the right to exit when they please.
- All macro social contracts must be compatible with hypernorms.
- If a conflict arises among various micro social contracts, these must be resolved through priority rules (discussed a little later) that are compatible with the three norms just mentioned.

2.6.3 Micro Social Contract

These are developed for a community (economic or social, firm or industry, non-profit and service organizations), a group, or an organization. The norms of this contract must not violate hypernorms. Any conflict of norms that may arise when the members of one community decide to do business in another community can be solved by framing a set of priority rules that would determine the norm to be honored. Donaldson and Dunfee gave the following priority rules.

- The host community's norms should govern all transactions within that particular community as long as they do not have significant adverse effects on individuals or communities. Community norms for resolving priority should be applied, as long as they do not have significant adverse effects on other individuals or communities.
- The more extensive or global the community norm is, the greater the priority that should be given to its norms.
- Norms that help preserve the economic environment in which the transactions occur, should have priority over norms that could damage the economic environment.

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Example: Kellogg Lives up to its Shared Set of Values and Commitment

US-based multinational, Kellogg Company has been recognized by Ethisphere (a company that defines and measures corporate ethical standards and recognizes ethical companies), as one of 2020's world's most ethical companies. Ever since these awards were created in 2007, Kellogg has been recognized 12 times.

The company's ethical performance can be observed, in how it supports farmers, minimizes food loss and waste and uses low-impact packaging that does not harm the environment.

Over 76% of the packaging used by Kellogg globally is recycled. The company has one of the lowest plastic packaging footprints, in the food industry. In every stage of its value chain, Kellogg has reduced food loss and organic waste, to ensure that food is used only to nourish people.

Kellogg has a lofty aim of moving to 100% sustainable packaging, by 2025. Kellogg brands are popular, and the company enjoys a high level of customer satisfaction and protects its employee interests. Through its ethical behavior, Kellogg has fulfilled its social contract with the people, by enhancing the welfare of customers, employees, and the society.

Source: PR Newswire, "Kellogg Co. named one of the world's most ethical companies by Ethisphere for the 12th time", 25/02/2020, <https://www.prnewswire.com/news-releases/kellogg-co-named-one-of-the-worlds-most-ethical-companies--by-ethisphere-for-the-12th-time-301010567.html#:~:text=Kellogg%20has%20been%20recognized%2012,Food%2C%20Beverage%20and%20Agriculture%20category>. Accessed on 5/8/2022.

Check Your Progress-3

17. Applied ethics does not deal with:
 - a. Corruption.
 - b. Psychological issues.
 - c. Misleading advertising.
 - d. Testing drugs on animals.
18. Countries depend on the dynamics of the market system in order to allocate goods and services. In order to work efficiently, the market system should have:
 - i. the right to own and control private property.
 - ii. the freedom of choice in buying and selling goods or services.
 - iii. the access to quick, reliable, and precise market information.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii

Unit 2: Importance of Ethics in Business

19. Which of the following refers to the use of threat or force to prevent sellers from dealing with certain customers and buyers from purchasing from certain sellers?
 - a. Theft
 - b. Bribery
 - c. Coercion
 - d. Deception
20. Which of the following statements is true regarding unethical behavior in business?
 - i. Coercion decreases effective competition and results in fewer resources being allocated to producing goods and services.
 - ii. Deceptive information about products and services decreases customer satisfaction as the products and services fail to meet customer expectations.
 - iii. Theft compels the marketer or supplier to increase his/her product price to makeup for losses caused due to theft.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
21. Which of the following involves offering or receiving something of value for the purpose of influencing the action of an official in the discharge of his/her public or legal duties?
 - a. Theft
 - b. Bribery
 - c. Coercion
 - d. None of the above
22. Match the following acts with their consequences.
 - i. Coercion
 - ii. Bribery
 - iii. Deceptive information
 - p. Induces the decision maker to choose an alternative that may bring him/her some personal gain, but may not really be best one
 - q. Leads customers to choose goods and services that they would not have chosen if they had access to accurate information and thus resulting in decreased customer satisfaction
 - r. Decreases effective competition and results in fewer resources being allocated to producing goods and services than would be the case if free competition had been allowed
 - a. i/q, ii/r, iii/p
 - b. i/p, ii/r, iii/q
 - c. i/q, ii/p, iii/r
 - d. i/r, ii/p, iii/q

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23. Match the following elements of trust with their descriptions.

- i. Dependability
- ii. Predictability
- iii. Faith
- p. Eliminates unforeseen actions or risks that are not usually welcome in business
- q. Provides assurance that a person will perform as expected
- r. Belief that one will continue to be predictable and dependable
- a. i/p, ii/q, iii/r
- b. i/p, ii/r, iii/q
- c. i/q, ii/p, iii/r
- d. i/r, ii/p, iii/q

Activity:

Mark the following statements true or false --

- a. Hypernorms must be based on the free consent of the parties involved, all of whom have the right to exit when they please.
- b. Micro social contracts are developed for a community, group, or an organization. The norms of these contracts should not violate the hypernorms.
- c. Macro social contracts include political participation, ownership of property, and the duty to respect the dignity of every human being.
- d. Any conflicts that may arise among the various micro social contracts are resolved by the macro social contracts.

Answer:

2.7 Summary

- Ethics or moral philosophy is a study of right and wrong behavior, with the final aim being to define what is right and what is wrong.
- Ethical theories are commonly divided into three subject areas: metaethics, normative ethics, and applied ethics.
- To work efficiently, the market system should comprise the right to own and control private property, freedom of choice in buying and selling goods and services, and access to quick, reliable, and precise market information.
- Coercion, deceptive information, theft, and bribery are all unethical behaviors that lead to misallocation of resources and a lack of trust between the parties.

involved in a business transaction, thus hampering the effective functioning of the market system.

- To operate smoothly, an organization should maintain healthy relations with its stakeholders. Such relations are developed through trust. In a business set-up, trust is the confidence that the other party has that you will not exploit its vulnerabilities.
- To smoothly function and achieve success in the long run, an organization has to build up a relationship of trust with all its stakeholders, and this can be done by avoiding all unethical practices.
- The integrative social contract theory states that business organizations gain legality when they enter into a social contract with the society. The main elements of the theory are hypernorms, macro social contract, and micro social contract.

2.8 Glossary

Altruism: An ethical theory that states an action is morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual performing the act.

Applied Ethics: The branch of ethics that deals with controversial issues such as abortion, infanticide, cloning, testing drugs on animals, etc.

Deontological: An ethical theory that focuses on certain fundamental duties that we have as human beings. The theory states the rightness of an act is derived from some feature of the action itself.

Egoism: Ethical theory that treats self-interest as the foundation of morality.

Hyper norms: They are universal norms that apply equally to all individuals.

Linguistic issues: that deal with the meaning of the key moral terms we use.

Meta ethics: It is the study of the origin and meaning of ethical concepts.

Metaphysical: Deals with the question whether the moral values exist independently of humans or whether they are simply human conventions.

Normative ethics: is that branch of ethics that guides human conduct. It sets out certain moral standards that help us to determine what is right and what is wrong.

Psychological issues: deals with the psychological basis of the moral action.

Teleological theories: state that an action is considered morally correct if the consequences of that action are more favorable than unfavorable.

Utilitarianism: theory states that an action is morally right if the consequences of that action are more favorable than unfavorable to everyone.

Virtue ethics: is concerned with attaining these dispositions of character or personality that an individual desires in himself or others.

Virtue: An aspect of character or personality that an individual desires in himself or others.

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2.9 Self-Assessment Test

1. Ethical theories enable the manager to differentiate between right and wrong, and help take morally acceptable decisions. What are these ethical theories?
2. Developed as well as developing nations depend on the market system to allocate goods and services. What are the components of the market system? Explain the unethical behaviors that hamper the effective functioning of the market system.
3. To operate smoothly, an organization should maintain healthy relations with its stakeholders. How are healthy relations developed? Explain the role of trust in helping an organization to smoothly function and achieve success in the long run.
4. The integrative social contracts theory lays down certain norms that organizations should follow in carrying out their social responsibilities. What is the integrative social contracts theory? Explain its elements.

2.10 Suggested Readings/Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

2.11 Answers to Check Your Progress Questions

1. (a) Meta ethics

Meta ethics is the study of the origin and meaning of ethical concepts. Normative ethics deals with moral standards that help us to decide what is right and what is wrong. Applied ethics deals with specific controversial issues like capital punishment, abortion and nuclear war. Integrative social contract theory was proposed by Thomas Donaldson and Thomas Dunfee. According to the theory, a productive organization is considered as the one which ensures customer satisfaction and protects the interests of its workers, and thereby enhances the welfare of the society of which it is a part. A social contract is used as a tool to measure the performance of productive organizations.

2. (c) Moral standards that help us to decide what is right and what is wrong.

Normative ethics deals with moral standards that help us to decide what is right and what is wrong. Metaethics is the study of the origin and meaning of ethical concepts. Applied ethics deals with specific controversial issues like capital punishment, abortion, and nuclear war.

3. (c) Applied ethics deals with specific controversial issues like capital punishment, abortion, and nuclear war.

Ethical theories are grouped into three subject areas: metaethics, normative ethics, and applied ethics. Metaethics is the study of the origin and meaning of ethical concepts. Normative ethics deals with moral standards that help us to decide what is right and what is wrong. Applied ethics deals with specific controversial issues like capital punishment, abortion, and nuclear war.

4. (c) Ethics, morality

Ethics or moral philosophy is a study of right and wrong behavior, with the ultimate aim of defining what is right and wrong. Ethics is the field of enquiry. Morality is the object of that enquiry, the code or codes of behavior acceptable within a particular group at a particular time. A code is a set of rules, which are accepted as general principles, which state how people in a particular organization or country should behave.

5. (a) Meta ethics

Meta ethics deals with the entire gamut of ethical issues. It is the study of the origin and meaning of ethical concepts. It deals with metaphysical, psychological, and linguistic issues.

6. (a) Metaphysical issues

Meta ethics is the study of the origin and meaning of ethical concepts. It deals with metaphysical, psychological, and linguistic issues. Metaphysical issues deal with the question whether the moral values exist independently of humans or whether they are simply human conventions. Psychological issues deal with the psychological basis of the moral action. Linguistic issues deal with the meaning of the key moral terms we use.

7. (c) Deal with the meaning of the key moral terms we use.

Metaethics is the study of the origin and meaning of ethical concepts. It deals with metaphysical, psychological, and linguistic issues. Linguistic issues deal with the meaning of the key moral terms we use. Psychological issues deal with the psychological basis of the moral action. Metaphysical issues deal with the question whether the moral values exist independently of humans or whether they are simply human conventions.

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8. (b) Only i and iii

Normative ethics is a branch of ethics that guides human conduct. It sets out moral standards that help us to determine what is right and what is wrong. The Golden Rule is an example of a normative principle. Metaethics is the study of the origin and meaning of ethical concepts. It deals with metaphysical, psychological, and linguistic issues.

9. (b) Only i, iii, and iv

If a moral principle is to be accepted, it must be: prescriptive, i.e., formulated as an imperative or command to emphasize that the proposed action is obligatory; universal, i.e., not restricted to a particular group but is applicable to any person in a given situation; overriding, i.e., should be a primary consideration in action assessment; public, i.e., presupposes social interaction; and practical, i.e., must be achievable by an average individual in ordinary circumstances.

10. (c) Normative theories

Normative ethics is a branch of ethics that guides human conduct. It sets out moral standards that help us to determine what is right and what is wrong. There are three different normative theories: teleological ethical theory, deontological ethical theory, and virtue ethics. Teleological theories hold that an action is considered morally correct if the consequences of that action are more favorable than unfavorable. Deontological theories focus on certain fundamental duties that we have as human beings, such as not committing theft or murder. Virtue ethics emphasizes character development rather than the articulation of abstract moral principles that guide actions.

11. (c) Teleological theories

Teleological theories are also called as the consequentialist theories. These theories hold that an action is considered morally correct if the consequences of that action are more favorable than unfavorable.

12. (c) i/r, ii/p, iii/q

Consequentialists have offered three definitions of good action. Each of these definitions gives us a different consequentialist moral theory. These three theories are: egoism, utilitarianism, and altruism. Egoism states that an action is morally right if the consequences of that action are more favorable than unfavorable only to the individual performing the action. Utilitarianism states that an action is morally right if the consequences of that action are more favorable than unfavorable to everyone. Altruism states that an action is morally right if the consequences of that action are more favorable than unfavorable to everyone except the individual.

13. (c) Teleological theories hold that an action is considered morally correct if the consequences of that action are more favorable than unfavorable.

Teleological theories hold that an action is considered morally correct if the consequences of that action are more favorable than unfavorable. The drawback of teleological theory is that it is very difficult to quantify the consequences of our actions. Virtue ethics emphasizes character development rather than the articulation of abstract moral principles that guide actions. Deontological theories focus on certain fundamental duties that we have as human beings such as not committing murder or theft.

14. (b) They emphasize on character development.

Deontological theories focus on certain fundamental duties that we have as human being, such as not committing murder or theft. The duties stress that rightness of an act is derived from some feature of the action itself, with reference to its consequences. The duties upheld by deontological theory are classified under three headings: duties to God, including honoring him and praying to him; duties to oneself, including preserving one's life and sharing happiness; and duties to others, including family duties, social duties, and political duties. Virtue ethics emphasizes character development rather than the articulation of abstract moral principles that guide actions.

15. (a) Virtue

Virtue may be defined as any disposition of character or personality that an individual desires in himself/herself or others. In other words, virtues are those dispositions of character, which an individual considers to be good. Normative implies something that guides or controls. Teleological means thinking rationally about ends. Teleological theories are also called as consequentialist theories, which mean that an action is considered morally correct if the consequences of that action are more favorable than unfavorable. Deontological refers to duty or obligation.

16. (b) Virtue ethics

Virtue ethics is associated with the Greek philosopher Aristotle. Aristotle used the term virtue to explain our moral obligations. Virtue may be defined as any disposition of character or personality that an individual desires in himself/herself or others. In other words, virtues are those dispositions of character, which an individual considers to be good. Virtue ethics is concerned with attaining these dispositions. It emphasizes character development rather than the articulation of abstract moral principle that guide actions.

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17. (b) Psychological issues.

Psychological issues are dealt in metaethics. These issues deal with the psychological basis of the moral action. Applied ethics is a branch of ethics that deals with specific, often controversial moral issues like abortion, female foeticide and infanticide, displacement of tribal people due to huge hydro- electrical projects, cloning, testing drugs on animals, etc. In the field of business, it deals with controversial issues like misleading advertising, insider trading, bribery, corruption, etc.

18. (d) i, ii, and iii

Developed as well as developing nations depend on the dynamics of the market system to allocate goods and services. In order to work efficiently, the market system should have: the right to own and control private property; the freedom of choice in buying and selling goods or services; and the access to quick, reliable, and precise market information.

19. (c) Coercion

The use of threat or force to prevent sellers from dealing with certain customers, and buyers from purchasing from certain sellers amounts to coercion. Coercion decreases effective competition and results in fewer resources being allocated to producing goods and services.

20. (d) i, ii, and iii

Coercive acts, false or misleading information, theft, and bribery all constitute unethical behavior in business. The use of threat or force to prevent sellers from dealing with certain customers, and buyers from purchasing from certain sellers amounts to coercion. Coercion decreases effective competition and results in fewer resources being allocated to producing goods and services than would be the case if free competition had been allowed. Deceptive information about products and services often leads customers to choose goods and services that they would not have chosen if they had access to accurate information. Such misleading information decreases customer satisfaction as the products and services fail to meet customer expectations. Theft compels the marketer or supplier to increase his/her product price to make up for his/her losses due to theft.

21. (b) Bribery

Bribery involves offering or receiving something of value for the purpose of influencing the action of an official in the discharge of his/her public or legal duties. A bribe induces the decision maker to choose an alternative that may bring him/her some personal gain, but may not really be best one. Theft compels the marketer or supplier to increase his/her product price to make up for his/her losses due to theft. Coercion

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decreases effective competition and results in fewer resources being allocated to producing goods and services than would be the case if free competition had been allowed.

22. (d) i/r, ii/p, iii/q

Coercion decreases effective competition and results in fewer resources being allocated to producing goods and services than would be the case if free competition had been allowed. Bribery involves offering or receiving something of value for the purpose of influencing the action of an official in the discharge of his/her public or legal duties. A bribe induces the decision maker to choose an alternative that may bring him/her some personal gain, but may not really be best one. Deceptive information about products and services often leads customers to choose goods and services that they would not have chosen if they had access to accurate information. Such misleading information decreases customer satisfaction as the products and services fail to meet customer expectations.

23. (c) i/q, ii/p, iii/r

Trust comprises of three elements dependability, predictability, and faith. Dependability provides assurance that a person will perform as expected. Predictability eliminates unforeseen actions or risks, which are not usually welcome in business. Faith is the belief that one will continue to be predictable and dependable.

Unit 3

The Ethical Organization and its Corporate Code

Structure

- 3.1 Introduction
- 3.2 Objectives
- 3.3 The Ethical Organization - An Overview
- 3.4 Judging the Ethical Nature of an Organization
- 3.5 The Corporate Code
- 3.6 The Development of the Corporate Code
- 3.7 Implementation of the Corporate Code
- 3.8 Summary
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- 3.10 Self-Assessment Test
- 3.11 Suggested Readings/Reference Material
- 3.12 Answers to Check Your Progress

“Ethics is knowing the difference between what you have a right to do and what is right to do.”

- Potter Stewart

(Former Associate Justice of the Supreme Court of the United States)

3.1 Introduction

In the previous unit, we have discussed the importance of ethics in business. In this unit, we shall discuss the ethical organization and the corporate code.

Organizations should design their corporate code in such a way that it guides the employees toward ethical behavior. Three theories help in judging the nature of the ethical organization: theory of corporate moral excellence, the ethics and stakeholder theory, and the theory of ethics and corporate governance. A company's corporate code incorporates its values; therefore, it is essential to develop it. The development of a corporate code involves identification of the key behavior that maximizes long-term value, review of codes, communicating the codes to employees, and finally updation of codes according to the laws and regulations. After development, the code should be implemented.

This unit will first discuss the definition of an ethical organization, and discuss how to judge whether an organization is ethical or not. We shall then move on to discuss the concept of the corporate code, and understand its importance. Finally, we shall find out the ways to develop and implement a corporate code.

3.2 Objectives

By the end of this unit, you should be able to:

- Define an ethical organization.
- Explain how to judge an organization as ethical or unethical.
- Discuss the concept of the corporate code and its importance.
- Identify the ways to develop and implement a corporate code.

3.3 The Ethical Organization - An Overview

For organizations to be called ethical, they must show ethical behavior, which is an outcome of their policies, statements, and guidelines. An organization is a consciously coordinated social unit comprising two or more people that function on a relatively continuous basis to achieve a common goal or set of goals. Manufacturing and service firms, schools, hospitals, church, military units, retail stores, police departments, and state and central government agencies are regarded as organizations.

3.4 Judging the Ethical Nature of an Organization

While it is difficult to judge whether an organization is ethical or not, it can be done with the help of the following theories.

3.4.1 Theory of Corporate Moral Excellence

According to the theory of corporate moral excellence, an ethical organization is based on moral values that guide the employees' behavior in their routine activities. The theory focuses on corporate culture and ethical behavior. Analysts believe that an organization culture which is based on its values has an impact on the employees' behavior. Corporate values can be classified as espoused values and values in practice.

Espoused values refer to a company's statements, credos, and code of ethics that describe the organization's purpose and ethical perspective. Ethical perspectives help in guiding those who are responsible for leading and directing the organization. They should communicate to employees, customers, competitors, and suppliers the type of behavior that is acceptable to the organization.

Often, the espoused values differ from values in practice. For example, an organization that has a mission statement customer is king may not actually the reduction in the customer level of trust the put it into practice. This difference leads to a to be called an ethical organization, an organization should align its values in practice with its espoused values. This alignment will help in enhancing employee morale and the organization's conformity to its code of ethics.

The theory of corporate moral excellence was developed by Michael Hoffman based on the concept of corporate culture. He classified corporate culture into

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three types - values, attitudes, and beliefs of the organization; organizational goals, policies, structure, and strategies that are shaped by the values, attitudes, and beliefs prevalent in the organization; and organizational procedures and processes. Hoffman opined that employees were responsible for developing organizational goals and played a major role in evaluating the corporate culture and implementing a change process, if required. He stated that espoused values and values in practice should be ethically accepted, and that a morally excellent organization would try to strike a healthy balance between the corporate culture and the autonomy of its employees.

Clutterbuck suggested a different approach to achieve corporate moral excellence. His approach aimed at providing insights into the organization. To do this, there were certain requirements.

- The need for an ethics auditor. Organizations themselves conduct a self-assessment exercise to gauge the ethical nature of their actions and operations.
- The need to disclose exceptions of employee behavior, a common practice followed in countries like Europe and the US.
- The need to support an organization's ethical behavior. This can be done by creating an ethics committee and vesting it with a wide range of powers.
- The need for reward systems to encourage ethical behavior.

Introducing such systems in an organization would help bring out the differences, if any, between the espoused values and the values in practice, and enable judging of unethical behavior and its responses.

3.4.2 Ethics and Stakeholder Theory

In an ethical organization, managers act responsibly by paying attention to the stakeholders' needs and rights. The management's behavior toward stakeholder plays the ethics and stakeholder theory states that the chief purpose of any organization is to maximize value to the shareholders. Stakeholders refer to all those who are influenced by the organization's activities such as shareholders, employees, customers, suppliers, lenders, and the society at large.

An ethical organization recognizes its responsibilities toward its stakeholders and considers their interests while taking managerial decisions. The stakeholder theory acknowledges the fact that every business deals with a variety of stakeholders, and any decision taken by the managers and the board would impact all the stakeholders. The theory also states that companies have responsibilities and obligations that extend beyond the shareholders' interests and needs and they have to decide about the kind of responsibility they want to take on. Hosmer proposed five managerial responsibilities - ethical, conceptual, technical, functional, and operational. Ethical responsibilities include distribution of benefits and allocation of costs in a manner that is considered right, proper, and just by the stakeholders.

3.4.3 Ethics and Corporate Governance

The theory of ethics and corporate governance states that the governance practices adopted by an organization to ensure right, fair, proper, and just decisions and actions play a major role in building an ethical organization. The theory deals with the determination of what is right, fair, proper, and just in decisions and actions that affect stakeholders. It focuses on the business relationship with employees, customers, stockholders, creditors, suppliers, and members of the society in which it operates.

According to Anthony Jay, the theories of corporate governance are based on the theories of government. These theories use terms such as accountability, authority, power, consent, responsibility, policy-making, and administration, which are concerned with enhancing the management of large organizations, and draw heavily on concepts developed in the study of government.

Political philosophy discusses the relationship between ethical behavior and political or governmental processes. Aristotle seconded the view that ethics has a close relationship with government or organization because every action of theirs is aimed at achieving some good. Aristotle and other prominent political theorists were of the view that formal mechanisms of government were designed and run by human beings, and that they changed often as no particular mechanism could guarantee happiness to human beings. Thus, people who were vested with power and authority had to continuously strive to evolve a governance mechanism based on the values and beliefs of the system. These morals and beliefs were associated with corporate governance and were significant in influencing the formal procedures that demanded ethical behavior.

According to Organization for Economic Co-operation and Development, “Corporate Governance is the system by which business corporations are directed and controlled. The Corporate Governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.”

Cannon defines Corporate Governance as “The sum of those activities, which make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership, and control.” In other words, senior managers act as agents on behalf of the asset owners and are accountable to them for the use of the firm's assets. The scope of Corporate Governance is limited to ensuring stable income levels for shareholders. According to this definition, wage packages for senior managers too come within the scope of Corporate Governance. High remuneration packages for directors, perks for senior executives, and ‘golden handshake’ schemes can be challenged

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by the shareholders.

The concern relating to Corporate Governance in the private sector in Britain led to the setting up of the Cadbury committee. In 1991, a committee was established comprising the Financial Report Council, the London Stock Exchange, and Accountancy Professional Bodies to examine the financial aspects of Corporate Governance. In 1992, the committee report was published as the Voluntary Code of Best Practice. The report comprised various recommendations for the Board of Directors of many listed companies in the UK. The report mentioned the need to disclose financial statements and audit reports, so as to ensure that the stakeholders with a legitimate interest in a company had access to the financial information required for exercising their rights and responsibilities. The report encouraged organizations to disclose company financial statements as it felt transparency was the basis for public confidence in the corporate system.

The report recommended some proposals for guiding company activities.

1. The first proposal was aimed at examining the financial statements and assisting the directors in fulfilling their duties and protecting the organization against their undue concentration of power.
2. The second proposal focused on the roles and responsibilities of the members. There was to be a clear division of responsibility between the Chairman and the CEO. These roles were not to be combined and carried out by one person.
3. The third proposal was concerned with the remuneration packages of executives. It recommended the formation of a non-executive director committee. This committee was to disclose details about the remuneration package in the company annual reports.
4. The fourth proposal was concerned with the establishment of an audit committee. Such a committee would inspire confidence in the accounts published by the company.

According to a 1993 London Stock Exchange regulation, companies were obliged to state in their annual reports whether they were complying with the Code of Best Practices and to give reasons for any non-compliance. The main objective of the obligations was to provide feedback about the compliance. The Cadbury committee took the feedback to comply with the code, as this would enhance their market standing. If companies did not follow the code, the threat was that the Government would be obliged to introduce legislation to enforce compliance.

The theories concerning Corporate Governance focus attention on the policy and decision-making structures of large companies. They stem from the concern for the rights of shareholders and the responsibilities of senior executives. They emphasize the need for openness in decision making and require corporates to be governed in accordance with perceived business values. To be considered ethical, an organization should ensure that its corporate code incorporates the company's values, which ensure the ethical behavior of its employees.

Example: Uttar Pradesh Power Corporation Ltd (UPPCL) Breached Employee Trust

The Uttar Pradesh Power Corporation Ltd. (UPPCL) violated government guidelines and deposited about Rs. 2,000 crores of employee provident fund in Dewan Housing Finance Ltd (DHFL). DHFL went insolvent and later turn of events UPPCL could only get Rs.500 crores back as debt settlement. In 2021, when UPPCL approached National Company Law Tribunal (NCLT) for full refund, UPPCL was faulted for investing in DHFL despite knowing the deposits were unsecured. This amounted to gross breach of employee trust.

Source: <https://www.hindustantimes.com/cities/lucknow-news/pf-scam-uppcl-plans-to-move-sc-for-full-refund-from-dhfl-101643817300104.html> Date: February 2, 2022 Accessed on September 28, 2022.

Activity: Answer whether the following statements are true or false.

1. The theory of corporate moral excellence states that an ethical organization is based on moral values that guide the employee's behavior in their routine activities.
2. Values in the practice refer to a company's statements, credos and code of ethics describe the organization's purpose and ethical perspective. The ethics and stakeholders' theory states that the governance practices adopted by an organization to ensure right, fair, proper, and just decisions and actions play a major role in building an ethical organization.
3. Corporate governance refers to the sum of those activities, which make up the internal regulation of the business in compliance with the obligations placed on the firm by legislation, ownership, and control.
4. To be considered ethical, an organization should ensure that its corporate code incorporates the company values which ensure the ethical behavior of its employees

Answer:

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Check Your Progress-1

1. Which of the following theories provides a framework for judging the ethical nature of an organization?
 - i. Deontological theory
 - ii. Theory of corporate moral excellence
 - iii. Teleological theory
 - iv. Ethics and stakeholder theory
 - a. Only i and ii
 - b. Only i and iv
 - c. Only ii and iii
 - d. Only ii and iv
2. Match the following theories with their assertions.
 - i. Theory of corporate moral excellence
 - ii. Ethics and stakeholder theory
 - iii. Theory of ethics and corporate governance
 - p. The management behavior toward its stakeholders plays a crucial role in building an ethical organization.
 - q. Culture and values have a major role in creating an ethical environment in an organization.
 - r. Governance practices play a major role in building an ethical organization.
 - a. i/r, ii/p, iii/q
 - b. i/p, ii/q, iii/r
 - c. i/q, ii/p, iii/r
 - d. i/r, ii/q, iii/p
3. According to the theory of corporate moral excellence,
 - a. ethical organization is one that is based on moral values. These moral values guide the behavior of the employees in their day-to-day activities.
 - b. an ethical organization is one whose managers act in a responsible manner by paying attention to the needs and rights of all the stakeholders.
 - c. the governance practices adopted by the organization to ensure right, fair, proper, and just decisions and actions play a major role in building an ethical organization.
 - d. Both (a) and (c)
4. Which of the following statements is false regarding the ethics and stakeholders' theory?
 - a. An ethical organization is one whose manager acts in a responsible manner by paying attention to the needs and rights of all the stakeholders.
 - b. The behavior of the management toward its stakeholders plays a crucial role in building an ethical organization.

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- c. Culture and values have a major role in creating an ethical environment in an organization.
 - d. Both (a) and (b)
- 5. Identify the theory that focuses on corporate culture and ethical behavior.
 - a. Theory of corporate moral excellence
 - b. Ethics and corporate governance theory
 - c. Ethics and stakeholders theory
 - d. All of the above
- 6. Which of the following theory argues that culture and values play a major role in creating an ethical environment in an organization.
 - a. ethics and stakeholder theory
 - b. ethics and corporate governance
 - c. theory of corporate moral excellence
 - d. All of the above
- 7. Which of the following refers to a company's statements, credos and code of ethics?
 - a. Corporate credos
 - b. Espoused values
 - c. Compliance codes
 - d. None of the above
- 8. All the given statements are true regarding espoused values, except:
 - a. These values refer to a company's statements, credos and code of ethics.
 - b. They describe the organization's purpose and ethical perspective.
 - c. They are as same as the values in practice.
 - d. Both (a) and (b)
- 9. In which of the following ways, the difference between the values espoused and the values in practice would impact the level of trust in the customers?
 - a. increase
 - b. decrease
 - c. not affect
 - d. None of the above
- 10. Who proposed the theory of corporate moral excellence for judging the ethical nature of an organization?
 - a. Adam Smith
 - b. Talcott Parsons
 - c. Milton Friedman
 - d. Michael Hoffman

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11. Identify the statements that hold true regarding the views of Michael Hoffman regarding the theory of corporate moral excellence.
 - i. Employees were responsible for developing organizational goals.
 - ii. Employees play a major role in evaluating the corporate culture and implementing a change process, if required.
 - iii. A morally excellent corporation tries to strike a healthy balance between the corporate culture and the autonomy of its employees.
 - iv. The espoused values and the values in practice should be ethically accepted.
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
12. Which of the following actions will enable an organization to achieve corporate moral excellence?
 - i. The appointment of an ethics auditor
 - ii. The formation of an ethics committee
 - iii. The implementation of a reward system
 - iv. The disclosure of exceptions in employee behavior
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
13. Which of the following statements is not true regarding the approach proposed by Clutterbuck for achieving corporate moral excellence in organizations?
 - a. An external agency is required to conduct an assessment exercise of the organization to gauge the ethical nature of its actions and operations.
 - b. The exceptions of employee behavior should be disclosed.
 - c. The ethical behavior of the organization should be supported by creating an ethics committee and vesting a wide range of powers.
 - d. Reward systems are required to encourage ethical behavior.
14. Identify the theory that states that paying attention to the needs and rights of all the stakeholders of a business is a useful way of developing ethically responsible behavior by the managers.
 - a. Ethics and stakeholder theory
 - b. Ethics and corporate governance
 - c. Theory of corporate moral excellence
 - d. All of the above

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15. Which of the following statements is true regarding the ethics and stakeholder theory?
 - i. It states that the primary purpose of any organization is to maximize the shareholder value.
 - ii. It acknowledges the fact that every business deals with a variety of stakeholders, and any decision taken by the managers and the Board of Directors would have an impact on all the stakeholders.
 - iii. It states that companies have responsibilities and obligations that extend beyond interests and needs of the shareholders.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
16. Which of the following relate to responsibilities that include the distribution of benefits and allocation of costs in a manner that is considered right, proper, and just by the stakeholders?
 - a. Ethical
 - b. Conceptual
 - c. Functional
 - d. Technical
17. According to the ethics and stakeholder theory, businesses should give importance to
 - a. the moral values of the organization.
 - b. the rights of the stakeholders.
 - c. right, fair, and just decisions.
 - d. establishing good corporate governance mechanism.
18. Identify the theory that states that the practices adopted by the organization to ensure right, fair, proper, and just decisions and actions.
 - a. Ethics and stakeholder theory
 - b. Ethics and corporate governance
 - c. Theory of corporate moral excellence
 - d. None of the above
19. VirtuSoft, a well known IT company, gives utmost importance to right, fair, proper, and just decisions and actions. What ethical theory/theories does it follow?
 - a. Deontological theory
 - b. Ethics and corporate governance
 - c. Theory of corporate moral excellence
 - d. Ethics and stakeholder theory

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20. The theory of ethics and corporate governance is based on the
 - a. teleological theory.
 - b. theories of government.
 - c. ethics and corporate governance theory.
 - d. ethics and stakeholder theory.
21. Identify the statements that do not hold true about the ethics and corporate governance theory.
 - a. It is based on the teleological theories.
 - b. It deals with the determination of what is right, fair, proper, and just in decisions and actions that affect stakeholders.
 - c. It focuses on the business relationship with employees, customers, stockholders, creditors, suppliers, and members of the society in which it operates.
 - d. Both (a) and (b)
22. Which of the following statements do not hold true regarding the views expressed by Aristotle and other political theorists regarding the relationship between ethical behavior and political or governmental processes?
 - a. Ethics has a close relationship with government or organization because every action of theirs is aimed at achieving some good.
 - b. Formal mechanisms of government are designed and run by human beings and they do not change from time to time.
 - c. People who have power and authority must continuously strive to evolve a governance mechanism that is based on the values and beliefs of the system.
 - d. Morals and beliefs are associated with corporate governance and are significant in influencing the formal procedures that demand ethical behavior.
23. According to the Organization for Economic Cooperation and Development (OECD), all the given statements about corporate governance is true except:
 - a. It is a system by which business corporations are directed and controlled.
 - b. It is a structure that specifies the distribution of rights and responsibilities among different participants in the corporation.
 - c. It does not spell out the rules and procedures for making decisions on corporate affairs.
 - d. It provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.

3.5. The Corporate Code

Every organization has its own corporate code, which reflects its purpose and guides the employees toward ethical behavior. A corporate code refers to those policy statements that are designed to govern employees' conduct and lay down

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the company's ethical standards helps in providing clarity to strategy, leads to better decision making, clearer communication, ease in delegation, inspiring employees to have a greater commitment and loyalty toward the organization, and the freedom to address any issue such as employees' safety and health, and workers' rights.

Corporate codes are voluntary to organizations, and their implementation depends on the concerned organization. They are formulated by the CEO, Board of Directors, legal departments, consultants, top management, and sometimes employee representatives and selected employees. A corporate code can be developed in any of the following formats.

- *Compliance codes*: Directive statements, which provide guidance and prohibit certain kinds of conduct.
- *Corporate credos*: Broad general statements of corporate commitments relating to constituencies, values, and objectives.
- *Management philosophy statements*: Formal statements of the company or the CEO's vision of the business.

Example: Microsoft's Trust Code

Microsoft, the IT giant, had clearly delineated its standards of code of business conduct. The company termed it as "Trust Code". In it, the company's mission, values and cultures were enshrined and available for download from the company's website for all stake holders. The company's mission was to empower everyone one and every organisation to achieve more and 'Respect', 'Integrity' and 'Accountability' were its values and it wished to inculcate the culture of 'growth mindset', 'customer obsessed', 'diverse and inclusive', 'one Microsoft' 'Making a Difference'.

Source: <https://www.microsoft.com/en-us/legal/compliance/sbc> Year: 2022 Accessed on September 28, 2022.

The US Labor Department conducted a survey to distinguish between the various formats used while formulating the corporate code.

- *Special documents*: Also known as codes of conduct, these reflect company values, principles, and guidelines. These documents communicate the purpose of the business and the nature of the relationship that the company has with suppliers, customers, consumers, and stakeholders.
- *Circulated letters*: These reflect the company's on certain issues company's policies concerning suppliers, contractors, and buying agents.
- *Compliance certificates*: These are especially designed for suppliers, contractors, and buying agents to certify that they abide by the company's stated standards.
- *Purchase orders*: Also known as letters of credit, these are drafted in accordance with the company's policies. Which are related to the contractual obligations of suppliers.

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The success of a code of conduct depends on its credibility, i.e., when its existence and meaning is known to various groups like contractors, workers, and government. A code of conduct will be credible if it is transparent and easy to enforce and monitor. Transparency of code can be achieved through posting, dissemination, and training regarding its provisions. Enforcement can be positive or negative. Positive enforcement involves retention of current contracts and awarding new or additional contracts. Negative enforcement involves monetary fines, corrective acts, cancellation of an individual contract, and severance of the employment or business relationship. Monitoring, internal or external, refers to validating the code. Internal monitoring involves monitoring by setting up a committee, ombudsman, regular reporting obligation, regular field visits, or hotlines. External monitoring involves monitoring by an outside auditor, consultant, etc.

Activity: Match the following terms with their respective descriptions		
1. Compliance codes	p	These reflect the company's policies on certain issues concerning suppliers, contractors and buying agents.
2. Management philosophy statements	q	Directive statements which provide guidance and prohibit certain kinds of conduct;
3. Compliance certificate	r	Board general statements of corporate commitments relating to constituencies, values and objectives.
4. Corporate credos	s	Formal statements of the company or the CEO's vision of the business.
5. Circulated letters	t	These are especially designed for suppliers, contractors, and buying agents to certify that they abide by the company's stated standards.
Answer:		
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Check Your Progress-3

24. Identify the aspects that are involved in the development of a corporate code.
- Identification of the key behavior that maximizes long-term value
 - Review of the codes
 - Communicating the codes to employees

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- iv. Updating the codes according to the laws and regulations
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
- 25. Which of the following refers to those policy statements that lay down the ethical standards of a company?
 - a. Corporate code
 - b. Corporate credo
 - c. Compliance code
 - d. Management philosophy statement
- 26. Identify the statements that do not hold true regarding a corporate code.
 - a. Corporate codes reflect the purpose of the company and guide the employees to behave in an ethical manner.
 - b. Only large organizations can have corporate codes.
 - c. A corporate code refers to those policy statements that lay down a company's ethical standards.
 - d. Corporate code ensures better decision making and clearer communication.
- 27. Which of the following statements are true regarding corporate codes?
 - i. They are designed to govern the conduct of the employees.
 - ii. They enhance better decision-making and ease in delegation.
 - iii. They refer to those policy statements that lay down company's ethical standards.
 - iv. They are enforced legally and their implementation is dependent on the government authorities and the company concerned.
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
- 28. Identify the entities that are involved in formulating the corporate code.
 - i. Suppliers
 - ii. Consultants
 - iii. Legal departments
 - iv. Chief executive officer
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv

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29. Identify the formats in which the corporate code can be developed.
- Compliance codes
 - Corporate credos
 - Management philosophy statements
 - All of the above
- Only i and iii
 - Only i and ii
 - Only ii and iii
 - i, ii, iii and iv
30. Compliance codes, corporate credos, management philosophy statements, special documents, and compliance certificates are all components of which of the following?
- Corporate governance.
 - Stakeholder theory.
 - Corporate code.
 - Corporate ethics.
31. Which of the following are directive statements that provide guidance and prohibit certain kinds of conduct?
- Corporate credos
 - Compliance codes
 - Compliance certificates
 - Management philosophy statements
32. What are Corporate credos?
- Formal statements of the company or the CEO's vision of the business.
 - Broad general statements of corporate commitments relating to constituencies, values, and objectives.
 - Drafted in accordance with the company's policies that are aimed at contractual obligation for suppliers.
 - None of the above
33. The formal statements of the company or the CEO's vision of the business are given as
- Corporate credos.
 - Compliance codes.
 - Special documents.
 - Management philosophy statements.
34. Following are the formats in which a corporate code can be developed. Match the formats with their respective description.
- Compliance codes

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- b. Corporate codes
 - c. Management philosophy statements
 - p. The formal statements of the company or the CEOs vision of the business
 - q. Directive statements, which provide guidance and prohibit certain kind ofconduct
 - r. The broad general statements of corporate commitments relating to constituencies, values, and objectives
- a. i/p, ii/r, iii/q
 - b. i/q, ii/r, iii/p
 - c. i/r, ii/p, iii/q
 - d. i/q, ii/p, iii/r
35. What are also referred to as the codes of conduct?
- a. Purchase orders
 - b. Corporate credos
 - c. Special documents
 - d. Management philosophy statements
36. All the given statements regarding special documents are true except:
- a. These documents reflect company values, principles, and values.
 - b. These also known as the letter of credit.
 - c. These documents are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers
 - d. These documents communicate the purpose of the business and the nature of therelationship with the stakeholders.
- a. Only i and ii
 - b. Only i and iv
 - c. Only ii and iii
 - d. Only iii and iv

3.6 The Development of Corporate Code

In most organizations, the corporate code is developed by the top management. Following are some guidelines to be followed in developing the code.

- **Identify key behaviors:** The key behaviors that maximize the long-term owner value should be identified. These may relate to the product or service, workplace, or any other areas that are vital for achieving the corporate goals.
- **Review by key members of the organization:** The legal department should review the code.
- **Communicate the code:** A copy of the code must be sent to all the employees.

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- **Update:** Codes should be updated at least once a year to ensure that they are in tune with both the company and the government laws.

Organizations adopt corporate codes to regulate themselves and so avoid government regulations, and to improve their image among the general public and their peers in the industry. The press, stock market, and the tobacco industry follow this strategy with regard to advertising. The corporate code is used interchangeably with codes of practice, code of conduct, code of ethics, and mission statements. The code of practice by nature is specific, while value statements are general.

Example: Unilever's Code of Conduct

Unilever, the British based MNC in consumer goods sector, published its latest code of conduct on its website for the year 2022. The values stated were 'Integrity', 'Respect', 'Responsibility', and 'Pioneering' and it was mentioned that these values govern everything they did. It could be observed that the aspects of identifying key behaviours in drafting the corporate code reflecting the long presence of the company in the market and yearly update of the code were taken care of by Unilever.

Sources:

<https://www.unilever.com/files/92ui5egz/production/7c3bc597d68e665bbd4974f7e3636e20e70bb2c8.pdf> Year: 2022, Accessed on September 28, 2022.

3.7 Implementation of Corporate Code

After drafting the corporate code, the company should implement it. Ferrell and Fraedrich opined that the implementation of strategies for making a corporate code was no different from implementing other types of business strategies. The approach they proposed for implementing the corporate code was based on four aspects: organizational structure, coordination, motivation, and communication.

Based on the organizational structure, authority should be delegated to ensure appropriate levels of ethical behavior. Coordination is aimed at arranging and synchronizing the activities of employees so that the company can achieve its objectives efficiently, effectively, and ethically. It ensures that different departments in an organization are following the same ethical code. Motivation aims at the ethical behavior of employees. It also involves recognizing the people who are to be motivated in different ways, i.e., motivating employees through the quality of ethical performance of their company. Communication aims at maintaining the ethical climate of the company. This can happen through effective employee coordination and motivation.

McDonald and Zepp developed an approach for implementing the corporate code based on three perspectives - the individual dimension, group or peer influence, and organizational strategies. The individual dimension recognizes individual needs and develops appropriate ethical values. These values differ from person to person and are reflected in different behaviors. Training programs

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should be conducted to make employees conform to certain acceptable ethical behaviors, and to help them in addressing the various ethical dilemmas faced by them in business.

Lickona recommended the following approach - using Socratic questioning of isolate views and confront reasoning; encouraging open and integrative discussions; eliciting the full range of ethical values, and using an experimental approach to involve the participants so that they come up with real life ethical dilemmas. McDonald and Zepp opined that if an organization was concerned about the ethical behavior of its employees, it should recruit candidates with ethical standards instead of attempting to change the behavior of existing employees. They were also of the view that it was ethical leadership rather than ethical policies that encouraged employees to behave ethically. Due to this, most organizations employed ethical ombudsmen to act as counselors and advisors to the employees.

A code of ethics is developed as part of the organizational strategy, and it lays down the ethical behavior that must be followed by employees. A code that is not developed through prolonged and extensive discussion may not reflect the employees views on ethics. Its development generally involves discussion among the members. This discussion would trigger some sort of agreement about the basic values of business and means for solving the ethical dilemmas faced by the businesses.

Example: Ethics & Compliance Task Force of Reliance Retail

Reliance Retail, the retail arm of Indian Conglomerate Reliance Industries, had set in place the Ethics & Compliance Task Force (ECTF) which looked after the implementation of the retail company's corporate code of conduct. The ECTF would process and investigate any reportable matter dealing with fraudulent practices, corruption and breach of code of conduct. The Reliance Retail General Counsel would be the Chair of the ECTF.

Sources: <https://www.relianceretail.com/pdf/vigil-mechanism-and-whistle-blower-policy.pdf>
Year: 2022 Accessed on September 28, 2022.

An ethics committee set up in an organization formulates and reviews policies, receives complaints from employees, and deals with issues like violation of the company code. For instance, reward systems in organizations are mostly based on performance and output. This might lead to unethical behavior for achieving increased output. The ethics committee would review the policy and suggest an appropriate criterion for giving rewards.

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Activity: Prepare a list of at least five organizations that you consider are ethical and five organizations which you do not consider ethical. State the reasons for your choice.

Answer:

Check Your Progress-3

37. Which of the following reflects the company's policies on certain issues concerning suppliers, contractors, and buying agents?
- Purchase orders
 - Circulated letters
 - Compliance certificates
 - Special documents
38. Compliance certificates are
- Drafted in accordance with the company's policies that are aimed at contractual obligation for suppliers.
 - Designed for suppliers, contractors, and buying agents to certify that they abide by the company's stated standards.
 - Documents that communicate the purpose of the business and the nature of the relationship with the stakeholders.
 - None of the above
39. Identify the statements that hold true regarding purchase orders.
- These are also called as letter of credit.
 - These are drafted in accordance with the company's policies that are aimed at contractual obligation for suppliers.
 - These communicate the purpose of the business and the nature of the relationship with the stakeholders.
 - Both (a) and (b)
40. Following are the formats in which a corporate code can be developed. Match the formats with their respective description.
- Circulated letters
 - Compliance certificates
 - Purchase orders
 - These are especially designed for suppliers, contractors and buying agents to certify that they abide by the company's stated standards.

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- q. These reflect the company's policies on certain issues concerning suppliers, contractors, and buying agents.
 - r. These are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers.
 - a. i/p, ii/r, iii/q
 - b. i/r, ii/p, iii/q
 - c. i/q, ii/p, iii/r
 - d. i/r, ii/p, iii/q
41. The success of a code of conduct depends on which of the following?
- i. credibility
 - ii. transparency
 - iii. ease of enforceability
 - iv. ease of monitoring
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
42. All the given statements pertaining to ensuring the credibility of a corporate code are true except:
- a. Internal monitoring of the code involves monitoring by setting up a committee, ombudsman, regular reporting obligation, etc.
 - b. External monitoring of the code involves monitoring by an internal auditor or consultant.
 - c. Positive enforcement involves retention of current contracts and awarding the new or additional contracts.
 - d. Negative enforcement involves monetary fines, corrective acts, cancellation of an individual contract, etc.
43. For which of the following purposes do organizations develop corporate codes?
- i. regulate themselves in order to avoid government regulations.
 - ii. to improve their image in the public and marketplace.
 - iii. guide the employees to behave in an unethical manner.
 - a. Only i and iii
 - b. Only ii and iii
 - c. Only i and ii
 - d. i, ii, and iii

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44. Which of the following is not an aspect in the approach proposed by O. C. Ferrell and John Fraedrich for implementing the corporate code?
- a. Motivation
 - b. Coordination
 - c. Communication
 - d. Organizational strategies
45. Based on which of the following aspects proposed by Ferrell and Fraedrich for implementing the corporate code is the authority delegated to ensure appropriate levels of ethical behavior?
- a. Motivation
 - b. Coordination
 - c. Organizational structure
 - d. Organizational strategies
46. Coordination, an aspect proposed by Ferrell and Fraedrich for implementing the corporate code,
- a. Ensures that the different departments in an organization are following the same ethical code.
 - b. Involves recognizing the people through the quality of ethical performance of their company.
 - c. Aims at arranging and synchronizing the activities of employees so that the company can achieve its objectives efficiently, effectively, and ethically.
 - d. Both (a) and (c)
47. Which of the following involves recognizing the people through the quality of ethical performance of their company?
- a. Motivation
 - b. Coordination
 - c. Communication
 - d. None of the above
48. Which of the following can help maintain the ethical climate of the organization?
- a. Peer influence.
 - b. Communication.
 - c. Organizational structure.
 - d. Organizational strategies.
49. Which of the following is not an aspect in the approach proposed by Mac Donald and Zepp for implementing the corporate code?

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- a. Group influence
 - b. Individual dimension
 - c. Organizational structure
 - d. Organizational strategies
50. Which of the following statements is false regarding the approach proposed by Mac Donald and Zepp regarding implementation of the corporate code?
- a. The individual dimension recognizes the needs of individuals and develops appropriate ethical values.
 - b. Ethical values do not differ from individual to individual.
 - c. Organizations must conduct training programs to make employees conform to certain acceptable ethical behaviors.
 - d. Training programs should also address the various ethical dilemmas faced by managers in the business world.
51. Which of the following is true regarding the approach proposed by Lickona regarding implementation of the corporate code?
- i. Using Socratic questioning of isolate views and confront reasoning
 - ii. Encouraging open and integrative discussions
 - iii. Eliciting the full range of ethical values
 - iv. Using an experimental approach to involve the participants so that they come up with real life ethical dilemmas
- a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
52. Identify the statements that do not hold true about the views stated by MacDonald and Zepp regarding the implementation of corporate code in organizations and ethical behavior.
- i. Ethical values differ from individual to individual and are reflected in different behaviors.
 - ii. Ethical policies rather than ethical leadership encourage the employees to behave ethically.
 - iii. Organizations must conduct training programs to make employees conform to certain acceptable ethical behaviors.

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- iv. Organizations should attempt to change the ethical behavior of the existing employees instead of recruiting new candidates with ethical standards.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iv
 - d. Only iii and iv
53. Which of the following tasks are carried out by an ethics committee?
- i. It formulates and reviews policies.
 - ii. It receives complaints from employees.
 - iii. It deals with issues like violation of the company code.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
-

3.8 Summary

- Organizations, to be called ethical, should exhibit ethical behavior, which is an outcome of their ideal policies, statements, and guidelines.
- Three theories - the theory of corporate moral excellence, ethics and stakeholder theory, and theory of ethics and corporate governance - help in judging the ethical nature of an organization.
- Every organization has its own corporate code, which reflects its purpose and guides the employees toward ethical behavior. A corporate code refers to those policy statements that are designed to govern employees' conduct and lay down a company's ethical standards.
- The development of the corporate code involves identifying key behaviors, a review by key members of the organization, communicating the code, and updation.
- After drafting the corporate code, the company should implement it by following an ideal approach. Thinkers like Ferrell, Fraedrich, McDonald, Zepp, and Lickona have developed some approaches for this purpose.

3.9 Glossary

Circulated letters: It reflects the company policies on issue concerning to suppliers, contractors and buying agents.

Compliance certificates: Certificates designed for suppliers, contractors, buying agents to show that they follow the company's stated standards

Compliance codes: Directive statements, which provide guidance and prohibit

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certain kind of conduct for its employees.

Corporate code: Company's policy statements that define the ethical code.

Corporate credos: Broad general statements of corporate commitments.

Corporate governance: It is the system by which business corporations are directed and controlled. It specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

Ethics and corporate governance theory: A theory that states that the governance practices adopted by the organization to ensure right fair proper and just decisions and actions. Plays a major role in building an ethical organization.

Ethics and stakeholder's theory: A theory that states an ethical organization is one whose managers act in a responsible manner by paying attention to the needs and rights of all the stakeholders.

Purchase orders or letter of credits: are drafted in accordance with the company policies, which are aimed at contractual obligation for suppliers.

Theory of corporate moral excellence: According to this theory an ethical organization has an established culture that is based on moral values. These moral values guide the behavior of the employee in their day-to-day activities that affect the image of an organization.

3.10 Self-Assessment Test

1. Organizations, to be called ethical, should possess ethical behavior. How is it possible to judge whether an organization is ethical or not? Describe in detail.
2. To get recognized as an ethical organization in the eyes of the stakeholders, organizations should design their corporate code in such a way that it guides the employees toward ethical behavior. Explain in detail about the corporate code and the guidelines to be followed in its development.
3. After drafting the corporate code, the company should implement it. What are the various approaches that can be used in implementing the corporate code?

3.11 Suggested Readings / Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate

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Governance. 1st edition. Wiley

4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

3.12 Answers to Check Your Progress Questions

1. (d) Only ii and iv

Three theories provide a framework for judging the ethical nature of an organization. These are: theory of corporate moral excellence, ethics and stakeholder theory, and ethics and corporate governance theory. The theory of corporate moral excellence asserts that the culture and values have a major role in creating an ethical environment in an organization. The ethics and stakeholder theory argues that the management behavior towards its stakeholders plays a crucial role in building an ethical organization. According to the theory of ethics and corporate governance, governance practices play a major role in building an ethical organization. Deontological theories focus on certain fundamental duties that we have as human beings. They state that the rightness of an act is derived from some feature of the action itself. Teleological theories state that an action is considered morally correct if the consequences of that action are more favorable than unfavorable.

2. (c) i/q, ii/p, iii/r

Theory of corporate moral excellence, ethics and stakeholder theory, and ethics and corporate governance are the three theories that help us judge the nature of the ethical organization. The theory of corporate moral excellence asserts that culture and values have a major role in creating an ethical environment in an organization. The ethics and stakeholder theory argues that the management behavior towards its stakeholders plays a crucial role in building an ethical organization. According to the theory of ethics and corporate governance, governance practices play a major role in building an ethical organization.

3. (a) **Ethical organization is one that is based on moral values. These moral values guide the behavior of the employees in their day-to-day activities.**

Michael Hoffman proposed the theory of corporate moral excellence for judging the ethical nature of an organization. According to the theory of corporate moral excellence, ethical organization is one that is based on moral values. These moral values guide the behavior of the employees in their day-to-day activities. The theory of corporate moral excellence focuses on two aspects: corporate culture and ethical behavior. Analysts believe that organization culture has an impact on the behavior of its employees. Culture is based on the values of an organization.

4. (c) **Culture and values have a major role in creating an ethical environment in an organization.**

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According to the ethics and stakeholder's theory, an ethical organization is one whose managers act in a responsible manner by paying attention to the needs and rights of all the stakeholders. Hence, the behavior of the management towards its stakeholders plays a crucial role in building an ethical organization. The theory of corporate moral excellence asserts that culture and values have a major role in creating an ethical environment in an organization.

5. (a) Theory of corporate moral excellence

The theory of corporate moral excellence focuses on two aspects: corporate culture and ethical behavior. Analysts believe that organization culture has an impact on the behavior of its employees. Culture is based on the values of an organization.

6. (c) Theory of corporate moral excellence

The theory of corporate moral excellence focuses on two aspects: corporate culture and ethical behavior. It argues that culture and values play a major role in creating an ethical environment in an organization. Analysts believe that organization culture has an impact on the behavior of its employees. Culture is based on the values of an organization.

7. (b) Espoused values

Espoused values refer to a company's statements, credos and code of ethics. They describe the organization's purpose and ethical perspective. Corporate credos are broad general statements of corporate commitments. Compliance codes are directive statements, which provide guidance and prohibit certain kind of conduct for its employees.

8. (c) They are as same as the values in practice.

Espoused values refer to a company's statements, credos and code of ethics. The ethical perspectives are aimed at guiding the members who are responsible for leading and directing the organization. They are also intended to communicate to employees, customers, competitors, and suppliers the type of behavior that is acceptable to the organization. Espoused values are different from the values in practice.

9. (b) Decrease

Espoused values refer to a company's statements, credos and code of ethics they describe the organization's purpose and ethical perspective. Values in practice refer to the extent to which the espoused values are being put into practice. As a result of this difference between the values espoused and values practiced, the level of trust in customers will decline.

10. (d) Michael Hoffman

Michael Hoffman proposed the theory of corporate moral excellence for judging the ethical nature of an organization. He classified corporate culture into three types: basic values, attitudes, and beliefs of the organization; organizational goals, policies, structure, and strategies that are shaped by the values, attitudes, and beliefs prevalent in the organization; and organizational procedures and processes.

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11. (d) i, ii, iii, and iv

Michael Hoffman proposed the theory of corporate moral excellence for judging the ethical nature of an organization. He classified corporate culture into three types: basic values, attitudes, and beliefs of the organization; organizational goals, policies, structure, and strategies that are shaped by the values, attitudes, and beliefs prevalent in the organization; and organizational procedures and processes. Hoffman opined that employees were responsible for developing organizational goals. They also play a major role in evaluating the corporate culture and implementing a change process, if required. He stated that a morally excellent corporation tries to strike a healthy balance between the corporate culture and the autonomy of its employees. He also stated that espoused values and value in practice should be ethically accepted.

12. (d) i, ii, iii, and iv

Clutterbuck proposed an approach for achieving corporate moral excellence that is aimed at providing insights into an organization. He proposed the following approach: organizations should themselves conduct a self-assessment exercise to gauge the ethical nature of their actions and operations (they need to employ an ethics auditor); exceptions of employee behavior should be disclosed; the ethical behavior of the organization should be supported by creating an ethics committee and vesting a wide range of powers; and reward systems are required to encourage ethical behavior.

13. (a) An external agency is required to conduct an assessment exercise of the organization to gauge the ethical nature of its actions and operations.

Clutterbuck proposed an approach for achieving corporate moral excellence that is aimed at providing insights into an organization. He proposed the following approach: organizations should themselves conduct a self-assessment exercise to gauge the ethical nature of their actions and operations (they need to employ an ethics auditor); exceptions of employee behavior should be disclosed; the ethical behavior of the organization should be supported by creating an ethics committee and vesting a wide range of powers; and reward systems are required to encourage ethical behavior.

14. (a) Ethics and stakeholder theory

Ethics and stakeholder theory states that the primary purpose of any organization is to maximize the shareholder value. It states that paying attention to the needs and rights of all the stakeholders of a business is a useful way of developing ethically responsible behavior by the managers. The theory acknowledges the fact that every business deals with a variety of stakeholders, and any decision taken by the managers and the board of directors would have an impact on all the stakeholders.

15. (d) i, ii, and iii

The ethics and stakeholder theory states that the primary purpose of any organization is to maximize the shareholder value. An ethical organization is one that recognizes its responsibilities towards

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stakeholders and considers their interest when taking managerial decisions. The theory acknowledges the fact that every business deals with a variety of stakeholders, and any decision taken by the managers and the Board of Directors would have an impact on all the stakeholders. The stakeholder theory also states that companies have responsibilities and obligations that extend beyond interests and needs of the shareholders.

16. (a) Ethical

LaRue T. Hosmer (Hosmer) proposed five managerial-responsibilities ethical, conceptual, technical, functional, and operational. Ethical responsibilities include the distribution of benefits and allocation of costs in a manner that is considered right, proper, and just by the stakeholders.

17. (b) The rights of stakeholders

The ethics and stakeholder theory states that the primary purpose of any organization is to maximize the shareholder value. An ethical organization is one that recognizes its responsibilities toward stakeholders and considers their interest when taking managerial decisions. The managers in such an organization act in a responsible manner by paying attention to the needs and rights of all the stakeholders. Hence, the behavior of the management toward its stakeholders plays a crucial role in building an ethical organization.

18. (b) Ethics and corporate governance

The theory of ethics and corporate governance is based on theories of government, which state the ethical behavior of corporation. It deals with the determination of what is right, fair, proper, and just in decisions and actions that affect shareholders. It focuses on the business relationship with employees, customers, stockholders, creditors, suppliers, and members of the society in which it operates.

19. (b) Ethics and corporate governance

VirtuSoft follows the theory of ethics and corporate governance. The theory is based on theories of government, which state the ethical behavior of corporation. It deals with the determination of what is right, fair, proper, and just in decisions and actions that affect shareholders. It focuses on the business relationship with employees, customers, stockholders, creditors, suppliers, and members of the society in which it operates.

20. (b) Theories of government

The theory of ethics and corporate governance is based on theories of government, which state the ethical behavior of a corporation. Anthony Jay viewed that the present day large corporations are similar in many aspects to way the states were governed earlier. He feels that in order to understand the behavior of these corporations and their governance, one should be conversant with the theories of government.

21. (a) It is based on the teleological theory.

The theory of ethics and corporate governance is based on theories of

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government, which state the ethical behavior of a corporation. Teleological theories state that an action is considered morally correct if the consequences of that action are more favorable than unfavorable. All the other statements are true regarding the ethics and corporate governance theory.

22. (b) Formal mechanisms of government are designed and run by human beings and they do not change from time to time.

Political philosophy discusses the relationship between ethical behavior and political or governmental processes. Aristotle and other prominent political theorists view that ethics has a close relationship with government or organization because every action of theirs is aimed at achieving some good. They view that formal mechanisms of government are designed and run by human beings. They also believe that these formal mechanisms tend to change from time to time, as no particular mechanism can guarantee happiness to humans. Thus, people who are vested with power and authority must continuously strive to evolve a governance mechanism that is based on the values and beliefs of the system. These morals and beliefs are associated with corporate governance and are significant in influencing the formal procedures that demand ethical behavior.

23. (c) It does not spell out the rules and procedures for making decisions on corporate affairs.

According to Organization for Economic Cooperation and Development (OECD), corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the Board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance.

24. (d) i, ii, iii, and iv

A corporate code incorporates the value of a company. Thus, it is necessary for every organization to develop a corporate code. The development of corporate code involves the identification of the key behavior that maximizes long-term value, reviewing the codes, communicating the codes to employees, and finally, updating the codes according to the laws and regulations. After the code is developed, it has to be implemented in the organization.

25. (a) Corporate code

A corporate code refers to those policy statements that lay down a company's ethical standards. They are designed to govern the conduct of the employees. A corporate code can be developed in any of the following formats: compliance codes, corporate credos, management philosophy statements, special documents, compliance certificates, circulated letters, and purchase orders.

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26. (b) Only large organizations can have corporate codes.

Every organization whether large or small, has its own corporate code. Corporate codes reflect the purpose of the company and guide the employees to behave in an ethical manner. A corporate code refers to those policy statements that lay down a company's ethical standards. They are designed to govern the conduct of the employees. Corporate code enhances clarity of strategy, better decision-making, clearer communication and ease in delegation and inspires to have a greater commitment and loyalty for the organization.

27. (a) Only i, ii, and iii

Corporate codes are designed to govern the conduct of the employees. They enhance better decision-making and ease in delegation. They refer to those policy statements that lay down a company standard. Corporate codes are voluntary to organizations and enhance the freedom to address any issue such as employees' safety and health workers rights etc., Implementation of the corporate code is dependent upon the company concerned.

28. (c) Only ii, iii, and iv

Corporate codes refer to those policy statements that lay down a company's ethical standards. Corporate codes are voluntary to organizations and enhance the freedom to address any issue such as employees safety and health, workers right etc. Implementation of the corporate code is dependent upon the company concerned. They are formulated by the chief executive officer, board of directors, legal departments, consultants, and the top management. In some organizations, employee representatives and selected employees may be involved in the formulation of the corporate code. Suppliers are not involved in the process.

29. (d) i, ii, iii, and iv

Corporate codes refer to those policy statements that lay down a company's ethical standards. A corporate code can be developed in any of the following formats - compliance codes, corporate credos, and management philosophy statements.

30. (c) Corporate code.

A corporate code refers to those policy statements that lay down a company's ethical standards. They are designed to govern the conduct of the employees. A corporate code can be developed in any of the following formats compliance codes, corporate credos, management philosophy statements, special documents, compliance certificates, circulated letters, and purchase orders.

31. (b) Compliance codes

Compliance codes are directive statements that provide guidance and prohibit certain kinds of conduct. Corporate credos are the broad general statements of corporate commitments relating to constituencies, values, and objectives. Compliance certificates are especially designed for suppliers, contractors, and buying agents to certify that they abide by the company's stated standards. Management philosophy statements

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are formal statements of the company or the CEO's vision of the business.

32. (b) Broad general statements of corporate commitments relating to constituencies, values, and objectives.

Corporate credos are broad general statements of corporate commitments relating to constituencies, values and objectives. Management philosophy statements are formal statements of the company or the CEO's vision of the business. Purchase orders are drafted in accordance with the company's policies that are aimed at contractual obligation for suppliers.

33. (d) Management philosophy statements.

Management philosophy statements are formal statements of the company or the CEO's vision of the business. Corporate credos are the broad general statements of corporate commitments relating to constituencies, values and objectives. Compliance codes are directive statements, which provide guidance and prohibit certain kind of conduct. Special documents reflect company values, principles, and guidelines.

34. (b) i/q, ii/r, iii/p

Compliance codes are directive statements, which provide guidance and prohibit certain kind of conduct. Corporate credos are broad general statements of corporate commitments relating to constituencies, values, and objectives.

Management philosophy statements are the formal statements of the company or the CEO's vision of the business.

35. (c) Special documents

Special documents are also known as codes of conduct. They reflect company values, principles and guidelines. These documents communicate the purpose of the business and the nature of the relationship with the stakeholders. Corporate credos are broad general statements of corporate commitments relating to constituencies, values, and objectives. Purchase orders are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers. Management philosophy statements are the formal statements of the company or the CEO's vision of the business.

36. (c) Only ii and iii

Special documents are also known as codes of conduct. They reflect company values, principles, and guidelines. These documents communicate the purpose of the business and the nature of the relationship with the stakeholders. Purchase orders are also referred to as letter of credit. They are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers.

37. (b) Circulated letters

Circulated letters reflect the company's policies on certain issues

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concerning suppliers, contractors, and buying agents. Purchase orders are also referred to as letter of credit. They are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers. Compliance certificates are especially designed for suppliers, contractors and buying agents to certify that they abide by the company's stated standards. Special documents are also known as codes of conduct. They reflect company values, principles, and guidelines. These documents communicate the purpose of the business and the nature of the relationship with the stakeholders.

38. (b) Designed for suppliers, contractors, and buying agents to certify that they abide by the company stated standards.

Compliance certificates are especially designed for suppliers, contractors and buying agents to certify that they abide by the company's stated standards. Purchase orders are drafted at contractual obligation for suppliers. Special documents communicate the purpose of the business and the nature of the relationship with the stakeholders.

39. (d) Both (a) and (b)

Purchase orders are also referred to as letter of credit. They are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers. Special documents communicate the purpose of the business and the nature of the relationship with the stakeholders.

40. (c) i/q, ii/p, iii/r

Circulated letters reflect the company's policies on certain issues concerning suppliers, contractors, and buying agents. Compliance certificates are especially designed for suppliers, contractors and buying agents to certify that they abide by the company's stated standards. Purchase orders are also referred to as letter of credit. They are drafted in accordance with the company's policies, which are aimed at contractual obligation for suppliers.

41. (d) i, ii, iii, and iv

The success of a code of conduct depends on its credibility. These codes are considered to be credible when their existence and meaning is widely known to various groups such as contractors, workers, and government. In order to be credible and successful, these codes should be transparent, easy to enforce, and easy to monitor.

42. (b) External monitoring of the code involves monitoring by an internal auditor or consultant.

Internal monitoring involves monitoring by setting a committee, ombudsman, regular reporting obligation, regular field visits or hotlines. External monitoring involves monitoring by an outside auditor, consultant etc. Enforcement can be of two types - positive enforcement and negative enforcement. Positive enforcement involves retention of current contracts and awarding the new or additional contracts. Negative enforcement involves monetary fines, corrective acts, cancellation of an individual contract, and severance of the employment or business relationship.

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43. (c) i, and iii

Organizations develop corporate codes because they want to regulate themselves in order to avoid government regulations.

44. (d) Organizational strategies

Ferrell and Fraedrich proposed an approach for implementing the corporate code. This approach is based on four aspects: organizational structure, coordination, motivation, and communication. Organizational strategies are considered in the approach developed by Mac Donald and Zepp.

45. (c) Organizational structure

The organizational structure plays a key role in implementing the corporate code. Based on the organizational structure, authority should be delegated to ensure appropriate levels of ethical behavior. Motivation aims at ethical behavior of employees. It also involves recognizing the people who are to be motivated in different ways i.e. motivating employees through the quality of ethical performance of their company. Coordination is aimed at arranging and synchronizing the activities of employees so that the company can achieve its objectives efficiently, effectively and ethically. Coordination ensures that the different departments in an organization are following the same ethical code. Organizational strategies are considered in the approach developed by Mac Donald and Zepp.

46. (d) Both (a) and (c)

Coordination is one of the aspects proposed by Ferrell and Fraedrich for implementing the corporate code that is aimed at arranging and synchronizing the activities of employees so that the company can achieve its objectives efficiently, effectively and ethically. Coordination ensures that different departments in an organization are following the same ethical code.

47. (a) Motivation

Motivation aims at ethical behavior of employees. It also involves recognizing the people who are to be motivated in different ways. That is, employees can be motivated through the quality of ethical performance of their company. Employees who behave ethically can be motivated by giving personal recognition to their ethical behavior and/or by giving them monetary benefits.

48. (b) Communication.

Communication aims at maintaining the ethical climate of the company. This can take place through effective coordination and motivation of the employees. All the policies in the organization should be properly communicated to the employees. Through communication, the organization can gain insight into the views and opinions of the employees pertaining to the policies or the practices and would help it in enhancing them.

49. (c) Organizational structure

The approach developed by Mac Donald and Zepp for implementing the corporate code is based on three perspectives - the individual

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dimension, group or peer influence, and organizational strategies. Organizational structure is an aspect in the approach proposed by Ferrell and Fraedrich.

50. (b) Ethical values do not differ from individual to individual.

The approach developed by Mac Donald and Zepp to implement the corporate code is based on three perspectives - the individual dimension, group or peer influence, and organizational strategies. The individual dimension recognizes the needs of individuals and develops appropriate ethical values. Ethical values differ from individual to individual and are reflected in different behaviors. Therefore, organizations must conduct training programs to make employees conform to certain acceptable ethical behaviors. Training programs should also address the various ethical dilemmas faced by the managers in the business world.

51. (d) i, ii, iii, and iv

Lickona recommends the following approach for implementing the corporate code: use Socratic questioning of isolate views and confront reasoning, encourage open and integrative discussions, elicit full range of ethical values, and use an experimental approach to involve the participants so that they come up with real life ethical dilemmas.

52. (c) Only ii and iv

The approach developed by Mac Donald and Zepp to implement the corporate code is based on three perspectives - the individual dimension, group or peer influence, and organizational strategies. The individual dimension recognizes the needs of individuals and develops appropriate ethical values. Ethical values differ from individual to individual and are reflected in different behaviors. Therefore, organizations must conduct training programs to make employees conform to certain acceptable ethical behaviors. Training programs should also address the various ethical dilemmas faced by managers in the business world. MacDonald and Zepp are of the opinion that if an organization is concerned about the ethical behavior of its employees, it should recruit candidates with ethical standards instead of attempting to change the behavior of the existing employees. MacDonald and Zepp also viewed that ethical leadership rather than ethical policies encourage the employees to behave ethically.

53. (d) i, ii, and iii

An ethics committee formulates and reviews policies, receives complaints from employees and deals with the issues like violation of the company code. Most of the reward systems of companies are based on performance and output. This policy might lead to unethical behavior for achieving increased output. It is the duty of the ethics committee to review the policy and suggest an appropriate criterion for awarding rewards.

Unit 4

Ethics and Rule of Law

Structure

- 4.1 Introduction
- 4.2 Objectives
- 4.3 The Rule of Law An Overview
- 4.4 Relationship between Law and Moral Standards
- 4.5 Problems of Transforming Moral Standards into Legal Requirements
- 4.6 Summary
- 4.7 Glossary
- 4.8 Self-Assessment Test
- 4.9 Suggested Readings/Reference Material
- 4.10 Answers to Check Your Progress

4.1 Introduction

In the previous unit, we have discussed about the ethical organization and its corporate code. In this unit, we shall discuss ethics and the rule of law.

Moral standards define the right and wrong behaviors of individuals, and it is based on them that laws are framed. In general, the moral standard states what is right and wrong behavior, and the law compels individuals to follow right behavior. Moral standards backed by a legal system make up the law.

This unit will first define the rule of law. We shall then move on to discuss the relationship between law and moral standards. Finally, we shall discuss the problems involved in transforming moral standards into legal requirements.

4.2 Objectives

By the end of this unit, you should be able to:

- Define the rule of law.
- Identify the relationship between law and moral standards.
- Recognize the problems involved in transforming moral standards into legal requirements.

4.3 The Rule of Law-An Overview

The terms 'law' and 'rule' carry different meanings, but they are closely related. Rules refer to the collective moral judgments made by the members of society to guide individual behavior or action. The law refers to a set of rules established to govern the individual's behavior within society, and it is enforceable.

Laws are based on moral standards that can guide people who face an ethical dilemma to take the right or proper decisions. Ethical dilemmas may arise, for

example, when one has to choose between a business' economic performance and its social performance. The law helps in decision making when there are social and economic obligations. For instance, the government can help a local firm by framing laws that can authorize banks to grant a percentage of loans to local firms as they receive deposits from the community. The remainder of the deposits can be granted as loans to non-local, large firms.

Example: Corporate Governance Lapses in PTC Financial Services – An Unlawful Activity

On 19th January 2022, PTC Financial Services Limited faced management turmoil. All of its independent directors (IDs) resigned on serious corporate governance lapses. The lapses included the company's MD (managing director) taking key decisions without board consultation, non-sharing of information with the board (Board of Directors), manipulation of information, forensic report on bad loans not being shared with the board, etc. They alleged that the management repeatedly ignored their concerns on these lapses.

Instead of resolving the lapses within the ambit of PTC, the independent directors (ID) took a drastic step by rendering their resignation in toto. This is not a haste decision because whenever such lapses occur then the IDs' responsibilities, accountability and liability come to the forefront.

Sources: 1. <https://economictimes.indiatimes.com/small-biz/legal/strengthening-the-role-of-independent-directors-in-a-company/articleshow/90455204.cms>, dated: 26th March 2022, accessed on 13th September 2022.

2. <https://economictimes.indiatimes.com/news/company/corporate-trends/all-independent-directors-of-ptc-financial-services-resign-citing-governance-issues/articleshow/89003274.cms?from=mdr>, dated: 19th January 2022, accessed on 13.09.22..

4.4 Law - An Overview

The law can be defined as a consistent set of universal rules that are widely published, generally accepted, and usually enforced. Rules guide individuals to act in a desired manner to maintain societal relationships. The law defines the requirement that one must act or not act (through negative commandments) in a given situation. Given here are the characteristics of laws. The requirement to act or not to act in a particular situation should be:

- Consistent (degree of firmness). When two requirements of an act contradict, both cannot be called the law as people cannot obey two contradicting requirements of law.
- Universal (applicable to all). The law is applicable to everyone who faces similar circumstances.
- Published. Laws are written down and published so that they are accessible to all individuals within a given society.
- Accepted. Laws should be obeyed to be accepted. If the majority of the members do not obey the law, then it becomes difficult to enforce it.

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- Enforced (imposed by law). Laws are enforced when people disobey them.

The law states the consequences of not following the rules, which may be loss of convenience, money, or time.

Check Your Progress-1

1. What is the term that used to define right and wrong behaviors for individuals?
 - a. Rules
 - b. Laws
 - c. Codes
 - d. Moral standards
2. Laws are framed based on
 - a. Rules
 - b. Codes
 - c. Moral standards
 - d. Moral judgments
3. Moral standards supported by a legal system constitute which of the following?
 - a. law
 - b. rules
 - c. moral judgments
 - d. All of the above
4. Rules are
 - a. Define right and wrong behaviors for individuals.
 - b. Collective moral judgments made by the members of society to guide individual behavior or action.
 - c. Established to govern the individual's behavior within the society and are enforceable.
 - d. Accepted as general principles, which state how people in a particular organization or country should behave.
5. All the given statements are true regarding laws except:
 - a. These are a set of rules established to govern the individual behavior within the society.
 - b. These can guide people who are confronted with an ethical dilemma to take right or proper decision.
 - c. These are framed on the basis of moral standards that are supported by a legal system.
 - d. These are collective moral judgments made by the members of society to guide individual behavior or action.

6. Match the following.
- i. Law
 - ii. Rules
 - iii. Code
 - p. A set of rules that are accepted as general principles, which state how people in a particular organization or country should behave.
 - q. Collective moral judgments made by the members of the society to guide individual behavior or action.
 - r. A set of rules established to govern the individual's behavior within the society
- a. i/p, ii/r, iii/q
 - b. i/r, ii/q, iii/p
 - c. i/q, ii/r, iii/p
 - d. i/q, ii/p, iii/r
7. Which of the following statements is not true regarding law?
- a. It is a consistent set of universal rules that are widely published, generally accepted and usually enforced.
 - b. It provides a basis for individuals to act in a desired manner to maintain relationships with others within society.
 - c. It defines the requirement that one must act or must not act in a given situation. Requirements not to act are framed out of negative commandments.
 - d. It is consistent, universal, published, accepted, and enforced.
8. Which of the following is not a characteristic of law?
- a. Universal
 - b. Published
 - c. Enforced
 - d. Inconsistent
9. Which of the following is a characteristic of law that implies the degree of firmness?
- a. Acceptability
 - b. Universality
 - c. Consistency
 - d. Enforceability
10. Which of the following is not true regarding the acceptance criterion in law?
- a. The requirement how to act or not to act has to be accepted.
 - b. Laws should be obeyed to be accepted.
 - c. If a majority of the members in the society do not obey the law, then it becomes difficult to enforce it.
 - d. Laws are enforced when people obey them.

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11. The law should be applicable to everyone who faces similar circumstances. This characteristic is referred to as which of the following?
 - a. Universality
 - b. Acceptance
 - c. Consistency
 - d. Enforcement
 12. Enforcement implies which of the following?
 - a. Imposition of law.
 - b. The degree of firmness.
 - c. Accessibility to all individuals within a given society.
 - d. Applicability to everyone who faces similar circumstance.
-

4.5 Relationship between Law and Moral Standards

Moral standards deal with preferred right and wrong human behavior, and focus on what ought to be done and what ought not to be done by an individual or group in a given situation. Laws aim at producing desired human behavior, govern human conduct in society, and focus on the behavior required by society. In simple words, moral standards deal with right and wrong behavior, and the law compels individuals to act in the right or desired manner. Laws may not be developed well, and these may lead to problems during interpretation and enforcement. In such situations, moral standards should be maintained to guide managerial decisions. Considering laws and moral standards, following are the requirements laid down to develop a fair law.

Laws and moral standards overlap to a certain extent. For instance, bank robbery is an act of violation of the law as well as the moral standards against theft. Both the law and moral standards deal with issues like sexual conduct, product liability or bankruptcy, and contract adherence.

The law does not always represent collective moral judgments. For instance, chemical releases are considered harmful to health and laws are framed for it whereas charity is considered as a moral act, but there are no laws framed for it. Some laws are framed for our convenience and do not imply moral standards, such as traffic laws.

The requirements of the law tend to be negative while moral standards tend to be positive. The law represents a minimum set of moral standards for generating human behavior in society. These moral standards are beyond the minimum standards and depend on an individual's initiatives. The law states that one should prevent unethical behaviors such as theft and robbery. At the same time, there are no laws laid down to help the needy. The law often leaves many issues to the individual's judgment. Most often, the law does not accept all the moral standards adopted by society. However, this does not mean that the relationship

between the law and moral standards is at an end.

The requirements just mentioned state that the law does not represent all the moral standards. To ensure that the law does represent the moral standards, the law should be developed with the aim of governing human conduct and should be applicable to all.

Example: CCI Verdict on Asian Paints Conduct

On 9th September 2022, Antimonopoly watchdog, the Competition Commission of India (CCI) had ruled against JSW Paints Pvt. Ltd., favouring Asian Paints Ltd. Because CCI found in its investigation that the conduct of Asian Paints with its dealers was in lieu of its terms of doing business, but not to get rid of JSW Paints out of the market. That means, the conduct was neither immoral nor unlawful.

Sources: <https://www.cnbc18.com/business/companies/competition-commission-says-asian-paints-didnt-misuse-its-dominant-position-in-market-14690371.htm>, dated: 9th September 2022, accessed on 13th September 2022.

Activity: Manu is a senior manager at a multinational company. One day, on his way to office, he saw an accident. He immediately stopped his car, and went to rescue the accident victims. Manu took them to hospital, informed their family members, and then proceeded to office. According to you, was Manu acting in accordance with a moral standard or the law? Justify your answer.

Answer:

Group Process

Every society has a unique set of interlinked elements like religion, culture, technology, economy, and politics, which influence an individual's selection and, development of his/her set of norms, beliefs, and values. Moral standards differ from individual to individual. The influence of the elements, though it cannot be measured accurately, can be easily observed in an individual's moral standards and his/her behavior. Any change that occurs in the elements will indirectly influence the moral standards of individuals, and hence the law.

Social Process

Individuals are bound to be exposed to social, political, economic, and religious factors, which change over a period of time. These changes impact the social and political processes. The social process is concerned with accumulation of power. That is, individuals sharing common norms, beliefs, and values form small

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groups, which in turn become part of larger organizations like business firms, labor unions, political parties, and charitable agencies. Over a period of time, these organizations may achieve an acceptable compromise on norms, beliefs, and values, or break up into smaller organizations to achieve a compromise.

Political Process

The law does not accommodate all the norms, beliefs, and values of organizations, groups, and individuals. Hence, there is a conflict between the law and the moral standards held by an individual or organization. The political process minimizes this conflict by incorporating moral standards into the laws of the country. A consistent and universal approach should be adopted by governments to institutionalize the divided opinions of the people.

Various institutions, government agencies, and NGOs influence the law-making mechanism. Laws are made by elected representatives of the people through the democratic system (parliamentary process). In a country like India, people cannot influence law making, as public opinion/issues differ in the various parts of the country. In many cases, the ruling government has to establish coalitions to pass legislation, which may not always gain the support of the majority of the house.

Activity: Identify the following situations as norms, beliefs, and values.

- a. Mrs. Srikanth, a teacher, stresses on maintaining cleanliness in the surroundings. She expects her family, students, and colleagues to do the same.
- b. Whenever Radha meets her grandparents and uncles, she touches their feet as a mark of respect for them.
- c. Mr. Shah, a 70-year-old businessman, had been following the principle of contributing something to society. According to him, this would benefit both the organization and society. He conveys the same principle to his sons, the successors of the organization, and asks them to follow the same principle.
- d. As a kid, Sheetal's parents had taught her not to lie under any circumstances. Sheetal has been following this strictly since childhood and has not lied even once.

Answer:

Problems of Transforming Moral Standards into Legal Requirements

Certain problems arise during the change of individual moral standards to universal legal requirements at each stage of the political and social process. These are:

- It is difficult to formulate appropriate laws when moral standards are framed based on inaccurate information on issues like corporate conduct.
- The formation of small groups dilutes moral standards. These groups are formed based on beliefs, values, and norms. In most cases, beliefs are not widely accepted, and a compromise has to be made.
- Sometimes, the moral standards of the members of society are misrepresented as the consensus of large organizations. This is because the norms, beliefs, and values of large organizations may not be shared by all the individuals and groups within the organization. This may also be due to the unequal influence of different individuals or groups while formulating law. An unequal influence mostly prevails in the formulation of tax legislation.

The legal requirements laid down by political processes are usually vague and incomplete. These are usually found in product liability cases and employment reviews.

Example: Infosys Move against Moonlighting

On 13th September 2022, Infosys Limited, India's IT Major, had cautioned its employees against moonlighting. The company informed its employees that this would be treated seriously as it was against Infosys employee handbook and code of conduct. This may lead to the termination of the employee contract, because moonlighting activities may lead to data breach, conflict of interest and lower productivity. So, Moonlighting was an immoral activity that may pop into the lawful employee contract termination.

Sources: <https://www.livemint.com/companies/news/infosys-cautions-employees-against-moonlighting-11663043312564.html>, dated: 13th September 2022, accessed on 13th September 2022.

Check Your Progress-2

13. Belief refers to which of the following?
 - a. The criteria for behavior.
 - b. The way an individual expects people to think.
 - c. The expectations of the society regarding the way people should ideally act.
 - d. The priorities that a person establishes for his/her norms.
14. Sarah does not tolerate cruelty to animals. She considers this as an immoral act. She expects her family and her friends to take part in preventing such acts in the society. This is a
 - a. Law.
 - b. Norm.

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- c. Value.
 - d. Belief.
15. Which of the following statements does not hold true regarding the group process involved in the formulation of laws?
- i. Moral standards may differ from individual to individual.
 - ii. Influence of elements like religion, economy, technology etc., on an individual can be measured accurately.
 - iii. Any changes in the basic set of elements of society will influence the moral standards of individuals and, subsequently will lead to changes in the law.
 - iv. Any change that occurs on the economic, technological or political fronts will directly influence the moral standards of people, and hence the law.
- a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iv
 - d. Only iii and iv
16. Identify the process that is concerned with accretion of power, i.e., the individual sharing common norms, beliefs, and values form small groups.
- a. Group process
 - b. Social process
 - c. Political process
 - d. Individual process
17. Which of the following processes plays a very important role in institutionalizing the moral standards into law?
- a. Social process
 - b. Group process
 - c. Political process
 - d. Individual process
18. Which of the following is true regarding the political process involved in the formulation of laws?
- a. It is concerned with the accretion of power.
 - b. It institutionalizes law into moral standards.
 - c. It plays a major role in minimizing the conflict between the law and the moral standards held by an individual or organization.
 - d. All of the above
19. A majority of the tribals living in forest areas have protested against deforestation. This made the government to enact a law prohibiting deforestation. This is an example of:
- a. A social process.
 - b. A group process.

- c. A political process.
 - d. An individual process.
20. Identify the problems that arise during the transformation of the individual moral standards to universal legal requirement at each stage of the political and social process.
- i. It becomes extremely difficult to formulate appropriate laws when moral standards are formulated based on inaccurate information on issues like, say corporate conduct.
 - ii. Moral standards become diluted by the formation of small groups.
 - iii. Moral standards of the members of society are misrepresented as the consensus of large organizations.
- a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
21. Which of the following statements is true regarding transformation of moral standards into laws?
- a. Norms, beliefs, and values of large organizations are shared by all the individuals and groups within the organization.
 - b. Small groups are formed on the basis of norms, beliefs, and values and these are widely accepted without making a compromise.
 - c. When moral standards are formulated based on inaccurate information, it becomes extremely difficult to formulate appropriate laws.
 - d. All of the above
-

4.6 Summary

- Moral standards define the right and wrong behaviors for individuals, based on which laws are framed.
- Moral standards backed by a legal system make up the law.
- Rules refer to the collective moral judgments made by the members of society to guide individual behavior or action. The law refers to a set of rules established to govern the individual's behavior within society, and they are enforceable.
- Moral standards deal with right and wrong behavior, and law compels individuals to act in the right or desired manner.
- Laws have to be enforced to be accepted. The formulation of laws involves four processes -- individual, group, society, and political.
- While transforming moral standards into legal requirements, certain problems may arise such as difficulty in formulating laws when moral standards are framed based on inaccurate information and dilution of moral standards due to formation of small groups.

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4.7 Glossary

Beliefs: These refer to the way an individual expects people to think.

Law: refers to a set of rules established to govern the behaviour of individuals within the society.

Moral standards: Moral standards deal with desired right and wrong human behavior. They focus on what ought to be done and what ought not to be done by an individual or group in a given situation.

Norms: Refer to the standard of behavior. They reflect society's expectations of the way people should ideally act.

Values: The accepted principles or standards of an individual or a group.

4.8 Self-Assessment Test

1. 'Law refers to a set of rules established to govern the individuals' behavior within society, which are enforceable. Explain this statement. What do you understand by the rule of law? What are the characteristics of the law?
2. Moral standards deal with right and wrong behavior, and the law compels individuals to act in the right or desired manner. Explain the relationship between moral standards and the law in detail.
3. Laws have to be enforced to be accepted. How are laws formulated?
4. Certain problems arise during the change of individual moral standards to universal legal requirements at each stage of the political and social process. Explain these problems.

1.15 Suggested Readings/Reference Material

1. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
2. B.N.Ghosh (2017). Business Ethics and Corporate Governance. McGraw Hill Education. 1st edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Institute of Directors (2019). Special Set of Directors' Handbooks – Corporate Governance and Business Ethics. Condensed Guide for Corporate Professionals and Executive Management. Institute of Directors of India
5. Jyotsna GB & RC Joshi (2019). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
6. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
7. A.C.Fernando (2019). Business Ethics: An Indian Perspective. Pearson Education. 3rd edition

8. John R. Boatright (2018). Ethics and the Conduct of Business. Pearson Education. 8th edition

4.9 Answers to Check Your Progress

1. **(d) Moral standards**

Moral standards define right and wrong behaviors for individuals. Laws are framed on the basis of moral standards. Rules refer to the collective moral judgments made by the members of the society to guide individual behavior or action. Law refers to a set of rules established to govern the individuals' behavior within the society. A code is a set of rules, which are accepted as general principles, which state how people in a particular organization or country should behave.

2. **(c) Moral standards**

Moral standards define right and wrong behaviors for individuals. Laws are framed on the basis of moral standards. Rules refer to the collective moral judgments made by the members of the society to guide individual behavior or action. A code is a set of rules, which are accepted as general principles, which state how people in a particular organization or country should behave.

3. **(a) Law**

Moral standards define right and wrong behaviors for individuals. Laws are framed on the basis of moral standards. Moral standards supported by a legal system constitute law. Rules refer to the collective moral judgments made by the members of the society to guide individual behavior or action.

4. **(b) Collective moral judgments made by the members of society to guide individual behavior or action.**

Moral standards define right and wrong behaviors for individuals. Rules refer to the collective moral judgments made by the members of the society to guide individual behavior or action. Law refers to a set of rules established to govern the individual behavior within the society. A code is a set of rules, which are accepted as general principles, which state how people in a particular organization or country should behave.

5. **(d) These are collective moral judgments made by the members of society to guide individual behavior or action.**

Laws are a set of rules established to govern the individual's behavior within the society. These are framed on the basis of moral standards that are supported by a legal system. Therefore, they can guide people who are confronted with an ethical dilemma to take right or proper decision. Rules are collective moral judgments made by the members of society to guide individual behavior or action.

6. **(b) i/r, ii/q, iii/p**

Law refers to a set of rules established to govern the individual's behavior within the society. Rules refer to the collective moral

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judgments made by the members of the society to guide individual behavior or action. A code is a set of rules, which are accepted as general principles, which state how people in a particular organization or country should behave.

7. (b) It provides a basis for individuals to act in a desired manner to maintain relationships with others within society.

Law can be defined as a consistent set of universal rules that are widely published, generally accepted and usually enforced. It also defines the requirement that one must act or must not act in a given situation. Requirements not to act are framed out of negative commandments. Rules provide a basis for individuals to act in a desired manner to maintain relationships with others within society.

8. (d) Inconsistent

Law is consistent, universal, published, accepted, and enforced. Consistency implies the degree of firmness. The requirement to act or not to act in a particular situation has to be consistent so as to be a part of law. At times, there may be a contradiction between the two requirements of the act. Then, both the requirements cannot be termed as law, as people cannot obey two contradicting requirements of law.

9. (c) Consistency

Consistency implies the degree of firmness. The requirement to act or not to act in a particular situation has to be consistent so as to be a part of law. At times, there may be a contradiction between two requirements of the act. Then, both the requirements cannot be termed as law, as people cannot obey two contradicting requirements of law.

10. (d) Laws are enforced when people obey them.

Acceptance is a characteristic of law that states that the requirement how to act or not to act has to be accepted. Laws should be obeyed to be accepted. Laws are enforced when people disobey them. If a majority of the members in the society do not obey the law, then it becomes difficult to enforce it.

11. (a) Universality

The term universal means applicable to all. The requirement of how to act or not to act in a given situation has to be universal, as law is applicable to everyone who faces similar circumstances.

12. (a) Imposition of law

Enforcement implies imposition of law. Laws are enforced when people disobey them. For instance, laws pertaining to environment protection were enforced as some individuals and organizations were polluting the environment. The environment protection laws, thus, would ensure that the environment would get protected as well as punish those individuals and organizations which disobey the law.

13. (b) The way an individual expects people to think.

Belief refers to the way an individual expects people to think. For

instance, an individual may believe that environmental preservation is a moral act because it prevents pollution. Similarly, individuals may also expect from others in society to take part in environmental preservation activities.

14. (d) Belief.

Belief refers to the way an individual expects people to think. Sarah believes that cruelty to animals is an immoral act and she expects her family and her friends to take part in preventing such acts in the society. Therefore, it is a belief.

15. (c) Only ii and iv

The influence of elements like religion, economy, technology, etc., cannot be measured accurately. However, their influence can easily be observed in a person's set of moral standards and his/ her resultant behavior. Any changes in the basic set of elements of society will influence the moral standards of individuals and, subsequently will lead to changes in the law. Any change that occurs on the economic, technological or political fronts will indirectly influence the moral standards of people, and hence the law.

16. (b) Social process

The social process is concerned with accretion of power. It implies that individuals sharing common norms, beliefs, and values form small groups. These groups then become part of larger organizations, such as business firms, labor unions, political parties, charitable agencies, etc. Over a period of time, these large organizations may achieve an acceptable compromise on norms, beliefs, and values or split themselves into smaller organizations to achieve a compromise.

17. (c) Political process

Law does not accommodate all the norms, beliefs, and values of organizations, groups, and individuals. Hence, sometimes there is a conflict between the law and the moral standards held by an individual or organization. The political process plays a major role in minimizing this conflict by institutionalizing these moral standards into law. Moral standards are institutionalized by being incorporated into the laws of the country.

18. (c) It plays a major role in minimizing the conflict between the law and the moral standards held by an individual or organization.

Law does not accommodate all the norms, beliefs, and values of organizations, groups, and individuals. Hence, sometimes there is a conflict between the law and the moral standards held by an individual or organization. The political process plays a major role in minimizing this conflict by institutionalizing these moral standards into law. Moral standards are institutionalized by being incorporated into the laws of the country.

19. (c) A political process.

The political process plays a major role in minimizing the conflict between the law and moral standards by institutionalizing these moral

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standards into law. In the given example, the tribals protested against deforestation and as a result, the government had to enact a law prohibiting deforestation. This is an example of a moral standard being institutionalized into the laws of the country.

20. (d) i, ii, and iii

Following are the problems that arise during the transformation of the individual moral standards to universal legal requirement at each stage of the political and social process: moral standards are formulated based on inaccurate information on issues like, say, corporate conduct, it becomes extremely difficult to formulate appropriate laws; moral standards are diluted by the formation of small groups. These groups are formed on the basis of beliefs, values and norms; moral standards of the members of society are misrepresented as the consensus of large organizations; moral standards of the members of society may be misrepresented while shaping the consensus of a large organization; legal requirements formulated by political processes are often incomplete and imprecise.

21. (c) When moral standards are formulated based on inaccurate information, it becomes extremely difficult to formulate appropriate laws.

Following are the problems that arise during the transformation of the individual moral standards to universal legal requirement at each stage of the political and social process: moral standards are formulated based on inaccurate information on certain issues like corporate conduct; moral standards are diluted by the formation of small groups; moral standards of the members of society are misrepresented as the consensus of large organizations; sometimes moral standards of the members of society may be misrepresented while shaping the consensus of a large organization; and legal requirements formulated by political processes are often incomplete and imprecise.

Unit 5

Business Ethics and Environment

Structure

- 5.1 Introduction
- 5.2 Objectives
- 5.3 Environmental Ethics
- 5.4 Environmental Issues
- 5.5 Greening
- 5.6 Green Initiatives
- 5.7 India in 21st Century
- 5.8 Summary
- 5.9 Glossary
- 5.10 Self-Assessment Test
- 5.11 Suggested Readings/Reference Material
- 5.12 Answers to Check Your Progress

“We don’t have to sacrifice a strong economy for a healthy environment.”

- Dennis Weaver

5.1 Introduction

In the previous unit, we have discussed ethics and the rule of law. In this unit, we shall discuss business ethics and environment.

A focus on environmental issues provides organizations with the insight required to frame environmental policies. To curb environmental disasters, many organizations are framing green policies.

This unit will first discuss environmental ethics and the various approaches related to environmental ethics. We shall then move on to discuss the environmental issues, particularly those in Western Europe and India. We shall also discuss the benefits of greening and the green initiatives. Finally, we shall discuss the future outlook on environmental issues in India.

5.2 Objectives

By the end of this unit, you should be able to:

- Define environmental ethics and the various approaches concerning environmental ethics.
- Discuss the environmental issues, and with particular reference to the environmental issues in Western Europe and India.
- Explain the benefits of greening and the green initiatives.
- Identify the future outlook on environmental issues in India.

Block 1: Business Ethics

5.3 Environmental Ethics

Environmental ethics, a branch of applied ethics, examines the moral basis of environmental responsibility. Environmental responsibilities have to be evaluated against stakeholders' responsibilities and societal benefits as any damage caused to the environment impacts the stakeholders and society.

Environmental issues like toxic waste, contamination of groundwater, oil spills destroying the seashores, fossil fuels producing carbon dioxide resulting in the greenhouse effect, and usage of fluorocarbons that deplete the ozone layer can be tackled by adopting environmental ethics. Environmental ethics revolves around the moral aspect of environmental responsibility, and the limit up to which this responsibility extends.

Example: Shell's Environmental Measures under Scanner

Royal Dutch Shell PLC, world's leading oil company, was under scanner for its misleading environmental measures. Shell was the first fossil fuel producing country which vowed to reduce carbon emissions from its activities and later decided to move away from fossil fuels. However, the company efforts were seen to be not environmental ethical as it only sold their ownership and did nothing to reduce carbon emissions.

Sources: <https://www.wsj.com/articles/shell-is-the-greenest-big-oil-company-look-what-that-got-it-11635698403> Date: October 31, 2021.

Accessed on November 4, 2022.

There are three approaches concerning the moral responsibility of the environment. These are - the anthropocentrism approach, the axiological approach, and the eco-centric approach. The anthropocentrism approach focuses on the value that human beings can derive through environmental protection. It is the moral responsibility of human beings to support and preserve the environment for their survival and well-being. The axiological approach focuses on the moral responsibility of human beings toward animals. It implies that the human beings are responsible for preserving animals and animals' right. The eco-centric approach is a radical approach to environmental responsibility that states that the environment has to be influenced by direct moral consideration but not by consideration derived from human interest. Direct responsibility means indulging in activities that aim at preserving nature and the inherent environment.

A successful foundation for environmental ethics should fulfill two tasks it has to explain how human beings have negatively impacted the environment and it must explain how human beings can protect the environment.

Activity: Karthik, a 12th class student, along with six of his friends established Street Care, a non-profit institution that would help street animals like dogs and cats, and assist them in finding a home. What do you call this approach of moral responsibility toward the environment? What are the other approaches?

Answer:

Check Your Progress-1

1. Environmental ethics forms part of which of the following?
 - a. Meta ethics
 - b. Covert ethics
 - c. Applied ethics
 - d. Business ethics
2. Which of the following statements that do not hold true regarding environmentalethics and responsibilities?
 - i. They deal with issues like oil spills, toxic waste, etc.
 - ii. They have to be given less importance than societal benefits.
 - iii. They are a branch of applied ethics as well as business ethics.
 - iv. They revolve mainly around the concern about the environment.
 - a. Only i, ii, and iii
 - b. Only i, ii, and iv
 - c. Only i, iii, and iv
 - d. Only ii, iii, and iv
3. The goal of environmental ethics mainly revolves around
 - i. the concern about the environment.
 - ii. the moral foundation of environment responsibility.
 - iii. the limit up to which the moral foundation of environmental responsibility extends.
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
4. Which of the following is not an approach concerning the moral responsibility of the environment?
 - a. Eco-centric approach
 - b. Anxiological approach

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- c. Anthropocentrism approach
 - d. Community involvement choice flow
5. Which of the following approaches focus on the utility that human beings can derive by protecting the environment?
- a. Eco-centric
 - b. Anxiological
 - c. Anthropocentrism
 - d. Community involvement choice flow
6. The anxiological approach focuses on which of the following?
- a. The utility that human beings can derive by protecting the environment.
 - b. The responsibility of environment with regard to preservation of animals and
 - c. The environmental responsibility that is from direct moral consideration but not that one which is derived from human interest.
 - d. The involvement of a company in uplifting the society.
7. Which of the following statements is true regarding the eco-centric approach?
- a. It is considered to be a radical approach to the environmental responsibility.
 - b. It states that the environment has to be derived from human interest but not that one which is influenced from direct moral consideration.
 - c. It states that it is essential for a human being to have a moral standing towards the animals.
 - d. Both (a) and (c)
8. Match the following approaches concerning the moral responsibility of environment with their respective descriptions.
- i. Eco-centric approach
 - ii. Anxiological approach
 - iii. Anthropocentrism approach
 - p. It focuses on the utility that human beings can derive by protecting the environment.
 - q. It implies the responsibility of environment with regard to preservation of animals and animals' rights.
 - r. It states that environment has to be influenced from direct moral consideration but not that one which is derived from human interest.
- a. i/q, ii/r, iii/p
 - b. i/r, ii/q, iii/p
 - c. i/q, ii/p, iii/r
 - d. i/r, ii/p, iii/q
-

5.4 Environmental Issues

Environmental degradation goes unchecked when there is no strong governing body to formulate and implement an environmental policy, and when there is a lack of adequate environmental expertise, technology, and resources for environment protection. Given here are some of the environmental issues faced by some Western European countries and India.

5.4.1 Western Europe

Business expansion has led to the growing importance of environmental issues in Western Europe. Several of the countries in this region have been facing problems due to environmental degradation. The Netherlands has had to face industrial pollution due to the dumping of industrial wastes and the release of hazardous chemicals into the rivers. Spain has faced severe problems due to air pollution and soil erosion.

West Germany prepared an ecological balance sheet showing the extent of the damage caused to the environment. The balance sheet comprised details of environmental damage from air pollution, water pollution, soil damage, and noise pollution, and the costs incurred for a particular year. The estimated cost of all kinds of pollution was DM 102,500 million every year (DM stands for Deutsch Mark, the German currency)¹.

The UK's National Rivers Authority (NRA) investigated air, water, and soil pollution in 1991. It classified the severity of pollution incidents according to farm, industrial, oil, sewage, and water industries. The report revealed that the chemical industry, followed by the mineral industry, were the greatest polluters of the environment. The NRA imposed fines on firms that behaved irresponsibly toward the environment and caused damage to it, and issued a formal caution notice to them. It also dealt with pollution through court action. The NRA imposed a fine of £200,000 in 1991 on a chemical company that was causing air pollution.

The European Legislation has proposed more than 120 different environmental protection acts based on a three-pronged policy promoting the benefits of pollution prevention; customizing legislation to meet the requirements of European member states; and developing and enforcing a polluters pay policy with an aim to impose fines on defaulters.

Several governments have initiated programs like green agendas that have encouraged many organizations to participate in conservation programs. Environment protection measures such as installation of desulphurization plants and introduction of energy saving measures have also been taken up by some organizations.

5.4.2 India

Rapid industrialization and urbanization have not only resulted in economic development, but have also harmed the environment through deforestation, soil erosion, and water pollution. The Indian government has adopted a

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comprehensive policy to protect public health, forests, and wildlife. Its greatest limitation is that no court can enforce it. The Environment Protection Act (1986) focused on reducing industrial pollution. The report stated that the estimated annual cost of environmental degradation is 4.5% of GDP (average). A majority of the environmental issues that India faces are related to air pollution. Carbon emission levels are also very high in the country.

Air pollution

The World Health Organization's (WHO) environmental report released in the late 1980s states that New Delhi is one of the top ten most polluted cities in the world. The respiratory diseases in New Delhi due to air pollution were found to be 12 times the national average. Another study disclosed that the number of premature deaths occurring each year due to air pollution was high in India.

Air pollution is of two types - vehicular emission and untreated industrial smoke. To curtail vehicular emission, the Supreme Court of India has laid down two rules all public vehicles that are 15 or more years old should be banned; and public transport vehicles in New Delhi should switch over to Compressed Natural Gas (CNG) engines. However, these regulatory reforms, aimed at minimizing air pollution problems, have failed due to the lack of enforcement.

Energy consumption and carbon emission

India is the second largest commercial energy consumer in the non-OECD East Asia, accounting for 19% of total primary energy consumption. About 60% of its energy needs are met by commercial energy and the rest by non-conventional and renewable fuels. The increase in population and urbanization has led to high-energy consumption of about 41% of total consumption - in the industrial sector. The consumption increased by 60% between 1980 and 1998 (from 2.7 quadrillion in 1980 to 4.4 quadrillion in 1998).

In India, carbon emission has grown by nine times over the past four decades, and its contribution to world carbon emission is expected to increase by 3.2% (1996-2020). High carbon emissions are due to the reliance on low-quality coal that has high carbon content. Carbon emissions can be reduced by using technology that reduces the amount of coal consumed or by using better grade coal. Several programs, coordinated by Coal India Limited, have been initiated to improve the efficiency of coal usage. These programs are designed to ensure the conservation of coal resources during production, and the improvement of end-use technologies.

Example: India's New Coal Projects

According to a latest report by Global Energy Monitor (GEM), India would be having 99 new coal mines in the coming years. This would lead to environmental pollution and come in the way of India's target to cut one billion ton carbon emissions by 2030 and reduce carbon intensity by 45%. Another concern is that the underutilised capacity of the existing mines which stood at 437 million tons per annum (mtpa) exceeded the 427 mtpa capacity of the proposed coal mines.

Source: <https://www.downtoearth.org.in/news/energy/net-zero-by-2070-india-still-has-99-coal-projects-in-pipeline-85464> Date: October 14, 2022 Accessed on November 4, 2022.

Energy and carbon intensity

Compared to other Asian countries, India has high carbon intensity levels as a result of the increase in industrial activity that has taken place due to economic expansion; the absence of energy and conservation measures in most industrial areas; and economic policies like high import tariffs on high-quality coal and subsidies on low-quality coal. Indian government is now encouraging the use of high-quality coal and has reduced coal tariffs to 35%. It has also mandated the use of washed coal in all power plants from 2001.

The Bhopal gas tragedy that occurred in 1984 alerted organizations to the need to maintain proper standards for human health and safety. Organizations are installing the best technology in their operations worldwide, to ensure safety and pollution-free environment. Going green is one of the remedies for fighting against pollution.

Activity: List out about 20 environmental issues faced worldwide.

Answer:

Check Your Progress-2

9. Environment degradation goes unchecked when:
 - i. there is no strong governing body for formulating an environmental policy.
 - ii. there is no strong governing body for implementing an environmental policy.
 - iii. there is lack of adequate environmental expertise and technology.
 - iv. there is lack of adequate resources for environment protection.
 - a. Only i, ii, and iii
 - b. Only i, ii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
10. Which of the following does not come under the three-pronged policy proposed by European Legislation to protect the environment?
 - a. Promoting the benefits of pollution prevention
 - b. Customizing legislation to meet the requirements of European member states
 - c. Developing and enforcing a polluter's pay policy with an aim to impose fines for the defaulters
 - d. Pollution by court action, if any firm was found to be irresponsible towards the environment or causing damage to the environment

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11. Programs like green agendas initiated by many governments have encouraged many organizations to:
 - a. Recruit more number of employees.
 - b. Come out with more and better quality products.
 - c. Participate in environment conservation programs.
 - d. All of the above
12. Rapid industrialization and urbanization in India has not resulted in which of the following?
 - a. Soil erosion.
 - b. Deforestation.
 - c. Water pollution.
 - d. Low economic development.
13. Which of the following is not true regarding the rules laid out by the Supreme Court of India in order to curb vehicular emission?
 - a. The regulatory reforms given by the Court were aimed at minimizing air and soil pollution problems.
 - b. All public vehicles that are 15 or more than 15 years old should be banned.
 - c. Public transport vehicles in New Delhi should switch over to Compressed Natural Gas engines.
 - d. The rules laid out by the court were successfully enforced.
14. Identify the statements that hold true regarding carbon emission in India.
 - i. Usage of low-quality coal with high carbon content is the primary reason for high carbon emission.
 - ii. The problem of carbon emission can be solved by relying on technology that reduces the amount of coal consumed or by using better grade coal.
 - iii. Several programs were initiated to enhance the efficiency of coal usage.
 - iv. Coal India Limited coordinated programs that were designed to ensure the conservation of coal resources during production and improvement of end use technologies.
 - a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
15. Which of the following is not a factor that has contributed to the high intensity of carbon pollution in India?
 - a. Increase in industrial activity that has taken place due to economic expansion
 - b. Absence of energy and conservation measures in most industrial areas

- c. Subsidies on high-quality coal and high import tariffs on low-quality coal
d. Both (b) and (c)
16. Jonathan Pesticides International is a US based company that has set up a factory in Mumbai, India in 1998. The Indian government welcomed the company considering the benefits in terms of investment and capital. In 2002, a part of the factory was burnt up due to a chemical reaction that was detected one-and-a-half years ago but not acted upon. This led to the death of many workers and it was also reported that the disaster would have harmful effects in the environment in which the factory was located that would affect the survivors and the future generations. It was also found out that the company had previous history of such disasters occurring in its factories. Which of the following could be the reasons for this disaster?
- i. Inadequate capital investment in safety equipment by the company.
 - ii. Poor communication between the company and the Indian government regarding safety issues.
 - iii. Lack of environmental and safety regulations being followed by the company.
 - iv. The government's ignorance of the safety and health violations that the company was engaged in.
- a. Only i, ii, and iii
 - b. Only i, iii, and iv
 - c. Only ii, iii, and iv
 - d. i, ii, iii, and iv
-

5.5 Greening

A company is said to be going green if it is adopting an anti-pollution environment policy. Green initiatives are taken up by organizations due to the following reasons.

- **Economic benefits from increased efficiency:** Waste reduction can lead to reduction in handling expenses, fines, and costly inputs.
- **Competitive advantage through innovation:** An efficient product ensures the use of cleaner technologies, process innovation, and waste reduction.
- **Public image:** Consumers, investors, and employees respond well to companies that are good at environmental performance.

Example: Greening Initiatives by Apple Inc.

Apple Inc. announced new green initiatives commemorating Earth Day 2022. These initiatives included use of recycled material in its products in which introduction of certified recycled gold for the first time, doubling of recycled tungsten, rare elements and cobalt stand out. Secondly, the company announced the invention of Taz, the machine for improved material recovery

Contd.

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from traditional electronics recycling. Apple Inc also announced supporting World Wildlife Fund using Apple Pay.

Source: <https://indianexpress.com/article/technology/tech-news-technology/apple-announces-green-initiatives-ahead-of-earth-day-7877134/> Date: April 20, 2022, Accessed on November 4, 2022.

5.6 Green Initiatives

Green initiatives in business include environmentally-friendly technological innovations, green tourism, green community, environmental campaigning, and environmental counseling. Firms are trying to develop environmentally-friendly products. Initiatives such as green tourism are commonly found in the UK and in Continental Europe. Some organizations are offering conventional holidays and tours, and the amount from such packages is being donated to green organizations and to charity. Governments also encourage people who are interested in preserving the landscapes. Special package tours are designed to encourage such people who wish to preserve or repair degraded landscapes.

Example: Indian Government's Push for Green Initiatives

The Indian government would take-up presidency of G-20 inter-ministerial group from December 2022. Climate mitigation programme was one of the key agendas of the G-20 group. In this context, the Indian government wished to promote Green Tourism as per the September, 2022 report of Economic Times. As part of this agenda, the Green Skill Development Programme (GSDP) targeted towards sustainable environment and forest sector would be given further push.

Sources: <https://www.livemint.com/news/india/environment-ministry-takes-up-initiatives-for-green-skill-development-11655397152261.html> & <https://economictimes.indiatimes.com/industry/services/travel/view-making-india-a-green-tourism-destination-is-a-step-towards-sustainability-targets/articleshow/94475022.cms?from=mdr> Dates: June 16, 2022 & Septemebr 27, 2022 Accessed on November 4th, 2022.

The private sector is also taking up green community service projects to show their concern for the environment. In 1992, many initiatives were taken up to encourage green businesses and benefit local communities such as investments in landscape improvement, fund collection for implementing green practices, voluntary campaigns, and rehabilitation programs that encouraged various country sites.

Environmental counseling is a green program aimed at encouraging employees to express their concerns about environmental issues. Employees are given an opportunity to discuss environmental issues. Companies also publish articles on 'green' topics and organize competitions to encourage ecologically sensitive innovation in the working process.

There are companies that attach great importance to environmental issues. Business Today and Tata Energy Research Institute (TERI) conducted a survey that focused on two aspects - environmental reactivity and identification of the

greenest companies in terms of maturity of their environmental systems and practices. Various aspects and policies of organizations were examined to identify the greenest one. The survey was conducted on 450 companies excluding those in the financial and IT sectors (as they do not have any major environmental aspect to their business). A detailed questionnaire was used to obtain information on their company profile, their policies and practices on environmental management, and their environmental performance. About 48 companies responded to the survey. Following were the findings of the survey.²

- The survey received a response from only 48 companies from the total 450 companies surveyed. This shows that transparency and information sharing in Indian companies on sensitive issues like the environment are not up to the desired levels.
- About 60% of the companies had received ISO certification for their environmental management system, out of which 24% had certification process in progress.
- Environment statement (Form V audit) and comprehensive audit was popular. This percentage is at the minimal level of 55%.
- About 61% of the companies had a separate department to look after the environment protection activities. In some companies, the R&D department and the safety department looked after these activities.
- 77% of the companies had an environmental policy at the corporate level, but only 20% of the companies felt the need to have policies both at the corporate and facility (plant) level.

Companies with NRI shareholding had environmental policies defined in a desirable manner with more of benchmarking against their Indian and international counterparts. The ISO certification was popular in such companies.

Companies belonging to the chemical and pharmaceuticals industry, and the mining and minerals industry had environmental management systems with separate departments and environmental policies better suited to their lines of activity. These companies were following stricter waste treatment and disposable guidelines. In the chemical and pharmaceuticals industry, green policies were generally implemented at the plant level, while they were implemented at the plant and corporate levels in the mining and minerals industry.

The survey identified the 10 greenest companies in India. ABB topped the list, and the list featured companies like ICI India and Tata Iron and Steel. These companies had a unique environmental policy, and their main objective was to preserve the environment by reducing wastage and framing effective eco-friendly policies.

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Activity: Answer the following questions --

- a. Select some environmental problems that exist in your locality. How would you tackle them?
- b. Name about 10 companies that follow 'green' practices in India.

Answer:

5.7 India in 21st Century

Environmental concerns and economic goals don't go hand in hand. An increase in population triggers a growth in the demand for electricity and transportation, which in turn, increases air and water pollution. To combat environmental pollution, the Indian government has reduced the number of inefficient coal-fired plants and reduced the subsidies on low quality coal. It has also encouraged companies to employ pollution control measures by implementing market mechanisms like granting of permits and reduction in taxes. Environmental standards have also been developed for both products and processes.

Example: Pressing Environmental Problems for India in the 21st Century

India like several countries would face severe environmental pressures in the 21st century to tackle with. The growing urbanisation and increased energy intensity would only add to the woes. As per the April 2022 UN Intergovernmental Panel on Climate Change (IPCC), air pollution (63 out of world's 100 most polluted cities were in India), water pollution (70% of surface water is unfit for consumption), food and water shortages (flash floods and droughts), waste management and biodiversity loss were the pressing challenges before India to tackle with.

Source: <https://earth.org/environmental-issues-in-india/> Date: September 22, 2022, Accessed on November 4, 2022.

Check Your Progress-3

17. A company is said to be going green if:
 - a. It is re-branding itself.
 - b. It adopts an anti-pollution environment policy.
 - c. It has joined with non-government organizations like Greenpeace.
 - d. None of the above

Unit 5: Business Ethics and Environment

18. Identify the benefits that a company can get when it goes green.
 - i. Wastage can be reduced and this would decrease the fines, costly inputs, and handling expenses
 - ii. Product will be efficient and this would ensure the use of cleaner technologies, process innovation, and waste reduction
 - iii. Consumers, investors, and employees would positively respond to the company that has a reputation for good environmental performance
 - a. Only i and ii
 - b. Only i and iii
 - c. Only ii and iii
 - d. i, ii, and iii
19. All the initiatives given below are green initiatives used by businesses, except:
 - a. Green tourism.
 - b. Corporate raiding.
 - c. Green community.
 - d. Environmental counseling.
20. Certain organizations offer conventional holidays and tours and the amount collected from such are given as donations to green organizations or charities. What is this known as?
 - a. Green tourism
 - b. Green community
 - c. Environmental counseling
 - d. Environmental campaigning
21. Which of the following terms denote the Initiatives like encouraging investment in landscape improvement, fund collection for implementing green practices, rehabilitation programs that encourage various country sites, etc.?
 - a. Green tourism
 - b. Green community
 - c. Environmental counseling
 - d. Environmental campaigning
22. Identify the green program that is aimed at encouraging employees to express their concerns about environmental issues.
 - a. Green tourism
 - b. Green community
 - c. Environmental counseling
 - d. Environmental campaigning

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23. Environmental counseling is a green program that:
- encourages the employees to express their concerns about environmental issues.
 - gives an opportunity to the employees to discuss about environmental issues.
 - allows the employees to publish articles on green topics.
 - allows the employees to organize competitions to encourage ecologically sensitive innovation in working process.
- Only i, ii, and iii
 - Only i, iii, and iv
 - Only ii, iii, and iv
 - i, ii, iii, and iv
24. In order to fight against environmental pollution, the Indian government
- reduced the number of inefficient coal-fired plants.
 - decreased the subsidies on low quality coal.
 - used market mechanism like granting of permits and reduction in taxes to encourage companies to implement pollution control measures.
 - developed environmental standards for both products and processes.
- Only i, ii, and iii
 - Only i, iii, and iv
 - Only ii, iii, and iv
 - i, ii, iii, and iv

5.8 Summary

- To curb environmental disasters, many organizations are framing green policies.
- Environmental ethics, a branch of applied ethics, examines the moral basis of environmental responsibility.
- Environmental responsibilities have to be evaluated against stakeholders' responsibilities and societal benefits as any damage caused to the environment impacts the stakeholders and society.
- There are three approaches concerning the moral responsibility toward the environment. These are - the anthropocentrism approach, the axiological approach, and the eco-centric approach.
- India and some Western European countries have employed certain strategies to curb pollution and protect the environment.
- A company is said to be 'going green' if it adopts an anti-pollution environment policy.

- Green initiatives are taken up by organizations to achieve economic benefits from increased efficiency, achieve competitive advantage through innovation, and enhance their public image.
- Green initiatives in business include environmentally friendly technological innovation, green tourism, green community, environmental campaigning, and environmental counseling.
- To combat environmental pollution, the Indian government has reduced the number of inefficient coal-fired plants, reduced the subsidies on low quality coal, encouraged companies to employ pollution control measures by implementing market mechanisms like granting of permits and reduction in taxes, and developed environmental standards for both products and processes.

5.9 Glossary

Anthropocentrism: This approach on ethics focuses on the utility that human beings can derive by protecting the environment.

Anxiological approach: It focuses on the moral responsibility of human beings toward animals. It implies that the human beings are responsible for preserving animals and animals' right.

CERES: Acronym for Coalition for Environmentally Responsible Economies. A voluntary organization that is committed to protecting the environment.

Eco-centric approach: It is a radical approach to environmental responsibility that states that the environment has to be influenced by direct moral consideration but not by consideration derived from human interest.

Environmental tasks: These are the environmental guidelines that a company has to follow to curb unethical practices.

Greening: When a company adopts environmental policies to protect nature, then the company is referred to as greening.

5.10 Self-Assessment Test

1. A focus on environmental issues provides an insight to organizations to frame environmental policies. Explain environmental ethics. What are the approaches concerning the moral responsibility of environment?
2. Rapid industrialization has led to environmental problems in many countries. Give some instances of how countries like India and those belonging to Western Europe have tackled environmental problems. Throw some light on what India is doing to fight environmental concerns.
3. 'Going green' is one of the remedies for fighting against pollution. What does 'going green' mean? In what way does a company benefit from taking up green initiatives?
4. Organizations benefit a lot by taking up green initiatives. Explain the green initiatives taken up by business organizations.

Block 1: Business Ethics

5.11 Suggested Readings/Reference Material

1. K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3rd edition
2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8th edition
3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1st edition. Wiley
4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1st edition
5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1st edition

5.12 Answers to Check Your Progress

1. (c) Applied ethics

Applied ethics is a branch of ethics that deals with controversial issues like abortion, infanticide, cloning, testing drugs on animals, etc. Environmental ethics is a branch of applied ethics. It tackles with environmental issues like toxic waste, contamination of ground water, oil spills, destroying the seashores, fossil fuels producing carbon dioxide resulting in green house effect, usage of fluorocarbons that deplete the ozone layer, etc.

2. (d) Only ii, iii, and iv

Environmental ethics is a branch of applied ethics, which examines the moral basis of environmental responsibility. Environmental responsibilities have to be weighed against the responsibilities to stakeholders and societal benefits, as any damage caused to environment has an impact on society as well as on stakeholders. The goal of environmental ethics does not mainly revolve around the concern about the environment. It is concerned about the environmental responsibility and the limit up to which this responsibility extends.

3. (c) Only ii and iii

The goal of environmental ethics does not mainly revolve around the concern about the environment. It is concerned about the moral foundation of environmental responsibility, and the limit up to which this responsibility extends.

4. (d) Community involvement choice flow

There are three approaches concerning the moral responsibility of environment anthropocentrism approach, axiological approach, and eco-centric approach. Eco-centric approach states that environment has to be influenced from direct moral consideration but not that one which is derived from human interest. The axiological approach implies the responsibility of environment with regard to preservation of animals and animals rights. The anthropocentrism approach focuses on the utility that human beings can derive by protecting the environment. Community involvement choice flow is a systematic approach to involvement of a company in uplifting the society.

5. (c) Anthropocentrism

The anthropocentrism approach focuses on the utility that human beings can derive by protecting the environment. The survival and well being of human beings depends on the environment. Therefore, it is the moral responsibility of human beings to support and preserve the environment.

6. (b) The responsibility of environment with regard to preservation of animals and animals rights.

According to the axiological approach, it is the moral responsibility to protect animals. It implies the responsibility of environment with regard to preservation of animals and animal's rights. This approach states that it is essential for a human being to have some moral responsibility towards the animals.

7. (a) It is considered to be a radical approach to the environmental responsibility.

Eco-centric approach is considered to be a radical approach to the environmental responsibility. The theory states that environment has to be influenced from direct moral consideration but not that one which is derived from human interest. The term direct responsibility means doing such activities which aim at preserving the inherent nature and environment.

8. (b) i/r, ii/q, iii/p

There are three approaches concerning the moral responsibility of environment anthropocentrism approach, axiological approach, and eco-centric approach. Eco-centric approach states that environment has to be influenced from direct moral consideration but not that one which is derived from human interest. The axiological approach implies the responsibility of environment with regard to the preservation of animals and animals rights. The anthropocentrism approach focuses on the utility that human beings can derive by protecting the environment.

9. (d) i, ii, iii, and iv

Environment degradation goes unchecked when: there is no strong governing body for formulating and implementing an environmental policy, and when there is lack of adequate environmental expertise, technology and resources for environment protection.

10. (d) Pollution by court action, if any firm was found to be irresponsible towards the environment or causing damage to the environment.

The European Legislation took an initiative to protect the environment European member states, and developing and enforcing a polluter's pay policy and has proposed more than 120 different acts based on a three-pronged policy. The three points covered under the three-pronged policy are: promoting the benefits of pollution prevention, customizing legislation to meet the requirements of with an aim to impose fines for the defaulters. Pollution by court action, if any firm was found to be irresponsible towards the environment or causing damage to the environment is dealt by the National River Authority (NRA) of the UK.

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11. (c) Participate in environment conservation programs.

Programs like green agendas initiated by several governments have encouraged many organizations to participate in conservation programs. Some organizations initiated environment protection measures such as installation of desulphurization plants and introduced energy saving measures.

12. (d) Low economic development.

Rapid industrialization and urbanization has brought about economic development India, However, they have also caused damage to the country's environment through deforestation, soil erosion, water pollution, etc.

13. (d) The rules laid out by the court were successfully enforced.

To curb vehicular emission, the Supreme Court of India has laid down two rules: all public vehicles that are 15 or more than 15 years old should be banned, and public transport vehicles in New Delhi should switch over to Compressed Natural Gas (CNG) engines. These regulatory reforms were aimed at minimizing air pollution problems. However, they have failed due to lack of proper enforcement.

14. (d) i, ii, iii, and iv

In India, carbon emission has grown nine-times over the past four decades. Its contribution to world carbon emission is expected to increase by 3.2% (1996-2020). The country's reliance on low-quality coal with high carbon content is the primary reason for high carbon emission. The problem of carbon emission can be solved by relying on technology that reduces the amount of coal consumed or uses better grade coal. Several programs were initiated to improve the efficiency of coal usage. These programs were coordinated by Coal India Limited and were designed to ensure the conservation of coal resources during production and improvement of end use technologies.

15. (c) Subsidies on high-quality coal and high import tariffs on low-quality coal

Carbon intensity levels are high in India when compared to the other Asian countries. The reasons for this are: increase in industrial activity that has taken place due to economic expansion, absence of energy and conservation measures in most industrial areas, and high import tariffs on high-quality coal and subsidies on low-quality coal.

16. (d) i, ii, iii, and iv

All of the above given reasons can be attributed to the disaster. Therefore, before inviting any MNC, the country should try to ensure that the company would follow the environmental and safety regulations, have proper safety equipment, and would provide a safe and healthy work environment for the workers.

17. (b) It adopts an anti-pollution environment policy.

If a company adopts an anti-pollution environment policy, it is said to be

going green. Companies adopt green initiatives due to the following reasons: to earn economic benefits from increased efficiency, to achieve competitive advantage through innovation, and to gain from a good public image.

18. (d) i, ii, and iii

When a company adopts an anti-pollution environment policy, it is said to be going green. Organizations adopt green initiatives due to the following reasons: wastage can be reduced and this would decrease the fines, costly inputs, and handling expenses; product will be efficient and this would ensure the use of cleaner technologies, process innovation, and waste reduction; and consumers, investors, and employees would positively respond to the company that has a reputation for good environmental performance.

19. (b) Corporate raiding.

Green initiatives in business range from environmentally-friendly technological innovation, green tourism, green community, environmental campaigning, and environmental counseling. Corporate raiders create an environment of threat of takeover and force the target company to buy back shares at a premium, i.e., 'Greenmail' technique.

20. (a) Green tourism

Some organizations have a practice of offering conventional holidays and tours. The amount collected from such packages is used as donation for green organizations or charities. Green tourism can be commonly found in the UK and Continental Europe.

21. (b) Green community

Green community service projects are another example of what is being done in the private sector to demonstrate concern for the environment. In 1992, many initiatives were taken up to encourage green businesses. These initiatives were encouraging investment in landscape improvement, fund collection for implementing green practices, voluntary campaigns, rehabilitation programs that encourage various country sites, etc. These programs were developed for the benefit of local communities.

22. (c) Environmental counseling

Environmental counseling is a green program aimed at encouraging employees to express their concerns about environmental issues. In many companies, employees are given an opportunity to discuss environmental issues. Companies also publish articles on 'green' topics and organize competitions to encourage ecologically sensitive innovation in working process.

23. (d) i, ii, iii, and iv

Environmental counseling is a green program aimed at encouraging employees to express their concerns about environmental issues. In many companies, employees are given an opportunity to discuss environmental issues. Companies also publish articles on green topics and organize competitions to encourage ecologically sensitive innovation in working process.

Block 1: Business Ethics**24. (d) i, ii, iii, and iv**

Though electricity is essential for economic development, the Indian government reduced the number of inefficient coal-fired plants and decreased the subsidies on low quality coal. The government also used market mechanism such as granting of permits and reduction in taxes to encourage companies to implement pollution control measures. It also developed environmental standards for both the products and processes.

Business Ethics and Corporate Governance

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