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Block 3 Management and Ethics II The third block of the course on Ethics and Governance deals with ethical issues in the management areas of human resources management, finance, accounting, and other functions. The block also deals with a discussion on the ethical issues at workplace and in the global business arena. The block contains five units. The first unit discusses the ethical issues in human resource management. The second focuses on the ethical issues in finance. The third unit discusses

the ethical issues in accounting and other functions such as information technology.

The fourth unit discusses the ethical dilemmas at workplace. The fifth unit discusses the ethical issues in global business.

The first unit, Ethical Issues in Human Resources Management, explains the nature of employment contract. It discusses the concept of hiring and the principle of ethical hiring. The unit also discusses the concept of equality of opportunity.

Finally, the unit ends with a discussion on the ethical issues involved in remuneration and retrenchment. The second unit, Ethical Issues in Finance, explains

the importance of financial statements. The unit describes the ethical issues involved in mergers and acquisitions. The unit ends with a discussion on the concepts of insider trading and money laundering.

The third unit, Ethical Issues in Accounting and Other Functions, focuses on the importance of financial statements, and discusses

the various types of financial accounts. The unit discusses the importance of transparency in disclosure. It also discusses the role of accountants, and the rules governing their professional conduct. The unit ends with a discussion on the ethical issues in information technology, and the importance of software audits.

The fourth unit, Ethical Dilemmas at Workplace, discusses the various dilemmas at work. The unit discusses the most common ethical dilemmas in business. It ends with a discussion on how these ethical dilemmas can be resolved. The fifth unit, Ethical Issues in Global Business, discusses what a multinational is, and the reasons why companies go global. The unit ends with a discussion on the ethical issues faced by multinational companies.

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Unit 10 Ethical Issues in Human Resources Management Structure 10.1 Introduction 10.2 Objectives 10.3 Nature of Employment Contract 10.4 Hiring - The Principle of Ethical Hiring 10.5 Ethics and Remuneration 10.6 Ethics in Retrenchment 10.7

Summary 10.8 Glossary 10.9 Self-Assessment Test 10.10 Suggested Readings/Reference Material 10.11 Answers to Check Your Progress

Questions "

The

most important human endeavor is the striving for morality in our actions. Our inner balance and even our very existence depend on it. Only morality in our actions can give beauty and dignity to life". - Albert Einstein, German-born theoretical physicist Introduction The quote indicates importance of morality in our actions which captures the essence of the unit concerning various issues in ethical actions.

In the last unit of the previous block, we have discussed the ethical issues in purchase management.

In this unit, we shall discuss the ethical issues in

human resource management. Most business decisions do not oppose the law, but they do raise several ethical questions.

An organization's dealings with its employees clearly

indicate its ethical character. Employees spend most of their time producing goods, delivering services, and building relations with customers to attain organizational objectives. To maximize its long-term owner (shareholder) value 1 , an 1

According to the principle of value-based management, an organization should always consider the interests of the shareholders while taking business-related decisions. The shareholders of an organization collectively own the organization. Therefore, organizations aim at enhancing the shareholder (or owner) value. Usually, organizations pay high dividends to the shareholders to increase their wealth.

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organization must demonstrate ethical behavior toward its employees. The ethical treatment of employees deals with maximizing not only employee satisfaction but also long-term owner value. Employees should be duly rewarded for their contributions to the achievement of business objectives. Ethics in human resources management deals with all the issues relating to the employee and the business.

This unit will first discuss the nature of employment contract. We shall then move on to discuss the concept of

hiring and the principle of ethical hiring.

Finally, we shall discuss the ethical issues involved in remuneration and retrenchment. Objectives By the end of this unit, you should be able to: • Discuss the nature of

employment contract • Explain the concept of hiring and the principle of ethical hiring • Explain the concept of equality of opportunity • Identify the ethical issues involved in remuneration and retrenchment Nature of Employment Contract An employment contract is a legal document that governs the relationship between a business and an employee, and explain the employee's tasks and responsibilities,

remuneration, work hours, location, travel requirements, etc. The terms laid out are clearer for a manual worker than a professional employee. This raises the question of whether the business and its employees have any moral responsibilities beyond the exchange of wages or salary for work. Apart from paying a salary for work, a business has to continue providing work to its employees, as long as it is viable. Most businesses support the policy of continued employment. This policy is widely practiced by Japanese businesses. Firms that provide lifetime employment aim for stability rather than rapid growth, resulting in higher employee loyalty and productivity. However, the question arises as to whether the policy helps a business fulfill its obligations to other stakeholders. Employees too have certain responsibilities toward the business, which depend on the nature of the employment. The responsibilities of a casual laborer may be limited to doing the work for which he/she is paid. A permanent employee is expected to have some degree of loyalty to the business that gives him/her job security, a sense of belonging, growth prospects, and well-being while in employment.

Unit 10: Ethical Issues in Human Resources Management 3 Example: The Controversial Employment Contract of Infosys
In April 2022, the IT employee union based out of Pune raised a concern and complained to the Labour Ministry regarding a non-compete clause included in the employment contract by Infosys. According to this clause, if any employees leaves Infosys, they cannot work

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MATCHING BLOCK 1/18

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for the same clients in other organizations for at least six months post they leave Infosys. The clause

was applied to all those employees who had worked for the applicable client for 12 months in the past while they were tenured with Infosys. This clause was considered to be quite restrictive by the ex-employees as majority of the other competitors of Infosys also worked with these clients. However, Infosys justified that such a clause was required to maintain confidentiality and safeguard the larger business interest. Source: <https://www.thehindu.com/sci-tech/technology/expained-infosys-controversial-clause/article65518471.ece>, dated 27/6/2022; (accessed on 24/6/2022) Hiring -

The Principle of Ethical Hiring Selection is the most important step in hiring. For any business, the best way of selection is to hire an individual who is perceived to have the ability to contribute most to the long-term owner value. This principle applies to other activities of personnel management like promoting able employees and deciding who should be fired. Ethical selection involves actions that are honest, fair, non-coercive, and legal. The same criteria are used to evaluate candidates for a given post. The recruiter ensures that all the

job's

requirements and benefits are clearly conveyed to the applicants. Ethical selection, if not followed, will lead to the wrong candidate being hired, which will further lead to employee dissatisfaction. Dissatisfied employees waste the valuable resources of the organization, as their contribution either to the present business or to its future growth is minimal. While selecting candidates,

the recruiter's job is not just to eliminate the unsuitable

ones. An organization cannot always find the best person for a job, and is thus, forced to accept the best from among the applicants. However, it can continue its search for a suitable candidate if the expected contribution from the candidate is more than the cost of the search. Given here are some of the unethical practices in hiring. 10.4.1

Discrimination Ethical selection starts with preventing discrimination. As for example, if the nature of the job requires the practice of discrimination, enough care should be taken to see that the discrimination is based only on the relevant criteria, i.e., maximizing long-term owner value. Discrimination based on any other criteria is immoral. The relevant criteria for ethical selection are functional qualities or abilities that are required to do the job.

A person's

character is also considered in jobs that demand high levels of honesty and integrity.

Block 3: Management and Ethics II 4 Judging a person's functional

qualities based on age, gender, religion, nationality, or social background is considered discriminatory. Use of such irrelevant selection criteria would limit the pool of talent. Organizations also use referrals for hiring employees. Using solely a referral network for recruitment is, however, unethical as good candidates who have no access to the network would then be denied employment. Other criteria for discrimination include over qualification, ageism, and shortcut methods of selecting based on credentials and testing. Over qualification Overqualified candidates are usually rejected as they have too much experience or education for the job concerned. Organizations usually reject overqualified applicants as they expect them to feel uncomfortable in their job. Hiring them may also cost more than hiring less qualified candidates. Managers sometimes fear that subordinates with greater experience and expertise pose a threat to their own positions. This is an unethical practice as it goes against the principle of ethical selection of hiring the right person to maximize long-term owner value. Applicants should be evaluated based on their individual qualifications and should not be rejected for their

over qualification

unless such qualification and experience is counter-productive to the organization. Ageism Ageism is another basis of discrimination that limits the acceptable age range of the job applicants, thus, restricting certain applicants from applying for a job.

Organizations consider age as a factor to test a person's functional abilities,

which may sometimes be counter-productive. Young employees are perceived to be more adaptive to situations and willing to learn, while older employees are considered for jobs that need experience and responsibility. However, an older applicant, who has been rejected, may actually master a new skill faster than his/her juniors. Age is a highly unreliable criterion

of an applicant's ability to contribute toward maximizing owner value. Thus, it is unethical to use age as a recruitment criterion. It is also not feasible to conduct an in-depth assessment of every applicant. Due to this, organizations appraise the applicants based on their credentials and objective tests. It is a debatable issue whether this method aids ethical selection.

Example: Discriminating Aged Employee at Novo Nordisk A/S Novo Nordisk A/S was a Danish multinational pharmaceutical company. The company was sued by the U.S. Equal Employment Opportunity Commission (EEOC) for alleged age discrimination in their hiring process. The company denied transfer to an internal employee, aged 62 years and instead hired a less qualified 33 year old candidate. The company employee applied for this position as the new office location was closer to where she lived. However, the company selected someone 30 years younger from another state because he could fulfill the position for the long term. The conduct not only violated Novo Nordisk's anti-discrimination policy, but the Age Discrimination in Employment Act, EEOC said. Source:

<https://www.fiercepharma.com/pharma/age-discrimination-suit-claims-novo-nordisk-chose-fill-position-younger-less-qualified> dated 7/6/2022 (accessed on 24/6/2022)

Unit 10: Ethical Issues in Human Resources Management 5 Credentials Credentials are a person's degrees, certificates, or citations. These are used by recruiters to screen out applicants who do not possess the required academic or vocational qualifications. This method simplifies the recruiter's

job, but fails to differentiate between academic qualifications and intelligence, and vocational qualification and expertise in a particular field. Credentials may not always reflect an applicant's functional abilities to do a job.

Recruiters should not only look out for highly-qualified people but also for characteristics that help a candidate contribute to increasing owner value. Testing Testing is a relatively better method of assessing an applicant than credentials. Objective tests focus on the specific aptitude or psychological characteristics that are required to perform the job most effectively. Though these tests directly test the applicant's proficiency in the job (typing, writing, programming, etc.), they are only the next best alternative to good judgment in hiring. The outcome of tests may be deceptive, unless they are well designed and their results interpreted and translated to just hiring decisions. Tests that challenge the applicant's right to privacy are

considered unethical. However intrusive they may seem, psychometric tests, which attempt to measure personality traits such as extroversion and stability, can help businesses identify traits that help maximize long-term owner value. Check Your Progress-1 1. Treating employees ethically means which of the following?

a. Maximizing employee satisfaction b. Compromising on maximizing owner value c. Giving due reward for contributing toward the achievement of business objectives d. Both (a) and (b) 2. Ethics in personnel function deal with all the issues in the relationship between the: a. Employee and the business b. Employers and the partners c. Employers and the customers d. All of the above 3. Identify the statement that does not hold true regarding an employment contract. a. It guarantees lifetime employment to the employee b. It is a legal document that governs the relationship between a business and an employee c. It spells out the tasks and responsibilities of the employee, remuneration, hours of work, location, travel requirements, etc.

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d. The terms of the employment contract tend to be clearer for a manual worker than for a professional employee

Ethical selection maintains that every applicant must be given an equal opportunity, irrespective of the organization's criteria for hiring. An organization should ensure that all applicants, whether for hiring or for promotion, are given equal rules; no applicant is prevented through coercive means of subjecting himself/herself to the rules; and no applicant is rejected for reasons other than those laid down by the hiring rules. Equality of opportunity indicates the ways to apply the hiring rules, but does not determine the outcome of applying the rules. It deals with screening every applicant using the same criteria. Sometimes, these are abandoned by organizations when the law or external environment forces them to avoid applicants from some communities. Reverse discrimination is a hiring practice designed to function on the basis of quotas or reservations aimed at providing opportunities for candidates from backward communities. Such practices aim at providing social justice but fail to achieve the business objective of maximizing long-term owner value. The justifications given by organizations for adopting discriminatory hiring practices go against the principle of ethical hiring.

Ethics and Remuneration Remuneration is the act of rewarding employees based on their contributions to maximizing long-term owner value. It includes monetary rewards and non-monetary rewards like fringe benefits, perks, recognition, and promotions. Remuneration is considered ethical if it is just and equitable. Equitable remuneration plays a vital role in employee motivation. Lack of this would lead to employee demotivation and adversely affect their contributions to the business. An ethical business doesn't reward anything other than results. The needs, efforts, ability, seniority, and loyalty of an employee are not considered while remunerating him/her, unless they play a role in achieving results. Ethical remuneration is thus, about rewarding actions that contribute to long-term owner value.

10.5.1 Ethical Remuneration: Need, Effort and Ability The principle of ethical remuneration states that an organization should give rewards only for contributions to long-term owner value. An employee is rewarded only when his/her efforts, talent, and abilities translate into results that contribute to long-term owner value. According to the principle --

- Remuneration is not driven by the employee's need.
- Remuneration depends only on results, not on superior skills and abilities.

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- Employees who work hard to perform a task need not be rewarded more than those who do it effortlessly.
- A person who works hard but fails to achieve results deserves no reward, only sympathy.

These principles sound mechanistic and harsh. But rewarding moral behavior without considering results may reduce long-term owner value and put at stake the very existence of the business. An employee who has personal problems will be less productive. The organization can either help him/her out or part with him/her. The first course of action is ethical as business can benefit more by helping the employee to solve his/her problem. This will lead to higher productivity, loyalty, and a sense of support and confidence. An organization can give its employees remedial benefits like loans, grants, and medical assistance which are clearly distinguished from standard remuneration. Through such steps, a business can help itself by helping its employees in need. If the purpose of assistance is anything other than that of helping the business, it will be counter-productive.

10.5.2 Ethical Remuneration: Seniority and Loyalty

Experience that does not contribute to business is of no use and cannot be a relevant factor for deciding ethical remuneration. Seniority may lead to useful experience, but it may not always lead to expertise. A junior with expertise may be more productive than his/her senior. In such situations, the principle of ethical remuneration states that the junior deserves a better reward than his/her senior. Rewards are given for seniority and loyalty only when they lead to contributions in long-term owner value. The greatest contributions to the business are made by employees who understand the long-term goals of the business and who are prepared to forego rewards to achieve them. Employees who are ready to give up their pay rise or perks when the business faces a financial crunch should be rewarded. It is unethical on the organization's part to dishonor the employees' commitments once the business achieves normalcy. This will also break the employees' trust and lead to decreased long-term owner value.

Example: Paid Internships at White House for the First Time in History - Acknowledging Interns Loyalty In 2022, the Biden-Harris administration introduced a practice which provided remuneration to the White House interns. This practice was welcomed with great enthusiasm by the interns of the White House and was considered to be first time in history that the interns were being compensated for their services. This was a great policy for all interns for their time and effort. There was lot Contd.

Block 3: Management and Ethics II 8 of experience gained by students in the unpaid internships. However, in the unpaid internships, students were surrounded by growing inflation and the paid internships helped students compensate for their cost of living, especially for students from low-income background. Paying interns also opened doors for prestigious internships for the least advantaged students in the society. Unpaid internships raised ethical concerns regarding refusing to pay students.

81%

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If organizations refused to pay for work, then were those unpaid internships really worth students' time?

Source: <https://www.thedp.com/article/2022/06/unpaid-internships-exploitation-dated-24/6/2022> (accessed on 24/6/2022) Check Your Progress-2 4. Identify the most important step in hiring. a. Inviting the applicants b. Selecting the right person c. Training the selecting person d. Conducting the interview through an expert panel 5. The right principle of selection of personnel would be to hire an individual who a. Has good communication skills b. Is the senior most and experienced person

c. Has the ability to contribute most to the long-term owner value d. All of the above 6. While selecting, the organization should consider those individuals who have the ability to contribute most to the long-term owner value.

In the future, this would help in which of the following? a. Promoting competent employees b. Deciding on who should be fired c. Expansion to other countries d. Both (a) and (b) Activity: Answer if the following statements are true or false about the principle of ethical remuneration: a. Remuneration depends on results and superior skills and abilities. b. Rewards are given for seniority and loyalty only when they lead to contributions in long-term owner value. c. Employees who work hard to perform a task are rewarded more than those who do it effortlessly. Contd.

Unit 10: Ethical Issues in Human Resources Management 9 d. Rewarding moral behavior without considering results would enhance the organization's long-term owner value and will ensure its survival in the long- run. e. An organization is called unethical if it dishonors the commitments made by the employees during a financial crunch once business activities achieve normalcy. Answer: _____

_____ Ethics and Retrenchment During an economic downturn, many organizations resort to retrenching or laying off of people. Some organizations do not handle retrenchment issues well and end up getting a flawed corporate image. During recession, organizations reduce their size and overhead costs by discharging some of the employees. Downsizing is usually taken up due to an increase in competitive pressures. Example: Retrenchment at Netflix In May 2022, Netflix stocks dropped by 20 per cent and the company anticipated that for the subsequent quarter of April-June that it may lose 20 lakh of its global paid subscribers. As a result, during the second round of downsizing the employees count, the company had removed 300 employees and resorted to retrenchment in June 2022. The first round of layoffs were of similar size initiated in May 2022. The company could witness

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more rounds of layoffs following the two rounds, as it tried to adjust for its heavily weakened stock price.

For details, check out <https://www.indiatvnews.com/technology/news/why-did-netflix-lay-off-300-more-employees-2022-06-24-786972> dated 24/6/2022 (accessed on 24/6/2022) 10.6.1 Firing Firing is a critical decision that affects the goodwill toward an organization. It can be ethical if it is an outcome of a particular cause which may be related to poor performance, acts of sabotage, dishonesty, or misuse of authority. These have an effect on the long-term owner value. Most organizations follow arbitrary firing practices such as firing 'at will' or for unjust reasons. Employers add an 'at will' clause in the employment contract to fire employees at will. Firing affects employee morale negatively and also the organization's performance. It is difficult to measure the negative effect, but with a decline in employee morale, productivity also gets affected. Thus, firing 'at will' does not enhance long-term owner value as it creates an atmosphere of fear and uncertainty. It is unethical as it affects trust, which is essential for the business to survive and make profits. To be ethical, firing should be honest, fair, legal, and without coercion or physical violence. The goodwill toward an Block 3: Management and Ethics II 10 organization that follows arbitrary firing practices suffers if it is revealed that the organization is discriminatory, unfair, or vindictive in its practices. Organizations are often criticized when they go in for layoffs, right-sizing, downsizing, or delayering. These criticisms can be tackled if the organization clarifies the purpose of the business, which is to enhance long-term owner value. During difficult times, it is difficult to decide whom to fire as the decision has nothing to do with age or experience. The ethical decision would be to fire the least productive employees or those who contribute least to long-term owner value. Though firing is legally correct, if it is not carried out in the right manner, it will lead to fear and mistrust among the employees. This atmosphere will make it difficult for the organization to attract fresh talent and retain experienced employees. Hence, it is very important for organizations to adopt and follow ethical hiring, remuneration, and firing policies that are directed toward enhancing long-term owner value. Check Your Progress-3 6. All the criteria given below are used by an ethical personnel officer to evaluate the candidates for a given post, except one. Which is that? a. Whether the person is fair b. Whether the person is legal c. Whether the person is honest d. Whether the person is coercive 7. Discrimination in the personnel selection process can take place based on: i. age. ii. gender. iii. religion. iv. nationality. a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 8.

The

first step toward ethical selection is to . a. Prevent discrimination b. Select the right candidates c. Eliminate the unsuitable candidates d. Both (b) and (c)

Unit 10: Ethical Issues in Human Resources Management 11 Activity: Gyani Publishers (GP) is an eight-year-old, small publishing firm based in Chennai. From the time it was founded, GP saw many ups and downs in the business. The company was worst hit in late 2008 due to the economic crunch. The sales came down drastically. The top management decided to wait till January 2009 to see if there would be any revival in the situation, and if not, go in for severe cost-cutting measures that included retrenching people. The company had a very small team of 200 employees and had a good reputation of not laying off its employees even during bad times. With no signs of recovery, GP decided that it had no alternative but to lay off employees. The company decided to lay off about 75 employees, who included 50 employees who had joined a year earlier and 15 employees who were underperformers. The remaining 10 employees belonged to the administration and housekeeping departments. Before retrenching the employees, the top management of GP called for a meeting of all the 75 employees and explained to them the reasons for the action. It apologized for the action and declared that each employee would be given a month's salary. Do you agree with the way the situation was tackled by the company? Explain and also suggest alternative ways. Answer: Summary • An

employment contract is a legal document that governs the relationship between a business and an employee, and explains the employee's tasks and responsibilities, remuneration, work hours, location, travel requirements, etc. •

Selection is the most important step in hiring. For any business, the right principle of selection is to hire an individual who is perceived to have the ability to contribute most to the long-term owner value.

Ethical selection involves actions that are honest, fair, non-coercive, and legal. •

Some of the unethical practices in hiring are related to discrimination on the basis of age, gender, religion, and nationality. Other criteria used in selection that are considered to be discriminatory are over-qualification, ageism, and other shortcut methods of selecting based on credentials and testing. • Ethical selection propounds that every applicant must be given an equal opportunity, irrespective of the organization's criteria for hiring. Equality of opportunity indicates the ways to apply the hiring rules, but does not determine the outcomes of applying the rules.

Block 3: Management and Ethics II 12 • Remuneration is the act of rewarding employees based on their contributions to maximizing long-term owner value. Ethical remuneration is about rewarding actions that contribute to long-term owner value. • Downsizing is usually taken up due to an increase in competitive pressures. Firing can be ethical if it is an outcome of a particular cause which may be related to poor performance, acts of sabotage, dishonesty, or misuse of authority that would have an effect on the long-term owner value. Glossary Employment contract:

It is a legal document that governs the relationship between a business and an employee. It spells out the tasks and responsibilities of the employee. Remuneration:

It is the act of rewarding employees in proportion to their contributions to maximizing long-term owner value. Self-Assessment Test 1. Employers and employees have certain responsibilities toward each other, depending on the nature of the employment contract. What is an employment contract? Explain its nature. 2. Selection is the most important step in hiring. What are the ethical issues involved in the organizational selection or hiring process? Describe in detail the unethical practices in hiring. 3. Ethical selection propounds that every applicant must be given an equal opportunity, irrespective of the organization's criteria for hiring. What does 4. equality of opportunity means in case of ethical selection? 5. "Ethical remuneration is about rewarding actions that contribute to long-term owner value." Validate the given statement. 6. The economic downturn has forced many organizations to retrench their employees. Is this an ethical practice? What are the ethical issues involved in retrenchment?

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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Answers to Check Your Progress Questions 1. (a) Maximizing employee satisfaction Treating employees ethically does not mean that the business should work towards maximizing employee satisfaction, playing down the need for maximizing long-term owner value. Employees should be given their due reward for contributing towards the achievement of business objectives. Ethics in personnel function deal with all the issues in the relationship between the employee and the business. 2. (a) Employee and the business Ethics in personnel function deal with all the issues in the relationship between the employee and the business. The manner in which a business deals with its employees is a clear indication of its ethical character. If a business is to maximize long-term owner value, it must behave ethically towards its employees. 3. (a) It guarantees lifetime employment to the employee The employment contract is a legal document that governs the relationship between a business and an employee. It spells out the tasks and responsibilities of the employee, remuneration, hours of work, remuneration, location, travel requirements, etc. The terms of an employment contract tend to be clearer for a manual worker than for a professional employee. An employment contract does not guarantee lifetime employment to the employee. 4. (b) Selecting the right person The most important step in hiring is selecting the person who should be hired. Whatever the purpose of the business, the right principle of selection would be to hire that individual who is perceived as having the ability to contribute most to the long-term owner value. 5. (c) Has the ability to contribute most to the long-term owner value. Whatever the purpose of the business, the right principle of selection would be to hire that individual who is perceived as having the ability to contribute most to the long-term owner value. This principle of selection applies to other activities of personnel management like promoting able employees and deciding who should be fired. 6. (d) Both (a) and (b) Selection aims at hiring an individual who is perceived as having the ability to contribute most to the long-term owner value. This principle of selection applies to other activities of personnel management like promoting able employees and deciding who should be fired. 7. (d) Whether the person is coercive. Ethical selection is all about acting in a way that is honest, fair, non-coercive, and legal. An ethical personnel officer evaluates the candidates for a given post based on the same criteria.

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d) i, ii, iii, and iv Unethical practices can take place in hiring due to discrimination. Discrimination can be based on age, gender, religion, and nationality. 9. (a) Prevent discrimination The first step toward ethical selection is to prevent discrimination.

Unit 11 Ethical Issues in Finance Structure 11.1 Introduction 11.2 Objectives 11.3 Importance of Financial Statements 11.4 Ethical Issues in Mergers and Acquisitions 11.5 Insider Trading 11.6 Money Laundering 11.7

Summary 11.8 Glossary 11.9 Self-Assessment Test 11.10 Suggested Readings/Reference Material 11.11 Answers to Check Your Progress Questions "

The primary aim of business is not to earn profit but to serve people--the customers and society at large--to fulfill their needs!" — Dr. Vivencio Ballano, Associate Professor and Faculty Researcher 11.1 Introduction Governments may not be able to enforce this ideology. But those who indulge in unethical practices should understand that regulators have become more vigilant and well equipped to trace and hunt anyone who oversteps the ethical boundaries for a short-term profit. Let's study the important aspects of ethics in the area of finance.

In the previous unit, we have discussed ethical issues in human resource management.

In this unit, we shall discuss the ethical issues in

finance. All business dealings have some or the other financial implication. Most ethical issues in finance deal with financial reporting. Internal financial reporting has to be honest, fair, and reliable for an organization to perform effectively. Most business failures are related to either marketing failure (failure in selling products) or mismanagement of operations. Both these have financial implications. Companies falsify accounts when businesses weaken due to bad debts, mismatched funding, or under-capitalization. It is here that the importance of ethics in financial management comes in.

This unit will first discuss the importance of financial statements. We shall then move on to discuss the ethical issues involved in mergers and acquisitions. Finally, we shall discuss the concepts of insider trading and money laundering.

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Objectives By the end of this unit, you should be able to: • Recognize the importance of financial statements • Identify the

ethical issues involved in mergers and acquisitions • Discuss the concepts of insider trading and money laundering 11.3

Importance of Financial Statements Financial statements play a vital role in

the ethical reporting of finance. The internal financial reporting has to be fair and honest. To run a business ethically, it is crucial to have trustworthy internal accounting systems. Companies usually maintain two sets of accounts -- financial accounts that are given to the shareholders and internal management accounts. Management accounts give details about the functioning of the different departments, the work they carry out, the cost involved, and the earnings. Internal accounts must be accurately entered if a business has to function effectively and ethically. The soundness of all management decisions depends on the accuracy of its financial statements. Misinterpreting financial information has a negative impact on the

long-term owner

value. Given here are the steps that the management should take to ensure true,

fair,

and reliable management accounts. • Determine the key elements of the business like the firm's objectives, and see how

they are defined and measured. • Make sure that funds are allocated to different activities based on their importance. • Frame rules that have a positive effect on business activities. Companies should ensure that each project or department is allocated its fair share of funds, and that the projected earnings of the project or the department are in accordance with those funds. At times, a project may be under-allotted but may be expected to contribute a high share of earnings. In such cases, even if work in the project proceeds smoothly, the project may not achieve the expected earnings. This can affect the employees' performance-related pay, thus leading further to employee demotivation. As their achievements are not recognized, employees may not perform efficiently in the future, and this could lead to a deterioration of profits. Therefore, care should be taken to ensure that each department is allocated its fair share of funds. Trust can be ensured by applying appropriate and consistent rules in management accounts. All the departments should follow consistent rules related to financial calculations to achieve a coherent picture of the business. The methods used to calculate financial data should also be consistent and comprehensive. Ethical audit ensures in bringing that the company's accounts present a true picture, it

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helps accountability and transparency into the company's operations.

and in tracking the company's progress and identifying the objectives it has to achieve. Stakeholders have a right to accurate information on various issues like product safety, environmentally-friendly products, and employee relations. Maintaining accurate accounts is an important step for building trust in the organizations. Reliable management accounts and financial reports give a clear picture of the

company's position. Example: SEBI bans Anil Ambani and 3 others for Falsification of Financial Statements Alleging that Reliance Home Finance Ltd. (RFHL) had engaged in money laundering and financial statement fraud, hiding accurate and fair financial facts from the general public, SEBI on Feb 12 th , 2022, barred RFH, its owner Anil Ambani and three other senior executives from dealing in the securities market. Ambani and the others were prohibited by SEBI from working with any listed company or intermediary, serving as a director, or acting as a promoter of any listed firm until further orders. Source: <https://economictimes.indiatimes.com/markets/stocks/news/sebi-bars-reliance-home-finance-anil-ambani-3-others-from-securities-market/articleshow/89511398.cms>, dated: 12 th February, 2022. (Accessed on 23rd August, 2022).

Check Your Progress-1 1. Most of ethical issues in finance are concerned with which of the following?

a. Mergers b. Insider trading c. Hostile takeovers d. Financial reporting 2. Failures in business have financial implications. Such failures occur due to: i. Failure in marketing of products and/or services ii. Human resource policies iii. Failure in selling products iv. Mismanagement in operations

a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 3.

Companies falsify accounts i. When they have to recruit good employees ii. When there is under-capitalization iii. When there is mismatched funding of resources iv. When the businesses are weakened due to bad debts

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a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 4.

The internal financial reporting of any organization should: i. Be fair and honest ii. Be accurately maintained if a business has to function effectively iii. Have trustworthy internal accounting systems

a. Only i and ii b. Only i and iii c. Only ii and iii d. i, ii, and iii 5. Which of the following

types of accounts are given to the shareholders? a. Financial accounts b. Internal management accounts c.

Financial accounts and internal management accounts d. Neither financial nor internal management accounts 6. Which of the following statements on management accounts is true? i.

Are given to the shareholders ii. Give details about the functioning of the different departments iii. Give details about the work carried out by the different departments iv. Give details about the costs involved and

the earnings

a. Only i, ii, and iii b. Only i, ii, and iv c. Only i, iii, and iv d. Only ii, iii, and iv 7.

Which of the following

steps should be taken by the management to ensure true, fair, and reliable management accounts? i. Determine the key elements of the business like the objectives of the firm and see how they are defined and measured. ii. Make sure that the funds are allocated to different activities on the basis of the number of people working on them. iii. Frame rules that have a positive effect on business activities.

a. Only i and ii b. Only i and iii c. Only ii and iii d. i, ii, and iii 8.

If a project is allotted less than its fair share of funds, but is expected to contribute high share of earnings,

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The project may not achieve the expected earnings ii. The performance related pay of the employees may get affected iii.

Employees may feel demotivated as they do not receive the right amount of pay for the work that they put in iv.

Employees may not perform efficiently in the future as their achievements are not recognized

a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 9.

Identify the statements that hold true regarding ethical audit. i. It ensures that the

company's accounts present an honest picture ii. It aims to bring in accountability and transparency in the company's operations

iii. It tracks the progress of the company iv. It identifies the ethical objectives that the company is yet to achieve

a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 11.4

Ethical Issues in Mergers and Acquisitions Today's competitive business environment has forced many companies to go in for mergers or acquisitions. Through mergers and acquisitions, the management aims to develop a competitive advantage, which in turn, will increase the shareholder value. However, these strategies present many ethical challenges such as destruction of industries and increase in unemployment. Takeovers are said to harm the

stakeholders' interests as they reduce employment and disturb the organization's

relations with its suppliers and customers. The changes brought about by takeovers and mergers should be handled in

such a manner as to protect the interests of all the stakeholders and shareholders. Displaced or disguised employees

whose personal interests are harmed usually criticize takeovers. All such criticism is not legitimate. As the purpose of

business is to maximize owner value, it has to adopt suitable methods by which the organization can derive profits in the long run. Such protests from employees can be avoided if a company has clear targets that help in creating realistic

expectations in the stakeholders, giving them the

required information and an idea of the company's

future. Takeovers also involve a breach of trust between the stakeholders and the businesses. For instance, the acquiring company may discontinue the existing

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supplier contracts of the target company, and may also lay off some of the target company's employees.

For takeovers to be valid, organizations should not encourage unrealistic expectations from its stakeholders. The target

company (which is on the verge of being acquired by another company) may have promised to give a bonus to its

employees. However, it will be an unrealistic expectation on the part of the employees as it is quite likely that the

acquiring company will not fulfill the promise made by the target company. While going in for mergers or takeovers,

each group involved must agree to respect certain contracts or promises. If the target company promises performance-

related bonuses for its employees, and the acquiring company does not consider these contracts or promises, it will lead to employee demotivation. This, in turn, will affect the productivity of the employees.

In general, suppliers' expectations of having long-

term relations with an organization, regardless of the competitive environment, may not always be fulfilled. Mergers or

takeovers may lead to the

cancellation of a supplier's contract

with the management of the target company. This leads to dissatisfaction and can be avoided if the management of the target company follows procedures and policies in financial transactions and communicates them properly to its suppliers. The target company has to follow procedures that it can fulfill. If impractical obligations are abandoned after an acquisition, then it is not unethical. However, the management of the target company should provide compensation where necessary to those affected by their decisions. The acquiring company should carefully analyze the problems faced by the target company before acquiring it. Given here are some of the specific aspects that it must consider regarding the stakeholders' expectations of the acquired company. • The intensity of the expectations (how long and how strong were the expectations?) • The replacement for such expectations (how can a company counter such unrealistic expectations?) This problem is usually solved by analyzing alternative methods for such expectations. • The future economic impact that a company can have by rejecting such expectations as the workers may not perform as expected. • The impact of such a situation on future stakeholders. While an acquirer plans to console aggrieved stakeholders by compensating them, it has to make it clear that it is fulfilling inappropriate commitments made by the previous management. The message should be communicated in an unambiguous manner; otherwise, it may lead to more unrealistic expectations.

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Resource misallocation Critics point out that time, money, and energy that can be utilized for improving long-term productivity are wasted on takeovers. This may not, however, be true of all takeovers. Takeovers that take place to satisfy the management's imperial ambition (such as the dream to take over a competitor) or just to follow a trend (because others are doing it) are not justified. Such takeovers lead to resource misallocation with resources being divested according to the management's ambitions. Such takeovers are against business, and they often do not meet the basic objective of business maximizing long-term owner values.

Example: Ethical Issues in Elon Musk's Attempt for Hostile Takeover of Twitter On January 31, 2022, Elon Musk started buying Twitter shares without disclosing it. By the time of his disclosure, his acquisition reached almost 10 %. On April 14, Musk launched a hostile takeover bid, by proposing to buy the remaining shares of Twitter, at \$54.20 per share taking the acquisition cost to more than \$ 43 billion. Twitter adopted a poison pill strategy by introducing a "limited duration shareholder rights plan" (set to expire on April 14, 2023). According to this plan, if any person or group acquired ownership of 15% of Twitter's equity shares, without the board's approval, other shareholders would have an opportunity to purchase at a discount additional stock. Twitter finally accepted Musk's offer for an average of \$ 883.09 per share. Citing that he couldn't confirm that bots weren't more than 5 % of the total Twitter accounts, Elon Musk filed a motion with the SEC requesting termination of his \$ 44 billion takeover offer. Then Twitter officially launched legal action to counter Musk's efforts. Sources: (i) [cnbc.com/2022/04/15/twitter-board-adopts-poison-pill-after-musks-43-billion-offer-to-buy-company.html](https://www.cnn.com/2022/04/15/twitter-board-adopts-poison-pill-after-musks-43-billion-offer-to-buy-company.html), dated: 15th April, 2022. (Accessed on 23rd August, 2022). (ii)

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MATCHING BLOCK 4/18

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<https://zeenews.india.com/photos/business/elon-musk-twitter-saga-from-showing-interest-in-twitter-to-cancelling-the-44-billion-deal-here-s-how-the-story-unfolded-2483689/>

twitter-legal-plans-2483699, dated: 12th July, 2022. (Accessed on 23rd August, 2022). (iii) <https://timesofindia.indiatimes.com/business/international-business/explainer-what-happens-next-in-the-elon-musk-twitter-saga/articleshow/92819486.cms>, dated: 12th July, 2022. (Accessed on 23rd August, 2022). (iv) <https://www.ndtv.com/business/elon-musk-challenges-twitter-ceo-to-public-debate-on-bots-3232856>, dated: 7th August, 2022. (Accessed on 23rd August, 2022). (v) <https://www.theguardian.com/technology/2022/apr/15/twitter-poison-pill-elon-musk-takeover>, dated: 15th April, 2022. (Accessed on 23rd August, 2022). Hostile Takeovers Takeovers are called 'hostile' if the target company is not willing to be taken over by the acquiring company. Hostile takeovers are unfriendly by nature as the target company rejects the offer made by the acquiring company, but the latter continues to pursue it, or as the acquiring company makes an offer without informing the target company's board of directors. Hostile takeovers are often criticized for not taking the target company's interests into consideration. This is a legitimate criticism as the acquiring company's main objective is to maximize its own long-

term owner value and not that of its target company. Hostile takeovers draw opposition from the target company management, board of directors, and employees. Given here are the reasons for opposing such takeovers. Protecting their own interests Managers can oppose the takeover if they feel that their jobs are threatened, or that they will not be occupying the same managerial position. Disagreements over price Target company managers can sometimes quote a price higher than the company's actual worth. If the bidding company does not accept it, then it may result in opposition of the takeover. Conflicts may arise in hostile takeovers due to the involvement of opposing parties like the acquiring company and the target company, their managers and boards, and minority and majority shareholders. Some of the criticisms levied against hostile takeovers are not justified. One technique where the criticism against hostile takeovers is not valid is the two-tier tender offer, an American bidding technique. In this type of takeover, 51% of the shareholders who tender their shares to the bidder, receive a premium over the then market price, while the remaining 49% receive only promissory notes for the tender amount, which are encashable in the future. This process has been criticized as it offers different prices to different shareholders for their shares. But when shareholders sell their shares through stock exchanges, the prices they receive for the shares depend upon the market conditions. The bidding technique is ethical as the bidder does not use coercion or violence to force the shareholders to sell their shares. In most cases, the target company does not want to be taken over. Managements use many strategies to protect themselves from unruly predators. These strategies are commonly referred to as shark repellants. Table below gives a description of some of the famous strategies used by managements to protect their companies from being acquired.

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Strategies Description Poison pills An anti-takeover device used by a company's management to make a takeover prohibitively expensive for the bidders.

Golden parachute When a company is taken over, many top executives are likely to lose their jobs. To discourage an unwanted takeover attempt, a company gives lucrative benefits (stock options, bonuses, severance pay, etc.) to its top executives who will lose their jobs after a takeover. These can run into millions of dollars and can cost the firm a lot of money. Golden parachutes act as a deterrent to anti-takeover tactics. They allow the management to evaluate a takeover bid more objectively. Without a golden parachute provision in place, executives might selfishly implement costly defensive tactics to save their jobs, regardless of what is in the best interest of shareholders. Whether a golden parachute dissuades a takeover or not, it can benefit a corporation by attracting top executives, thwarting costs associated with takeovers, and promoting stability. People pill A defensive strategy for warding off a hostile takeover. The management threatens that during a takeover, the entire management team will resign. The people pill is a very effective method if the management team is too good and the loss of which would harm the company. It is considered unethical if the managers act in their own interest rather than the company's

long-

term value. Sandbag The company stalls the attempts in the hope that another more favorable company will try to take them over. Management should not waste too much time trying to find a more favorable company.

Greenmail Greenmail occurs where a potential takeover agent purchases stock in a company. After the purchases have totaled five percent, the agent must announce his/her intention to take over the company, if that is the intent. The stock price goes up in anticipation of the takeover battle.

Contd.

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The takeover agent ends up selling the shares back to the company for this increased price or somewhat higher negotiated price, when the attacked company struggles to thwart the takeover. The target company management sends greenmails to prevent a shareholder from taking over the company by himself/herself or by teaming up with any other competing company. Greenmails are considered unethical as the target company may be forced to incur debts to raise funds to finance the buyback of the shares at a premium price. Generally, the management is responsible for this unethical practice as they usually send greenmails financed by the owners'

money without their knowledge. The acts of the potential bidder are also considered unethical if he/she increases his/her stake in anticipation of getting a greenmail from the company. The use of greenmail is unethical because instead of using the

company's money productively, it uses the money to avert the takeover.

Activity: Thrill Limited, a manufacturer of aerated soft drinks, wants to acquire its competitor Chill Drinks. This acquisition is expected to give Thrill access to Chill's

bottling units and distribution channels. The employees and the management of Chill are against the acquisition; they want to stop the acquisition by Thrill. How do you think the management of Chill can prevent the takeover bid by Thrill Limited? Answer: 11.4.1 Management Buyouts Management buyout is a type of acquisition in which the managers of the target company acquire a controlling stake in the company from its existing shareholders. Sometimes, the managers of the target company set up a holding company to purchase the shares of the target company. Management buy-ins occur when the managers making the bid come from outside the target company. These managers raise the required finance, purchase the target company, and become the management team of the target company. Management buyouts take place for two main reasons: (1) The managers want to save their jobs if the business is planned to be closed down in the near future or if there is a threat of acquisition, or

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The managers want to make the company private as they feel that they have the expertise to develop the company further if they control the ownership. In most situations, the target company will already be a private company. However, there are also instances of the target company being a public company initially and the management making it a private company after the buyout. After the management buyout, the buyers (or managers) have complete control of the target company. They

may choose to continue with the company's current business or may break the company down into profitable pieces and then liquidate it. As the management of the target company is considered the guardian of the shareholders' money, its involvement in a buyout is viewed with suspicion by its shareholders.

Shareholders may be of the opinion that the management may act unethically to bring down share prices and buy out the target company at a cheaper rate. While bidding, the managers of the target company can act unethically by promoting their own interests, and giving preference to those activities that aid their own long-term interests. Such acts are unethical as they do not promote long-term ownership value and they violate their duties and responsibilities to the company. Unethical activities during the buyout can arise due to confidential information being leaked by the managers for their personal benefit. Sometimes, the shareholders may not support the managers'

decisions due to the presence of an inefficient and incompetent management.

Takeovers may be unethical if they ignore shareholders'

interests and do not give them accurate information. To solve these problems, companies should disclose all information concerning the buyout to shareholders. Shareholders should consider buyouts after carefully exploring their merits and demerits on the basis of the information disclosed. Activity: Sunrise Inc., an electronics company based in the US, is considering a merger with Microchips Limited, an Indian software company. Since many mergers and acquisitions in the recent past had failed to achieve the desired results, the management of both the companies decided to examine the concerns of various stakeholders that should be considered to ensure the success of the merger? Answer: Check Your Progress-2 10. Which of the following statements do not hold true regarding mergers and acquisitions? i. They help a company in developing competitive advantage

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ii. They help in maximizing shareholder value iii. They help in creating and developing more number of industries iv. They help in providing employment opportunities in the market a. Only i and iii

b. Only i and iv c. Only ii and iii d. Only iii and iv 11. Identify the

statements that hold true regarding takeovers. i. They harm the interests of the stakeholders ii. They reduce employment iii.

They disturb the organization's relationships with the suppliers and customers

a. Only i and ii b. Only i and iii c. Only ii and iii d. i, ii, and iii 12. Which of the following

aspects should be taken into consideration regarding the expectations of the stakeholders of the acquired company? i.

The intensity of the expectations ii. The replacement for such expectations iii. The future economic impacts that a

company can have by rejecting such expectations as the workers may not perform as expected iv. The impact of such a situation on the future stakeholders

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 messages should be communicated by the acquiring company to the aggrieved stakeholders of the acquired company? a. That it is fulfilling all the commitments made by the previous management b. That it is fulfilling all the inappropriate commitments made by the previous management c. That would fulfill all the expectations that they had of the previous management d. All of the above 14. Identify the reasons for the opposition of the takeovers. i.

Managers feel that their jobs are threatened ii. Managers feel that they will not be occupying the same managerial position as they used to in the target company

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iii. When the bidding company opposes to the higher price quoted by the managers of the target company

a. Only i and ii b. Only i and iii c. Only ii and iii d. i, ii, and iii 15.

The likelihood of conflict is more in hostile takeovers because of presence of which of the following parties: i. The bidding company and the target company ii. The managers and boards of the bidding company and the target company iii. The minority shareholders of the bidding company and the target company iv. The majority shareholder of the bidding company and the target company a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 16.

Identify the statements that do not hold true regarding the two-tier tender offer. a. It is an American bidding technique. b. In this takeover, 51% of the shareholders receive only promissory notes for the tender amount, which are encashable in the future and 49% of them, who tender their shares to the bidder, receive a premium over the then market price. c. It offers different shareholders different prices for their shares. d. Both (a) and (b) 17. All the given statements are true about the two-tier tender offer, except: a. 51% of the

shareholders, who tender their shares to the bidder, receive a premium over the then market price b. 49% of the shareholders receive only promissory notes for the tender amount, which are encashable in the future c. It is an unethical practice as the bidder uses coercion or violence to force the shareholders to sell their shares. d. Both (a) and (b) 18.

Managements of target companies use many strategies to protect themselves from unruly predators. These are commonly referred to as which of the following?

a. Poison pills b. Greenmails c. Shark repellants d. Golden parachutes

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Which of the following is an anti-takeover device used by a company's management to make a takeover prohibitively expensive for the bidders? a. Sandbag b. Poison pill c. Greenmail d. Golden parachute 20. Which of the following steps is not involved in the poison pill strategy followed by companies to avoid unwanted takeover attempts? a. The target company changes the Articles of Association so that a group of shareholders have special rights, which are evoked by a takeover. b. The special rights given to the stakeholders include special voting rights, and the right to buy and sell preferred stock at highly favorable prices. c. The special rights given to the shareholders can be exercised only when someone is attempting a takeover to make the takeover prohibitively expensive. d. The management also threatens that in the event of a takeover, the entire management team will resign. 11.5 Insider Trading Insider trading refers to the act of buying and/or selling of shares by employees or individuals who are closely connected to the firm. It is considered unethical if the trading of shares is done based on undisclosed public information about the company, just before the information is released to the public. Insider trading in a particular stock exchange is also considered unethical. For instance, if a person working in a stock exchange shares undisclosed information about a particular stock with his/her kin to aid in their trading, or uses this information to trade in a stock himself/herself, it is considered as unethical. Insider trading has been considered a criminal offence and blamed for many financial scandals. It is considered unethical as it is thought to violate the equality of opportunity. 11.5.1 Equality of Opportunity Insider trading has been criticized as it does not make for a level playing field between insiders and outsiders. Shareholders who are entitled to know company information are limited to information sharing. They are the primary victims of unethical insider trading as they may lose money when insider traders harm the ownership value and cause the company's share price to fall.

If a firm that is providing services to a subject company has insider traders, then the shareholders of the other firm will also suffer. Unethical insider trading in the stock market can harm the entire market as investors will not be willing to trade on that exchange that does not give the shareholders their rights. Insider trading is not completely unethical, as it appears to be. The ethical nature of insider trading is determined by the way the information is acquired, trading on that information,

the trader's relationship to that information, and the subject of the information.

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Example: SEBI Penalized 8 Employees of Titan for Breach of Insider Trading Norms After Titan informed SEBI about alleged violations of Prohibition of Insider Trading (PIT) rules and the company's code of conduct by some of its employees, the regulator investigated the scrip of TCL. SEBI found that between April 2018 and March 2019, several PIT regulations were not complied with by eight employees. These employees traded in the company's securities but did not notify the company as required by PIT standards. On 19th August 2022, SEBI levied fines totaling ₹ 8 lakh. Source: <https://economictimes.indiatimes.com/markets/stocks/news/sebi-penalises-8-individuals-for-breach-of-insider-trading-norm-in-titan-shares/articleshow/93663941.cms>, dated: 19th August, 2022. (Accessed on 23rd August, 2022).

Activity:

The Unit Trust of India (UTI) and the Global Trust Bank (GTB) decided to merge to become the largest private sector bank in India. However, the merger did not work out because GTB was accused of insider trading. Why is insider trading considered unethical? Answer: 11.6 Money Laundering Money laundering is a practice that involves disguising assets so that they can be used without the illegal activity that produced them being detected. Through money laundering, the launderer transforms the monetary proceeds derived from a criminal activity into funds with a seemingly legal source. Even legal money can become illegal, if moving it violates a country's foreign-exchange controls and other financial regulations.

Though money laundering often requires a complex series of transactions, it generally involves three basic steps: Placement - The launderer deposits the illegal funds into a legitimate financial institution Layering - Involves transferring the money through various financial transactions to modify its form, i.e., by changing currency, purchasing high value items, etc. Integration - Re- introducing the money into the economy in a legal form, i.e., by selling the high-value item purchased during the layering stage, etc. Large-scale money laundering schemes invariably contain cross-border elements. As money laundering is an international problem, international co-operation is critical in the fight against it. Otherwise, there will be no realistic chance of defeating or even significantly curbing money laundering. Internationally, a number of initiatives have been established for dealing with the problem. The Financial Action Task Force (FATF), set up by the governments of the G-7 countries at their 1989 Economic Summit, has representatives from 24 OECD Block 3: Management and Ethics II 30

countries, Hong Kong, Singapore, the Gulf Cooperation Council, and the European Commission. Participants include representatives from members' financial regulatory authorities; law enforcement agencies; and ministries of finance, justice, and external affairs. The FATF has made the best-known efforts to date toward creating such a global standard against money laundering. Broadly, its 40 recommendations on combating money laundering have formed the basis of counter laundering legislation in its 31 member states and in many others. A bill on money laundering was introduced by the Indian government in 1998. The feedback generated by the first draft led to the bill being withdrawn and re-introduced in the form of the Prevention of Money Laundering Act in 1999. The Act defines money laundering with references to situations like acquisition, ownership, possession, or transfer of any proceeds of crime; or knowingly entering into a transaction related to the proceeds of crime, directly or indirectly; or concealment/aiding in the concealment of the proceeds of crime.

Example: ED attached deposits worth ₹ 370 crores in Money Laundering Probe While conducting a fund trail investigation,

96%

MATCHING BLOCK 5/18

W

during its ongoing money laundering probe against some dubious smartphone-based lending apps,

ED found that 23

78%

MATCHING BLOCK 7/18

W

entities, including some NBFCs (non-banking financial companies), deposited ₹ 370 crore into the wallets of Yellow Tune Technologies Private Limited held with crypto exchange Flipvolt Technologies Private Limited. These amounts were allegedly proceeds of crime derived from lending practices

that were quite predatory in nature. The cryptocurrency was bought and sent to several unidentified overseas wallet addresses. Chinese nationals Alex and Kaidi (who departed the country in December 2020) established this shell company, and fake directors' names were also used to register bank accounts. Source: <https://www.business-standard.com/article/current-affairs/>

100%

MATCHING BLOCK 6/18

W

ed-attaches-rs-370-cr- deposits-including-crypto-assets-of-a-bengaluru-firm-122081200971_1.

html, dated 11th August, 2022. (Accessed on 23rd August, 2022).

Check Your Progress-3 21. In which of the following situations is the use of poison pills considered to be ethical? a. If they are used to diminish long-term owner value. b. If they are designed to protect the shareholders against unwanted takeover bids. c. If they are used to protect the management at the expense of the shareholders. d. Both (b) and (c) 22. Alexa Limited is a 25-year-old textile manufacturing company. Due to some reasons, the company was making losses since the past 2 years. Sheetal Fabrics, its competitor decided to take over the company to utilize its technology and goodwill in the market. The management of Alexa Limited were not happy about the takeover and therefore, made the takeover very expensive for Sheetal Fabrics. This strategy warded off the takeover attempt

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made by Sheetal Fabrics. What strategy did Alexa Limited follow? a. Sandbag b. Poison pill c. People pill d. Golden parachute 23.

Which of the following statements on Greenmail is true?

a. Occurs where a potential takeover agent purchases stock in a company. b. Is used by a company's management to make a takeover prohibitively expensive for the bidders. c. Is a defensive strategy for warding off a hostile takeover in which the management threatens that the entire management team will resign in the event of a takeover d. All of the above 24. Top executives likely lose their jobs when a company is taken over. So, in order to discourage an unwanted takeover attempt, a company awards benefits like stock options, bonuses, severance pay, etc., to those executives. What is this strategy called? a. Poison pill b. People pill c. Golden parachute d. Greenmail technique 25.

Which of the following denotes

the strategy used to ward off the takeover attempt, the company stalls the attempts in the hope that another more favorable company will try to take them over? a. Greenmail b. Poison pill c. Sandbag d. People pill 26.

Which

is a type of acquisition in which the managers of the target company acquire a controlling stake in the company from its existing shareholders? a. Poison pill b. Management buyout c. Golden parachutes d. Insider trading 27. Shareholders suspect management buyouts because: i. They believe that managers act unethically by promoting their own interests at the time of bidding. ii. They believe that the acts by the managers are unethical and do not promote long-term ownership value. iii. They believe that the management may resort to unethical practices to increase the share prices and buyout the company at a higher rate.

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iv. They believe that managers would give preference to those activities that have their own long-term interests.

a. Only i, ii, and iii b. Only i, ii, and iv c. Only i, iii, and iv d. Only ii, iii, and iv 28.

Which of the following

refers to the act of buying and/or selling of shares by employees or individuals who are closely connected to the firm? a. Money laundering b. Insider trading c. Management buyin d. Management buyout 11.7

Summary • Financial statements play a vital role in the ethical reporting of finance. The internal financial reporting has to be fair and honest. • Companies usually maintain two sets of accounts -- financial accounts that are given to the shareholders and internal management accounts. • Mergers and acquisitions are taken up by companies in order to develop a competitive advantage, which in turn, increases the shareholder value. •

Takeovers are called 'hostile' if the target company is not willing to be taken over

by the acquiring company. • Hostile takeovers draw opposition from the target company board or employees because they want to protect their own interests or due to disagreements over price. • Managements use many strategies to protect themselves from unruly predators. Some of these strategies are poison pills, greenmail, golden parachute, people pill, and sandbag. • Management buyout is a type of acquisition in which the managers of the target company acquire a controlling stake in the company from its existing shareholders. Sometimes, the managers of the target company set up a holding company to purchase the shares of the target company. • Insider trading refers to the act of buying and/or selling of shares by employees or individuals who are closely connected to the firm. It is considered unethical if the trading of shares is done based on undisclosed public information about the company, just before the information is released to the public. • Money laundering is a practice that involves disguising assets so that they can be used without the illegal activity that produced them being detected. Through money laundering, the launderer transforms the monetary proceeds derived from a criminal activity into funds with a seemingly legal source.

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Glossary Golden Parachutes: These are the benefits that the company gives to its top executives to discourage takeovers. Hostile Takeovers: These are the takeovers that elicit opposition from the boards or employees of the target company. Insider Trading: refers to the trading on the price sensitive information. Management Buyouts: are a kind of takeover in which the managers of the target business make the bid. Money Laundering: involves disguising assets so that they can be used without the detection of illegal activity that produced them. People Pill: is a defensive strategy for warding off hostile takeovers. The management team threatens to resign in case of a takeover. Poison Pills: are anti-takeover devices used by company management to make a takeover prohibitively expensive for the bidders. Two-tier tender offer: An American bidding technique. In this type of takeover 51% of the shareholders, who tender their shares to the bidder receive a premium over the then market price, while the remaining 49% receive only promissory notes. 11.9 Self-Assessment Test 1. What are financial statements? Why are they prepared by organizations? 2. Discuss the ethical issues involved in mergers and acquisitions. 3. Explain in detail the concepts of insider trading and money laundering. 11.10

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 11.11

Answers to Check Your Progress Questions 1. (

d) Financial reporting Ethical issues in finance are most of times related to financial reporting. Therefore, the internal financial reporting has to be honest, fair, and reliable with an organization to perform effectively.

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b) Only i, iii, and iv Most of the failures in businesses occur due to marketing failure, failure in selling products, or mismanagement in operations. All these failures have financial implications. However, human resource policies will not have any effect on the business. However, failure in the implementation of human resource policies will have a direct effect on the production and other operations of the organization in which people are directly involved. 3. (c) Only ii, iii, and iv Companies are tempted to falsify the accounts when: businesses are weakened due to bad debts, when there is mismatched funding of resources, and when there is under-capitalization. However, when companies want to recruit good

employees, they wouldn't go for falsifying accounts. They would rather exhibit their human resource policies, their achievements, and the benefits offered to the employees. 4. (d) i, ii, and iii The internal financial reporting has to be fair and honest. In order to run a business ethically, it should have trustworthy internal accounting systems. Also, the financial reporting should be accurate if a business has to function effectively. 5. (a) Financial accounts Financial accounts are given to the shareholders. Management accounts give details about the functioning of the different departments, the work they perform, the cost involved, and the earnings. 6. (d) Only ii, iii, and iv Management accounts give details about the functioning of the different departments, the work they perform, and the cost involved and the earnings. 7. (b) Only i and iii The steps that a company's management should take into account for true, fair and reliable management accounts are: determine the key elements of the business like the objectives of the firm and see how they are defined and measured; make sure that the funds are allocated to different activities on the basis of their importance; and frame rules that have a positive effect on business activities. 8. (d) i, ii, iii, and iv A project may sometimes be allotted less than its fair share of funds, but may be expected to contribute high share of earnings. In such cases, even if work in the project proceeds smoothly, the project may not achieve the expected earnings. This can affect the performance related pay of the employees. Employees feel demotivated when they do not receive the right amount of pay for the work that they put in. They may not perform efficiently in the future as their achievements are not recognized. In such a situation the profits that a company is expected to make will worsen.

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d) i, ii, iii, and iv Ethical audit seeks to ensure that the company's accounts present an honest picture. The objectives of the ethical audit are to bring in accountability and transparency in the company's operations. Another aim of the audit is to track the progress of the company and identify the ethical objectives the company has yet to achieve. 10. (d) Only iii and iv Mergers and acquisitions can help a company develop a competitive advantage, and thereby increase shareholder value. They are however, said to destroy industries and increase unemployment. 11. (d) i, ii, and iii Takeovers harm the interests of stakeholders as they reduce employment and disturb the organization's relationships with suppliers

and customers. 12. (d) i, ii, iii, and iv Following are some of the specific aspects that must be taken into consideration regarding the expectations of the stakeholders of the acquired company: the intensity of the expectations (how long and how strong were the expectations); the replacement for such expectations (how can a company counter such unrealistic expectations and analyzing alternative methods for such expectations); the future economic impacts that a company can have by rejecting such expectations as the workers may not perform as expected; and the impact of such a situation on the future stakeholders. 13. (b) That it is fulfilling all the inappropriate commitments made by the previous management In the case of an acquisition, the acquirer plans to console aggrieved stakeholders, by compensating them. During this process, it has to make it clear that it is fulfilling inappropriate commitments made by the previous management. This message should be communicated in an unambiguous manner. If the message is not clearly communicated, then it may lead to more unrealistic expectations. 14. (d) i, ii, and iii Takeovers are opposed due to the following reasons: if managers feel that their jobs are threatened; if they feel that they will not occupy the same managerial position as in the previous company; and when the bidding company does not accept a higher price quoted by the managers of the target company. 15. (d) i, ii, iii, and iv The likelihood of conflict is more in hostile takeovers because of involvement of number of opposing parties like the bidding company and the target company, their managers and boards, and their minority and majority shareholders.

Block 3: Management and Ethics II 36 16. (

b) In this takeover, 51% of the shareholders receive only promissory notes for the tender amount, which are encashable in the future and 49% of them, who tender their shares to the bidder, receive a premium over the then market price. The two-tier tender offer is one of the American bidding techniques. In this type of takeover, 51% of the shareholders, who tender their shares to the bidder, receive a premium over the then market price, while the remaining 49% receive only promissory notes for the tender amount, which are encashable in the future. It is being criticized as it offers different shareholder different prices for their shares. 17. (c) It is an unethical practice as the bidder uses coercion or violence to force the shareholders to sell their shares. The two-tier tender offer is one of the American bidding techniques. In this type of takeover, 51% of the shareholders, who tender their shares to the bidder, receive a premium over the then market price, while the remaining 49% receive only promissory notes for the tender amount, which are encashable in the future. This technique is ethical, as the bidder does not use coercion or violence to force the shareholders to sell their shares. 18. (c) Shark repellants In many cases the target company does not want to be taken over. Managements of the target companies therefore, use many strategies to protect themselves from unruly predators. These are commonly referred to as Shark repellants. 19. (b) Poison pill Poison pill is an anti-takeover device used by a company's management to make a takeover prohibitively expensive for the bidders. The other options are also anti- takeover devices. 20. (d) The management threatens that in the event of a takeover, the entire management team will resign. Poison pills are anti-takeover devices used by a company's management to make a takeover prohibitively expensive for the bidders. The company under target changes the Articles of Association so that a group of shareholders have special rights, which are evoked by a takeover. These rights include special voting rights, and the right to buy and sell preferred stock at highly favorable prices (at times below market price). These rights can be exercised only when someone is attempting a takeover to make the takeover prohibitively expensive. In case of people pill, the management threatens that in the event of a takeover, the entire management team will resign. Thus option (d) is not part of poison pill strategy. 21. (b) If they are designed to protect the shareholders against unwanted takeover bids. The use of poison pills is ethical if they are designed to protect the shareholders against unwanted takeover bids. If they are used to protect the management at the expense of the shareholders, then they are being used unethically. Poison pills have been used unethically, especially in the management dominated boards. They have been used to diminish

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long-term owner value. 22. (b) Poison pill Alexa Limited followed the poison pill strategy to ward off the takeover attempt made by Sheetal Fabrics. According to the poison pill strategy, the company makes the takeover prohibitively expensive for the bidders. 23. (a) Occurs where a potential takeover agent purchases stock in a company. Greenmail occurs where a potential takeover agent purchases stock in a company. 24. (c) Golden parachute When a company is taken over, many top executives are likely to lose their jobs. So, to discourage an unwanted takeover attempt, a company gives lucrative benefits to its top executives. These benefits are awarded to those executives who lose their jobs after a takeover. Benefits include stock options, bonuses, severance pay, etc. 25. (c) Sandbag Sandbag is another tactic used by management to stop a takeover attempt. The company stalls the attempts in the hope that another more favorable company will try to take them over. 26. (b) Management buyout Management buyout is a type of acquisition in which the managers of the target company acquire a controlling stake in the company from its existing shareholders. 27. (b) Only i, ii, and iv Management buyouts are a kind of takeover in which the managers of the target business make the bid. The management of the company is considered as the guardian of the shareholders' money. Its involvement in a buyout is viewed with suspicion by the shareholders. Shareholders believe that management may resort to unethical practices to bring down share prices and buyout the company at cheaper rate. Managers can act unethically by promoting their own interests at the time of bidding. They can give preference to those activities that have their own long-term interests. Such acts by the managers are unethical as it does not promote the long-term ownership value and also because they violate their duties and responsibilities to the company. 28. (b) Insider trading Insider trading refers to the act of buying and/or selling of shares by employees or individuals who are closely connected to the firm.

Unit 12 Ethical Issues in

Accounting and other Functions Structure 12.1 Introduction 12.2 Objectives 12.3 Importance of Financial Statements 12.4 Types of Financial Accounts 12.5 Importance of Transparency in Disclosure 12.6 Role of Accountants 12.7 Rules Regulating the Professional Conduct of Accountants 12.8 Ethical Issues in Information Technology 12.9 Importance of Software Audits 12.10

Summary 12.11 Glossary 12.12 Self-Assessment Test 12.13 Suggested Readings/Reference Material 12.14 Answers to Check Your Progress

Questions "

There is no right way to do the wrong thing. Ethical choices sometimes require sacrifice. This may not always lead to positive feelings for the decision-maker, but it should always lead to positive feelings for those affected by the decision-maker." — Christopher Gilbert, *The Noble Edge: Reclaiming an Ethical World One Choice at a Time* 12.1 Introduction To follow and practice ethics requires some sacrifices. These actions should lead to positive feelings for the affected people. In the previous unit, we have discussed the ethical issues in finance. In this unit, we shall discuss the ethical issues in accounting, and other functional areas such as information technology. Accounting is the process by which any business keeps track of its financial activities by recording its debits and credits, and balancing its accounts. It provides a system of rules and principles, which governs the format and content of financial statements.

Accounting can provide fair and accurate reporting of an organization's financial position by adhering to the principles and practices of the organizational system. The ethical issues involved in accounting are under reporting income, falsifying documents, illegally evading income taxes, and engaging in accounting fraud.

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Ethical Issues in Accounting and other Functions 39

This unit will first discuss the importance of financial statements, and the various types

of financial accounts. We shall then move on to discuss the importance of transparency in disclosure. We shall also discuss the role of

accountants, and the rules governing the professional conduct of accountants. Finally, we shall discuss the ethical issues in information technology, and the importance of software audits. 12.2 Objectives By the end of this unit, you should be able to: • State the importance of financial statements. • Discuss the various types of financial accounts. • Recall the importance of transparency in disclosure. • Discuss the role of accountants, and the rules regulating the professional conduct of accountants. •

Identify the ethical issues in information technology. • Recognize the importance of software audits. 12.3 The Importance of Financial Statements Financial statements play a vital role in

business as they provide an overview of the short-term and long-term financial health of the business. Organizations need to carefully look into these aspects to avoid manipulation of accounts. The financial reporting of statements should be honest, fair, and reliable. Financial statements can be manipulated in various ways. Given here are the five most common manipulations resorted to in financial statements.

12.3.1 Fictitious Revenues Fictitious revenues are those that are shown in the books but are not actually earned. These are created by entering non-existent revenue, and by creating journal entries by debiting accounts receivable and crediting sales. False sales to existing customers are also shown. Accountants who manipulate accounts select transactions with a few major customers like large organizations and governmental agencies that they know will be difficult to confirm. Occasionally, major vendors are also willing to provide false confirmation about their accounts to the auditors. Fictitious revenues can be detected by comparing financial statements over a time period, examining unusual journal entries, and verifying supporting sales documents and unusual sales transactions.

12.3.2 Fraudulent Timing Differences Companies overstate their assets and income by taking advantage of the accounting cut-off period to either boost sales and/or reduce liabilities and expenses. Using this type of manipulation, companies usually shift revenues (by early revenue recognition) and/or expenses (by delayed recording of expenses) from one period to another to show that they are meeting the targets or are having more sales during a particular period.

Block 3: Management and Ethics II 40 12.3.3

Concealed Liabilities and Expenses These are the liabilities and expenses that are not shown in the company's financial

statements. These occur when companies do not record certain liabilities or contingencies, understate or omit warranty costs/liabilities, and report revenue rather than a liability when cash is received.

12.3.4 Improper or Fraudulent Disclosures or Omissions These refer to intentional or reckless conduct that lead to materially misleading financial statements. Generally Accepted Accounting Principles (GAAP) require adequate disclosure in the financial statements. Material facts that are not entered in the financials should be disclosed in accompanying footnotes. Creative accounting is one form of fraudulent financial reporting, in which accounting principles are selectively used and transactions or events are interpreted in such a way as to give a misleading picture of the operations. Manipulation of the valuation of fixed assets such as buildings and machinery is a common practice. Value of stock, work in progress, and cash are the areas which can be manipulated by an accountant. The amount of cash in the business can be manipulated by varying the timing of payments and receipts.

12.3.5 Fraudulent Asset Valuations These valuations take place while estimating inventory when managers sometimes falsely state the amount of inventory available. Check Your Progress-1 1.

Which of the following denotes

the process by which any business keeps track of its financial activities by recording its debits and credits and balancing its accounts?

a. Finance b. Accounting c. Corporate governance d. Corporate social responsibility 2. Which of the following statements defines

accounting? i. The process by which any business keeps track of its financial activities by recording its debits and credits and balancing its accounts. ii. Primarily concerned with the principles and overall philosophy that drive an organization to ensure that its products and services are of very high quality. iii. A system of rules and principles, which govern the format and content of financial statements. iv. A system that provides a fair and accurate reporting of the financial position of a business.

a. Only i, ii, and iii b. Only i, ii, and iv c. Only i, iii, and iv

d. Only ii, iii, and iv

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Fraud in financial statements is done by various ways. Which of the following is not one of those ways?

a. Poison pills b. Fictitious revenues c. Fraudulent timing differences d. Concealed liabilities and expenses 4. Which of the following statements denotes

fictitious revenues? a. Not shown in the books but actually earned.

b.

Shown in the books but not actually earned. c. Valuations that take place usually in estimating the inventory.

d. All of the above 12.4

Types of Financial Accounts To avoid manipulations in financial statements, it is important to know the type of accounts that a business usually has. Businesses have two sets of accounts financial accounts and internal management accounts. These provide the information required to assess how well the owner value is being maximized and to what extent the business purpose is being achieved.

12.4.1 Financial Accounts Financial accounts are the reports submitted by an organization to its shareholders and the general public. These should, therefore, provide a true picture of the company's financial position. A company's survival depends on the trust and

confidence that its shareholders have in it. This requires ethical reporting by the accountants. 12.4.2 Internal Management Accounts Internal management accounts demonstrate the internal operations and financial activities of an organization. An organization can function smoothly if the internal accounts are correctly stated. As finance supports a business, all the transactions and activities should be recorded in the accounts thus helping the management determine whether the finance is being used systematically or not. Management accounts help the management evaluate business activities and identify operational problems. The financial rules should be applied appropriately and consistently for the accounts to be true, fair, and reliable. The methods used for data collection should also be consistent. 12.5 Importance of Transparency in Disclosures Transparency and accountability help in maximizing long-term owner value. The rules and procedures governing gathering of data to prepare accounts must be consistent. Inconsistencies would lead to data misinterpretation by the various departments in an organization. Calculations can be manipulated to provide a misleading picture, thus creating difficulty in fair allocation of funds. Transparency in accounts disclosure is vital for the long-term success of an organization.

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The Institute of Chartered Accountants of India (ICAI) has laid down certain rules for the disclosure of accounting policies. These include: all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed; such disclosure should form a part of the financial statements; and disclosure should be at one place instead of being spread out over several statements, schedules, and notes. 12.6 Role of Accountants Limited liability companies increased the role of accountants during the industrial revolution. New investors who had no knowledge of or influence on the companies'

day-to-day management needed the help of accountants. Accountants gradually built up a consensus on the way business transactions were to be presented. This helped avoid inconsistencies between the financial statements of different companies. There is a difference between an accountant who works for a company and so has an obligation as an employee to that company, and an independent certified public accountant who may be hired by the company as an outside counsel. An outside counsel has to carry out an audit for the benefit of the public, the shareholders, and the government. This audit is independent in nature and enjoys the confidence of the public. It is thus important to distinguish between a professional accountant employed by a business organization and an independent professional accountant. 12.6.1 Accountants Employed by an Organization These are the accountants who take care of the internal management accounts. They look into the operations of internal accounts of various departments and make a record of the financial activities. They can be divided into two broad categories - management accountants and financial accountants.

Example: MCA mandates additional disclosures in Financial Statements Schedule III of the Companies Act, 2013 had been amended by Ministry of Corporate Affairs (MCA) vide notification dated 24th March 2020. Rationale for this amendment was to promote Transparency and accountability in Financial Statements of the companies. Certain additional disclosure requirements had been added. The principles for preparation of the financial statements had been amended. These amendments were applicable from 1st April 2021. Moreover, companies were required to show comparative figures for FY 2020-21 in FY 2022. That means the impact of the additional disclosures would start from FY 2020-2021 itself. Source: MCA Rules make more disclosure Requirement on Financial Statement (taxguru.in) dated 19 th April, 2021 Accessed on 30.08.2022

Management accountant Management accountants provide the information required by the management to formulate policies, plan and control activities, make decisions, and disclose to shareholders and others external to the business.

They aim at maximizing the long- term

ownership value of the business. The management accountant has to provide trustworthy and credible information that can be used for making

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decisions. If a particular department is not given the required information or is not assigned the required financial support, then the employees may not put in their best efforts, which might lead to the long-term objectives of the organization not being met. Financial accountant A financial accountant provides information about an organization's financial

performance to its stakeholders. The accounts prepared by the management should give the exact financial position and performance of the firm, and should comply with the Companies Act, 1956. A financial accountant should also advise directors on the items that have to be selected for inclusion in the financial statements, and the methods for measuring them and presenting them. 12.6.2 Accountants in Professional Practice

Accountants have to present an accurate picture of the company's performance to the

shareholders. Accounting services in professional practice can be divided into two broad areas auditor and related services. The auditor Auditors are independent professional accountants appointed by the shareholders to audit a particular company in which they have invested. Following are the duties of an auditor. • To give an accurate statement to the members about the company's state of affairs

and to follow the Companies Act, 2013 • To meet the objectives of the Companies Act, 2013 and also the Articles of Association of the company. To be reasonably skillful and careful in identifying the true nature of the accounts • An auditor should be fair, reliable, and skillful in dealing with accounts. He/she has to be unbiased and should have an independent opinion of the company's state of affairs.

Accountants in related services Accountants offer services in a variety of financial areas and a number of different fields tax services, management consultancies, and insolvency services. Nowadays, they also conduct environmental audits as companies have become more concerned about offering environmentally friendly products and services. Practitioners of management accounting and financial management have an obligation toward the public, their profession, the organizations they serve, and themselves, and to maintain the highest standards of ethical conduct. Check Your Progress-2 5.

What

are used by the companies to report to their shareholders? a. Financial accounts b. Management accounts c. Both (a) and (b)

d. None of the above

Block 3: Management and Ethics II 44 6.

Identify the statements that hold true regarding financial accounts. a. These show the internal operations of the business and its financial activities. b. These help the management evaluate the business activities and identify the operational problems. c. These are the reports a business submits to the public and must therefore, provide

a true statement of a company's financial

position. d. All of the above 7. Which of the following show the internal operations of the business and its financial

activities? a. Financial accounts b. Management accounts c. Both (a) and (b) d. None of the above 8. Which of the following statements that do not hold true regarding management accounts? a. These are used by companies to report to their shareholders. b. These show the internal operations of the business and its financial activities. c. These are essential to help the management determine whether finance is being systematically used or not. d. These help the

management evaluate the business activities and identify operational problems. 12.7 The Rules Regulating the Professional Conduct of Accountants Accounting Standards are a collection of generally followed accounting principles, policies, and practices. These help in ensuring a common basis for the financial statements of different organizations, which makes it easier for people to understand them and to make useful comparisons. The professional conduct of members of the accounting bodies is governed by rules and standards, both technical and ethical. Technical rules standardize the concepts, techniques, and methods to be used by accountants. The information that an organization makes available to its outside members should be in consonance with the technical rules that govern the financial statements. In India, the Companies Act, 2013, regulates the form and content of the financial statements. Accounting Standards are prepared by the Accounting Standards Board, which has been set up by the ICAI. 12.7.1 The

Ethical Audit Just as a financial audit examines a business's financial statements to ensure that they have been generated, the main purpose of an ethical audit, according to GAAP, is to check

a firm's

actions that are directed at maximizing long-term owner value and the extent of distributive justice. Distributive justice is a teleological approach to ethical decision making and one that is based on the

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concept of fairness. It is concerned with the equitable distribution of goods and services. An ethical audit assesses the business structures and procedures, systems, and policies. It also measures the extent to which the activities of a business comply with the standards it has publicly declared to its external customers. The value of the ethical audit is that it enables the company to see itself through a variety of lenses; it captures the company's ethical profile. Companies recognize the importance of their financial profile for their investors, of their service profile for their customers, and of their employer profile for their current and potential employees. An ethical profile brings together all the factors that affect a company's reputation, by examining the way in which it does business. One of the greatest benefits of the ethical audit is that it assists the company to scan the environment to identify the issues which are most likely to provoke action by pressure groups. It also gives the company the opportunity to encourage such groups to participate in the decision-making process, or at the very least to inform them fully of the company's position. It is often believed that an ethical audit measures business conduct against the varied moral or religious standards of a community. However, this is not true, as it measures the standards and procedures of a business against the principles of maximizing owner value and distributive justice. The main objectives of an ethical audit are given here.

- To determine the extent to which the decisions taken at all organizational levels are aimed at maximizing long-term ownership value and how well they are framed to achieve distributive justice.
- To help in providing a critical assessment of how well a business is actually being run by systematically evaluating its business practices.
- To help in scrutinizing the basis on which accounts are drawn and also in evaluating whether the management has reliable information in running the business.
- To help businesses undergo major alterations like restructuring. Ethical audits are important for investigating acquisitions or restructuring operations.
- To determine the type of training necessary for the employees if the objectives and standards of the business have either been misunderstood or are not being properly implemented by them. To act as an ethical measure of the effectiveness of such training.
- To help in establishing the ethical conduct of business, which will help in attracting valuable investments.
- To help in establishing an ethical code of conduct for a business. This provides an objective measure when external auditors are performing an audit.
- To enhance, measure, and promote the quality that increases business performance by assessing them against the ethical business objective.
- To improve the quality of governance by evaluating performance and ensuring that financial information is both available and reliable.

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To

help the shareholders evaluate the performance of the directors and also the directors to evaluate the performance of the other stakeholders like the employees. It is important to note that ethical auditing is a comprehensive and integral approach; integral as it combines different approaches with different methodologies and comprehensive as it takes the whole organization (including the environment) into consideration with all the different perspectives that prevail in different functional areas. Through an ethical audit, a business can show its stakeholders that it is committed to ethical performance. Check Your Progress-3 9. Identify the statements that hold true regarding an independent certified public accountant. i. He/she may be hired by a company as an outside counsel. ii. He/she performs an audit for the benefit of the public, the shareholders, and the government. iii. The audit conducted is independent in nature and enjoys the confidence of the public.

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 accountants take care of the internal management accounts? i. Financial accountant ii. Auditor iii. Accountants in related services iv. Management accountant

a. Only i and ii b. Only i and iv c. Only ii and iii d. Only iii and iv 11.

Which of the following are the duties of the management accountant? i. To provide information that the management needs for formulating policies ii. To plan and control the activities of the employees iii. To provide trustworthy and credible information on which the management can base its decision iv. To maximize long-term ownership value of the business a. Only i, ii, and iii

Unit 12: Ethical Issues in Accounting and other Functions 47

b. Only i, ii,

and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 12.8 Ethical Issues in

Information Technology Companies entering the information age are becoming more dependent on information technology. But it is always necessary to consider the ethical and unethical aspects involved in the information age. The major challenge faced by today's

businesses is to identify the ethical issues that grow out of the use of IT, find ways to face them, and provide ethical guidelines. The security of Internet transactions and the delivery of goods ordered through them that may sometimes lead to customer dissatisfaction raise ethical concerns. The piracy of software, music, books, and anything that can be put in digital form is another area of concern as is the need to safeguard national and industrial information. The speedy development of information and communication technologies has revolutionized business practices. Electronic transactions have raised new legal issues. The shift from paper-based to electronic transactions has raised several questions as to recognition, authenticity, and enforceability of electronic documents and signatures. Lawmakers often face the challenge of balancing the sometimes conflicting goals of safeguarding electronic commerce and encouraging technological development. Individuals and businesses using the Internet for trade can take advantage of this new method of communication by first entering into contracts with their trading partners so that there is no uncertainty. The issues just discussed should be kept in mind and it is the responsibility of the individuals not to indulge in unethical practices that invade others privacy. Hacking is a major cyber-crime. A hacker is an individual who through a modem or another computer communications device, thwarts computer security and breaks into a computer system. Using programming abilities and other programs, he/she gains unauthorized access to a computer or a network. Usually, the objective of hacking is to obtain confidential information.

Creation and dissemination of harmful computer programs or viruses, which do irreparable damage to computer systems is another kind of cyber-crime. Software piracy that involves the unauthorized distribution of software online is also another distinct kind of cyber-crime. Internet users should be aware of copyright infringement (causes and risks); the security risks to information being transferred through the Internet and ways to avoid this; criminal sanctions against obtaining unauthorized access to computer systems where there is restrictive access; and the danger of placing defamatory statements on any part of the Internet. The fact that businesses use the Internet has changed the relevance of location of business, times during which businesses are open and employees work, etc. Employee performance monitoring is another system used by companies to evaluate the work carried out by the employees. Monitoring is done by placing video cameras at the workplace and/or keeping track of the telephone calls made

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by employees. Such acts demotivate the employees, leading to a loss of trust in the management. However, employers feel that such acts help in effective employee appraisal. 12.8.1 Information Technology Act, 2000 The Information Technology Act, 2000, is the first cyber law passed by the Indian parliament. It provides the legal infrastructure for electronic commerce in India. Acceptance in an electronic form of any offer, culminating in an electronic contract, has also been declared legal and enforceable. The act has recognized digital signatures for the first time in India. It has also set up a controller for certifying authorities, adjudicating officers, and a cyber-appellate tribunal. With the growing instances of hacking, the act has defined hacking for the first time. According to the act, hacking is a punishable offence and a hacker can be imprisoned for up to three years with (or without) a fine of up to Rs. 200,000. The act also aims to provide for a legal framework so that legal sanctity is accorded to all electronic records and other activities carried out electronically. This will also help in reducing the unethical activities online. The act states that unless otherwise agreed to, an acceptance of contract may be expressed by electronic means of communication, and the same shall have legal validity and enforceability. The act has also proposed a legal framework for the authentication of electronic records/communications through digital signatures.

In the year 2008 ², the Act was amended to include provisions related to: • Tightening of cyber security measures • Establishing a legal framework for digital and electronic signatures and electronic signature certificates • Recognizing and regulating intermediaries • Regulation of electronic record maintenance and monitoring • Expanding the definition of cybercrime; penalties for cyber offenses etc. Further, in 2022 ³, an Information Technology Bill was introduced in Parliament. This Bill introduced: • Insertion of new section 66G expanding the definition of punishable offenses to include

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punishment for threatening a woman to express her opinion. • Insertion of

a new section 67B A, a victim can file

for grant of an injunction against the accused, or any other person, company, organisation or entity for deletion of the offensive text, image, audio, video or other format and for prohibition from storing, retransmitting or repeating the offensive text, image, audio, video or other format, as the case may be. 2

[https://police.py.gov.in/Information%20Technology%20Act%202000%20-%202008%20\(amendment\).pdf](https://police.py.gov.in/Information%20Technology%20Act%202000%20-%202008%20(amendment).pdf) 3

<http://164.100.47.4/BillsTexts/RSBillTexts/asintroduced/2-E.pdf>

Unit 12: Ethical Issues in Accounting and other Functions 49 12.9

Importance of Software Audits Software assets are an important corporate resource. With the increasing use of computers, it has become difficult for organizations to control the effective use and growth of software assets and this has often resulted in a higher total cost of ownership than necessary. Auditors may use computer programs called software audits to examine an enterprise's computer files. For instance, utility programs may be used for sorting and printing data files and package or tailor-made programs may be used to interrogate the client's

computerized accounting system. Compliance tests may also be conducted using more sophisticated audit software such as computer-assisted audit techniques (CAATs). CAATs include the use of embedded audit facilities, enabling program codes and additional data to be incorporated into the client's computerized accounting system to facilitate a continuous review of the system. There are two main examples of embedded audit facilities Integrated Test Facilities, which involve the creation of a fictitious entity to which transactions are posted for checking purposes; and Systems Control and Review Files, which collect certain predefined transactions for further examination. Employees need to be made aware of the lawful uses of software. Most employees do not realize that software is copyrighted material and a license is required to use it. This awareness can be created by sending a memorandum to all employees explaining the lawful uses of software and need for licenses. Check Your Progress-4 12. Accounting services in professional practice can be divided into: i. Auditors

ii. Financial accountants iii. Management accountants iv. Accountants in related services

a. Only i and ii b.

Only i and iv c. Only ii and iii d. Only iii and iv 13. The

main duties of an auditor are: i. To meet the objectives of the Companies Act of 1956.

ii. To meet the objectives of the Articles of Association of the company. iii. To be reasonably skillful and careful in identifying the true nature of the accounts. iv. To give an accurate statement to the members about the state of affairs of a company and to follow the Companies Act of 1956.

a. Only i, ii, and iii b. Only i, ii, and iv

Block 3: Management and Ethics II 50 c. Only ii, iii, and iv

d. i, ii, iii,

and iv 12.10

Summary • Financial statements play a vital role in business. Therefore, organizations should look keenly into these aspects to avoid accounts manipulation. • Manipulation in financial statements can be committed in various ways. The five most commonly committed manipulations in financial statements are fictitious revenues, fraudulent timing differences, concealed liabilities and expenses, improper or fraudulent disclosures or omissions, and fraudulent asset valuations. • To avoid manipulations in financial statements, it is important to know the type of accounts that a business usually has. Businesses have two sets of accounts financial accounts and internal management accounts. • Transparency and accountability help in maximizing long-term owner value. Rules and procedures in finance for gathering data must be consistent. Inconsistencies would lead to data misinterpretation by various departments in an organization. • Limited liability companies increased the role of accountants during the industrial revolution. New investors who had no knowledge of or influence on the companies' day-

to-day management needed help from accountants. Accountants gradually built up a consensus on the way business transactions were to be presented. This helped avoid inconsistencies between the financial statements of different companies. • There is a difference between an accountant who works for a company and has an obligation as an employee to that company, and an independent certified public accountant who may be hired by a company as an outside counsel. Thus, accountants can be -- those who are employed by an organization and those who practice accounting professionally.

Activity: UTI was facing a lot of problem due to its US64 scheme in which many middle class people had invested their money. Investigation revealed that the UTI did not have a fair and reliable management accounting system. Discuss the steps

that a company's management should adopt to

have a fair and reliable management accounting system. Answer:

Unit 12: Ethical Issues in Accounting and other Functions 51 •

Accounting Standards are a collection of generally followed accounting principles, policies, and practices. These help in ensuring a common basis for the financial statements of different organizations, and so help people to understand them more easily and make useful comparisons. • The professional conduct of members of the accounting bodies is governed by rules and standards, both technical and ethical. Technical rules standardize the concepts, techniques, and methods to be used by accountants. •

According to GAAP, the main purpose of an ethical audit is to check a firm's actions that are directed at maximizing long-term owner value and the extent of distributive justice. • An ethical audit assesses the business structures and procedures, systems, and policies. It also measures the extent to which the activities of a business comply with the standards it has publicly declared to its external customers. •

Today's businesses face major challenges that arise out of the use of IT. Some •

ethical concerns are electronic transactions, cybercrimes like hacking and software piracy, and employee performance monitoring. • The Information Technology Act, 2000, is the first cyber law passed by the Indian parliament. It provides the legal infrastructure for electronic commerce in India. • Software assets are an important corporate resource. With the increasing use of computers, it has become difficult for organizations to control the effective use and growth of software assets often leading to a higher total cost of ownership than necessary. • Auditors may use computer programs called software audits to examine an

enterprise's computer files. Compliance tests may also be conducted

using more sophisticated audit software such as computer-assisted audit techniques (CAATs). • Employees need to be made aware of the lawful uses of software. Most employees fail to realize that software is copyrighted material and a license is required to use it. 12.11 Glossary Accounting: It is the process by which any business keeps track of its financial activities by recording its debits and credits, and balancing its accounts. It provides a system of rules and principles, which governs the format and content of financial statements. Ethical audit: An audit that assess a business's structures, procedures, systems and policies. It measures the extent to which the activities of a business comply with the standards it has publicly declared. Fictitious revenues: Revenues that are shown in the book but are not actually earned. Fraudulent timing differences: Frauds in the financial statements by which companies overstate assets and income by taking advantage of the accounting cut-

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off period to either boost sales or reduce liabilities or expenses. FRC (Financial Reporting Council): It is the accounting body in UK which formulates the accounting standards. Software audits: Software audits are computer programs used by auditors to

examine an enterprise's computer files. 12.12

Self-Assessment Test 1. What are financial statements? Discuss the various types of financial accounts. Explain their importance. 2. Describe the importance of transparency in disclosure. 3. What is the role of accountants in an organization? Discuss. What are the rules that govern the professional conduct of accountants? 4. What kind of ethical issues arise in an organization in the area of information technology? Why are software audits conducted? Explain their importance. 12.13

Suggested Readings / Reference Material 1.

K P Muraleedharan, E K Satheesh (2022). Fernando's Business Ethics and Corporate Governance, Pearson India. 3 rd edition 2. Manuel G. Velasquez (2021). Business Ethics – Concepts and Cases. Pearson Education, 8 th edition 3. K Viyyanna Rao & G Naga Raju (2020). Business Ethics and Corporate Governance. 1 st edition. Wiley 4. Jyotsna GB & RC Joshi (2020). Business Ethics and Corporate Governance. McGraw Hill India. 1 st edition 5. Sandeep Goel (2020). Corporate Governance. McGraw Hill India. 1 st edition 12.14

Answers to Check Your Progress Questions 1. (

b) Accounting Accounting is defined as the process by which any business keeps track of its financial activities by recording its debits and credits and balancing its accounts. 2. (c) Only i, iii, and iv Accounting is defined as the process by which any business keeps track of its financial activities by recording its debits and credits and balancing its accounts. It provides a system of rules and principles, which govern the format and content of financial statements. It is a system that provides a fair and accurate reporting of the financial position of a business. Total quality management is primarily concerned with the principles and overall philosophy that drive an organization to ensure that its products and services are of very high quality.

Unit 12: Ethical Issues in Accounting and other Functions 53 3. (

a) Poison pills Fraud in financial statements can be committed in five ways. These are: fictitious revenues, fraudulent timing differences, concealed liabilities and expenses, improper or fraudulent disclosure or omissions, and fraudulent asset valuations. Poison pill is an anti-takeover device used by the management of a company to make a takeover prohibitively expensive for the bidders. 4. (

b) Shown in the books but not actually earned. Fictitious revenues are those, which are shown in the books but are not actually earned. These are shown when non-existent revenues are entered and journal entries are created by debiting accounts receivable and crediting sales. 5. (a) Financial accounts Financial accounts are used by companies to report to their shareholders. These are the reports a business submits to the public and must therefore, provide a true statement of a company's financial position. 6. (c)

These are the reports a business submits to the public, and must therefore provide a true statement of a company's

financial position. Financial accounts are used by companies to report to their shareholders. These are the reports a business submits to the public and must therefore, provide a true statement of a company's financial position. Management accounts help the management evaluate the business activities and identify operational problems. These show the internal operations of the business and its financial activities. 7. (b) Management accounts Management accounts show the internal operations of the business and its financial activities. 8. (a) These are used by companies to report to their shareholders.

Management accounts help the management evaluate the business activities and identify operational problems. These show the internal operations of the business and its financial activities. These help the management to determine whether finance is being systematically used or not. Financial accounts are used by companies to report to their shareholders. 9. (d) i, ii, and iii An independent certified public accountant may be hired by a company as an outside counsel. The role of an outside counsel is to perform an audit for the benefit of the public, the shareholders, and the government. This audit is independent in nature and enjoys the confidence of the public.

Block 3: Management and Ethics II 54 10. (

b) Only i and iv The management accountants and the financial accountants take care of the internal management accounts. They look into the operations of internal accounts of various departments and make a record of the financial activities. 11. (d) i, ii, iii, and iv The role of the management accountant is to provide information that the management needs for formulating policies, planning and controlling the activities of the employees, decision making, disclosures to shareholders and others who are external to the business. The main task of a management accountant is to provide trustworthy and credible information on which the management can base its decision. The aim of any management accountant should be to maximize the long-term ownership value of the business. 12. (b) Only i and iv Accounting services in professional practice can be divided into two broad areas auditors and accountants in related services. 13. (d) i, ii, iii, and iv Auditors are independent professional accountants are appointed by shareholders to audit a particular company, in which they have invested. The main duties of an auditor are: to give an accurate statement to the members about the state of affairs of a company and to follow the Companies Act 1956; to meet the objectives of the companies Act 1956 and also the Articles of Association of the company; and to be reasonably skillful and careful in identifying the true nature of the accounts.

Unit 13 Ethical Dilemmas at Workplace Structure 13.1 Introduction 13.2 Objectives 13.3 Dilemmas at Work 13.4 Ethical Dilemmas 13.5 Resolving Dilemmas 13.6

Summary 13.7 Glossary 13.8 Self-Assessment Test 13.9 Suggested Readings/Reference Material 13.10 Answers to Check Your Progress

Questions "

Ethics is

knowing the difference between what you have a right to do and what is right to do." - Potter Stewart, Former U.S.

Supreme Court Justice 13.1 Introduction The quote indicates authority a person has to exercise something which is not right but one should know the difference between right and wrong and resolve the dilemma which links to the essence of this unit.

In the previous unit, we have discussed the ethical issues in accounting and other functional areas of management such as information technology. In this unit, we shall discuss the ethical dilemmas that generally arise at workplace. Managers in the 21 st century are faced with many ethical challenges. Some managers can deal with them easily, while others face difficulties in doing so. Unethical conduct does occur at times in organizations in spite of the efforts to deal with them.

This unit will first discuss the various dilemmas at work. We shall then move on to discuss the most common ethical dilemmas in business. Finally, we shall discuss how these ethical dilemmas can be resolved. 13.2 Objectives By the end of this unit, you should be able to: • Recognize the

various dilemmas at work. • Identify the most common ethical dilemmas in business. •

Discuss how to resolve the ethical dilemmas.

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Dilemmas at Work Business performance depends on management decisions. A manager has to consider various alternatives while taking decisions. It is difficult to arrive at a clear choice as whichever alternative is selected the manager has to compromise on something else. This leads to ethical dilemmas. Ethical dilemmas, by their nature, involve a range of actions and their corresponding consequences. Problems arise due to the involvement of dilemmas in value judgments, which are rarely clear-cut, by nature. To resolve an ethical dilemma, one has to prioritize values to the extent possible and violate the least number possible. In an organization, both employers and employees face dilemmas at work. For instance, an employee who discovers that his/her employers submit inflated travel bills will be encouraged to do the same. Now, he/she has to choose whether to obey his/her seniors and follow in their footsteps, or be honest in claiming the travel allowance and, perhaps, expose them. Table 13.1 lists some of the ethical dilemmas that frequently occur in organizations.

Table 13.1: Most Common Ethical Dilemmas

Issue	Ethical Dilemma
Customer asking for refund	You agree that a refund is called for but company policy says No Refund If you go to your supervisor; the customer will be denied a refund. If you act on your own authority, and give the customer a refund, the customer will be satisfied, but you may get into trouble.
Quality is above everything	Quality is supposed to take precedence over everything else. The job you are about to finish is "acceptable" but you know that you could do a quality job if you spent two more hours on it. However, if you take the extra time, you will miss your deadline.
Company procedure	The company procedure clearly lays down a particular procedure for a certain task. You know a better way to do the job. Your productivity is low this month. If you use your own method (that could violate the rules), you can raise your productivity to the desired level.
Harassment	A fellow employee is being harassed at work and is afraid to say or do anything about it. If you blow the whistle the company may retaliate against you. You could even end up losing your job.
Correcting a mistake	You are working to correct a mistake that your boss doesn't know about. If you tell the boss, you will be blamed for the mistake. If you don't tell the boss, you could be blamed for taking too long to do the job.

Unit 13: Ethical Dilemmas

at Workplace Example: The Return to Workplace Dilemma As organizations were adjusting to the post COVID reality, there seemed to be a dilemma for organizations asking employees to return to the workplace after a gap of little more than 2 years. In May 2021, Jamie Dimon, CEO of JPMorgan Chase, said on CNBC that remote work does not allow for spontaneous idea generation. The problem for workers who didn't want to return to the workplace was grounded in a reason. Some had multiple reasons like noise and distraction, cost of driving to work, loss of flexibility, more productive at home with fewer interruptions, commuting time etc. These concerns were genuine to be acknowledged and addressed to avoid an attrition outburst at the workplace. For details, check out <https://www.saltwire.com/atlantic-canada/business/bill-howatt-the-return-to-workplace-dilemma-100744073/>, Year 2021 (accessed on 28/6/2022)

13.4 Ethical Dilemmas The most common ethical dilemmas in business relate to: power, trust, and authority, Secrecy, confidentiality, and loyalty.

13.4.1 Power, trust, and authority A certain amount of power and authority is enjoyed by every manager and conferred on him/her by his/her position in the organization. Managers should show equal concern for all individuals while performing their duties. But most of them show special consideration for their kith and kin in recruitment. The ethical dilemma would be whether or not a manager should favor selection of his/her relatives for vacancies. Managers can make certain biased decisions that involve their relatives or friends. In such situations, the ethical dilemma would be whether the decision taken is in favor of the company or the person who takes the decision. Individuals in organizations who have the power to take decisions should ensure that they take fair and impartial decisions.

Example: The Ethical Dilemma of Medical Fraternity Caught by the Judiciary Power in the US On 24 June 2022, the Supreme Court of the United States (SCOTUS) overturned the landmark Roe v Wade case, which guaranteed abortion as a constitutionally protected right in 1973. Medical ethics experts say many physicians were caught in an ethical dilemma: deliberated for the fact that the new state laws restricted them to provide adequate care to the pregnant patients which was coming in the way of fulfilling their professional obligations. Dr. Stephanie Mischell, one of the family physicians in Dallas who was also associated with Physicians for Reproductive Health as a fellow mentioned – "Every single day I have a conversation with a patient in which I say, 'Abortion would be a really safe and valid option for you and I'm so sorry that I can't do it here,'" she said. For details, check out <https://www.npr.org/sections/health-shots/2022/06/24/1107316711/doctors-ethical-bind-abortion> (accessed on 28/6/2022).

Block 3: Management and Ethics II 58 13.4.2

Secrecy, confidentiality, and loyalty Many professions such as the medical, law, and consultancy professions require that confidentiality be maintained to build trust among clients. Confidentiality is also required to be maintained in the field of business. At times, an organization has to hide certain business-related information from its employees, creditors, suppliers, or even customers. The information could be related to clients, industrial processes, management structures, procedures, etc., which might plausibly be the intellectual property of the organization rather than of individual employees and not in the interest of the public. This information needs to be guarded from competitors as it is considered as the key for the

organization's prosperity

survival. However, in certain situations, the organization has to reveal certain information, and this raises an ethical dilemma

or as to 'who is entitled to know the information'.

Activity: Mention at least two ethical dilemmas that a manager could face in an organization. If you were in his/her position, how would you solve them? Answer: Check Your Progress - 1 1. Identify the statement that does not hold true regarding ethical dilemmas in business. i. They involve a range of actions and their corresponding consequences. ii. They can be solved and do not involve any compromises.

iii.

They occur if a choice is more difficult and the manager has to choose between various alternatives to make decisions.

iv. They can be resolved by prioritizing values to the extent possible and violating the least number possible. 2. The most common ethical dilemmas in business are related to: i. Power and authority ii. Trust and confidentiality iii. Secrecy

and loyalty

a. Only i and ii b. Only i and iii c. Only ii and iii d. i, ii, and iii

Unit 13: Ethical Dilemmas at Workplace 59 13.5 Resolving Dilemmas Ethical dilemmas commonly arise in the workplace. The question is who will solve them? - the manager or the employee. Manager A manager has to perform multiple roles such as act as a spokesperson, a planner, and a leader to complete different tasks in the organization. Managers generally adopt different ethical standards when carrying out different tasks, and justify their behavior in resolving the dilemma rationalization. Dilemma rationalization refers to the

fundamental reasons that lie behind the manager's unethical behavior.

According to Gelleraman, a manager uses four major rationalizations. They are: • His/her actions are within reasonable ethical and legal limits, and hence are not illegal or unethical. • His/her actions are intended to be in the best interests of the individuals or the corporation. • His/her actions will not be disclosed or published and hence there is no danger to him/her or his/her company. • He/she will be protected by his/her company. This approach does not completely solve the problem. Instead, managers need to develop the skill and experience for coping with ethical dilemmas. 13.5.1

Employee Employees can also resolve ethical dilemmas. Ethical dilemmas in most organizations arise due to the absence of commonly held beliefs and values, or because these values and beliefs

haven't been made public. Thus, employees should learn from their mistakes as to what is 'acceptable behavior'.

An organization that has identified and clearly communicated its values can train its employees to deal with ethical dilemmas.

Example: Gallup Research on Role of Managers to Resolve Ethical Dilemmas Concerning Inclusion at Workplace Gallup Research had found that the employees who felt that their organization's work environment was inclusive, were more engaged with their work and the organization. In February 2022, another Gallup study had revealed an unfortunate finding that rarely a LGBT employee believed that the organization was fair or would handle any ethical or integrity issues in a justified way. They felt their well-being was not prioritized by the organization. Other workplace studies by Gallup had found that the organizations could provide an inclusive work environment to its employees by focusing on frequent conversations between managers and employees. Such conversations initiated by the managers

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can and should explicitly reinforce the organization's concern for LGBT employees' well-being and its values around ethics and fairness. But perhaps most importantly, those conversations can and should be individualized for each employee

by their respective managers. For details, check out

<https://www.gallup.com/workplace/393983/lgbt-employee-experiences-know.aspx>,

year 2022 (accessed on 29/6/22)

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Training employees to resolve ethical dilemmas One way to resolve ethical dilemmas is to follow a step-by-step process known as BELIEVE. BELIEVE is an acronym for Background, Estimate, List, Impact, Eliminate, Value, and Evaluate (Refer to Table 13.2). Using this approach, the organization can train its employees to include a set of key values in their decision-making, and thereby, achieve a uniform approach to problem solving.

Table 13.2: The Believe

Approach Believe Description Questions (to be put by the evaluator to himself) Background State the history of the case, including context, origin, and other important details. What is the history of the problem? Who is involved? Is there any missing information that is needed to solve the problem? Estimate Make an initial estimation of the ethical dilemma present. What are the core issues? What is the main ethical conflict? List List the possible solutions to the problem. What could be various solutions to the problem in hand?

Impact Consider the likely impact of each of the possible solutions. What are the likely outcomes of each solution? Whom will the solutions affect? How will each solution harm or help the people concerned? Eliminate Eliminate the totally unacceptable solution, i.e., those that will significantly harm people. Which of the following solutions will harm people? Value With the remaining possible solutions, assess which values of the company are upheld or violated by each solution. What are the significant values and principles that are upheld or violated by each solution? What are the stated organizational values? Evaluate Evaluate the solutions considering their likely impact and the values that will be upheld or violated by these solutions. Why one solution is better or worse than another? Is there

a not considered?

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Check Your Progress-2 3. Identify the statements that clearly state the role of a manager in resolving ethical dilemmas. i. He/she should perform multiple roles to take different tasks in the organization to finish the task. ii. He/she has to act as a spokesperson, a planner, a leader, etc., depending on the task. iii. He/she has to generally adopt different ethical standards when carrying different tasks. iv. He/she should justify their behavior in resolving the dilemma rationalization. a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 4.

Which of the following

are not the rationalizations used by managers to resolve ethical dilemmas as stated by Gellerman? i. Their actions are within reasonable ethical and legal limits and hence are not illegal or unethical. ii. Their actions are aimed at the individuals' or corporations' best interest.

iii. Their actions will be disclosed or published and hence there is no danger to the company. iv. They will not be protected by the company.

a. Only i, ii, and iii b. Only i and iii c. Only ii, iii, and iv d. Only iii and iv 5.

Which of the following

refers to the

fundamental reasons that lie behind the unethical behavior of the manager? a. Egoism b. Utilitarianism c. Dilemma rationalization d. Separatist view 6. Which of the following statements are true regarding the rationalization approach in resolving ethical dilemmas? i. It completely solves the problem. ii.

It refers to the fundamental reason that lies behind the manager's unethical behavior. iii. Using rationalization, managers need to develop the skill and experience

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for coping with ethical dilemmas.

a. Only i b. Only i and iii c. Only ii and iii d. i, ii, and iii 7.

Identify the

instances that lead to ethical dilemmas in organizations. i. Absence of commonly held beliefs and values ii. Beliefs and values of the company are not made public iii. Showing of special consideration to the kith and kin by the managers iv. Revealing confidential information for personal gain rather than thinking about the organization

a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv

Activity:

Assume that you are an employee of an organization. You have come across a situation in which you witnessed the purchase manager, a close friend of yours and who has played an important role in referring you to the job, taking kickbacks from the suppliers. What would you do? While answering this question, keep in mind the fact that if you report the purchase manager's misdeed to the management, he will be out of a job and may have to face severe legal punishment. You may feel guilty about the whole incident as your friend had helped you get the job. However, if you keep the issue a secret, it will be unethical on your part and the management may get to know about it later from someone else. Answer: 13.6 Summary • Ethical dilemmas, by their nature, involve a range of actions and their corresponding consequences. They can be solved by prioritizing values to the extent possible and violating the least number possible. • In an organization, both employers and employees face dilemmas at work.

Unit 13: Ethical Dilemmas

at Workplace 63 • The most common ethical dilemmas in business relate to: power, trust, and authority; and secrecy, confidentiality, and loyalty. • Ethical dilemmas at workplace can be solved by the manager as well as the employee. • Managers generally adopt different ethical standards when carrying out different tasks, and justify their behavior in resolving the dilemma rationalization. • An organization that has identified and clearly communicated its values can train its employees to deal with ethical dilemmas using the BELIEVE approach. Using this approach, an organization can train its employees to include a set of key values in their decision making, and thereby, achieve a uniform approach to problem solving. 13.7 Glossary Believe: One way to resolve ethical dilemmas is to follow a step-by-step process known as BELIEVE, an acronym for Background, Estimate, List, Impact, Eliminate, Value, and Evaluate. Using this approach, the organization can train its employees to include a set of key values in their decision-making, and thereby, achieve a uniform approach to problem solving. Dilemma rationalization: It refers to the fundamental reasons that lie behind the manager's unethical behavior. 13.8

Self-Assessment Test 1. Ethical dilemmas commonly arise in the workplace. What are ethical dilemmas? What types of ethical dilemmas are frequently faced by the employees and employers in an organization? 2. Ethical dilemmas occur as it becomes difficult for employers and employees to make a clear choice from among various alternatives. Explain the role of the managers and the workers in solving the ethical dilemmas. 13.9

Suggested Reading / 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 13.10

Answers to Check Your Progress Questions 1. (b)

They can be solved and do not involve any compromises. The success or failure of a business depends upon the decisions taken by

Block 3: Management and Ethics II 64

the management. While making decisions, a manager has to choose between alternatives. In some cases, the choice is difficult. This results in ethical dilemma. In cases of ethical dilemmas, no matter which alternative is selected, one has to make some sort of a compromise. Ethical dilemmas, by nature, involve a range of actions and their corresponding consequences. Ethical dilemmas can be resolved by prioritizing values to the extent possible and violating the least number possible. 2. (d) i, ii, and iii The most common ethical dilemmas in business are related to: power, trust, and authority; and secrecy, confidentiality, and loyalty. 3. (d) i, ii, iii, and iv A manager has to perform multiple roles to take different tasks in the organization to complete the task. Depending on the task, the manager has to act as a spokesperson, a planner while drafting a policy, a leader while leading his team etc. Managers generally adopt different ethical standards when carrying out different tasks. They justify their behavior in resolving the dilemma rationalization. 4. (d) Only iii and iv According to Gellerman, a manager uses four major rationalizations. These are: their actions are within reasonable ethical and legal limits and hence are not illegal or unethical; their actions are aimed at the individuals' or corporation's best interest; their actions will not be disclosed or published and hence there is no danger to him/his company; and they will be protected by the company. 5. (c) Dilemma rationalization The term 'dilemma rationalization' refers to the fundamental reasons that lie behind the

manager's unethical behavior. 6. (c) Only ii and iii The term 'rationalization' refers to the fundamental reasons that lie behind the manager's unethical behavior. Using rationalization approach does not completely solve the problem. Instead of rationalization, managers need to develop the skill and experience for coping with ethical dilemma. 7. (d) i, ii, iii, and iv Ethical dilemmas in an organization result due to the following reasons: absence of commonly held beliefs and values; beliefs and values of the company are not made public; showing of special consideration to the kith and kin by the managers; and revealing confidential information for personal gain rather than thinking about the organization.

Unit 14 Ethical Issues in Global Business Structure 14.1 Introduction 14.2 Objectives 14.3 Multinational Company: An Overview 14.4 Ethical Issues in Multinational Companies (MNCs) 14.5 Regulatory Actions in Acquisitions of Global Business 14.6 Social Obligations in Global Business 14.7 Summary 14.8 Glossary 14.9 Self-Assessment Test 14.10 Suggested Readings/Reference Material 14.11 Answers to Check Your Progress Questions "

Universal ethics is a corollary of universal kinship. Moral obligation is as boundless as feeling." – J. Howard Moore, American zoologist, philosopher, educator, humanitarian and socialist 14.1 Introduction Since the unit emphasizes on ethical issues at a global level, this quote carries forward the feeling of universal ethics. In the previous unit, we have discussed the ethical dilemmas at workplace. In this unit, we shall discuss the ethical issues in global business. Companies are going global for a lot of reasons. General Electric Company (GE), Coca-Cola, and Larsen & Toubro Limited (L&T) are some of the most successful global firms that operate in other countries. While operating globally, multinationals encounter numerous ethical issues. This unit will first discuss what a multinational is, and why companies go global.

We shall then move on to discuss the ethical issues faced by multinational companies. We then discuss the ethical issues in various countries and the regulatory actions involved in acquisitions of global business. We finally discuss social obligations in global business. 14.2

Objectives By the end of this unit, you should be able to: • Discuss what a multinational company is and give an overview of multinational companies. • Identify the ethical issues faced by multinational companies in areas like

Block 3: Management and Ethics II 66 political activities; sales, marketing, and advertisement; environment; technology; economic activities; and human resource management. • Explain the ethical issues faced by organizations in various countries such as Japan, France, Germany, and China. • Discuss the regulatory actions involved in acquisitions of global business. recognize the social obligations in global business. 14.3 Multinational Company: An Overview Multinational companies (MNCs) are companies that have significant investments in several countries and which derive a large part of their income from foreign operations. Some theorists argue that a business becomes truly international only when it has a substantial number of shareholders in more than one country. Others are of the view that a firm is truly international only when the top management is recruited from different countries. Some analysts opine that MNCs should have subsidiaries in many countries.

Example: Startek - A Budding Multinational Impacting Clients Across 13 Countries Startek, a budding multinational from India was impacting its client's business needs outcomes in a very positive way. The company had enabled artificial intelligence and other digital improvements to improve customer experience. This was done by more than 43,000 customer experience experts in the company who provide service to clients across 13 different countries. On 30th June 2022, the company was

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recognized as one of India's Best Companies to Work for 2022

in the

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Top 100 by Great Place to Work Institute for the second consecutive year.

In the 2022 survey of Great Place to Work, Startek employees recognized that the leaders in the company were credible, respectful towards employees and promoted a collaborative and supportive work environment. For details, check out

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[https://www.prnewswire.com/in/news-releases/startek-r-recognized- among-india-s-best-companies-to-work-for-2022-by-great-place-to-work-r-institute- 893634238.html](https://www.prnewswire.com/in/news-releases/startek-r-recognized-among-india-s-best-companies-to-work-for-2022-by-great-place-to-work-r-institute-893634238.html)

Dated: 30/6/2022 (Accessed on 1/7/2022) 14.3.1

Reasons for Companies Going Global Companies go global to reduce sourcing and distribution costs. The other advantages are -- lower wage rates, reduced transportation costs, an opportunity to be closer to the suppliers, saturation of local markets, and the possibility of maintaining growth rate and exploiting opportunities in new markets. Some analysts opine that MNCs help the host countries in many ways. They are agents of change and progress that help to create a worldwide economic order based on rationality, efficiency, and the optimal use of resources. They create employment opportunities for the locals, and provide a wide variety of goods and/or services to the customers. They bring in ideas and practices that enhance the R&D infrastructure of the host country.

Unit 14: Ethical Issues in

Global Business 67 14.4

Ethical Issues in Multinational Companies (MNCs) MNCs allocate resources globally in an optimal manner. This is based on the

proposition that the world's resources are best utilized through

the interplay of unregulated market forces. This also distorts market free mechanisms in some areas that upset the entire worldwide resource allocation process. MNCs have been accused of indulging in unethical practices in the following ways. 14.4.1 Political Activities MNCs have been accused of supporting repressive regimes, paying bribes to secure political influence, disrespecting human rights, paying protection money, and destabilizing national governments of which they disapprove. In several cases, MNCs are owned and controlled by the nationals of a few countries, and their domination in the world markets effectively represents 'economic imperialism'.

The subsidiaries of MNCs carry out the orders from their company headquarters in another country, which is staffed by managers who belong to that country. The subsidiaries may act as de facto instruments of the foreign economic policy of another state. The resources of the MNC enable them to actually challenge the sovereignty of smaller nations. Their ability to transfer economic activity around the world can undermine the ability of underdeveloped countries to follow national economic objectives. 14.4.2 Sales, Marketing, and Advertisement The practices of MNCs in the areas of sales, marketing, and advertisement raise the following ethical issues. • Following advertising and marketing methods that may undermine ancient cultures and traditions. • Engaging in misleading and deceitful advertising in third world countries. • Promoting goods that waste valuable resources in poorer nations. • Providing products that are inappropriate to local needs. • Not accepting responsibility for unsafe products. • Degrading the environment. 14.4.3 Environmental Environmentalists criticize MNCs for depleting natural resources, polluting the environment, not paying compensation for environmental damage, causing harmful changes in local living conditions, and paying little regard to the risks of accidents, and causing major environmental catastrophes.

Example: Environmental Damage by Big Brands On 30th

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June 2022, Changing Markets Foundation (CMF) launched a new platform called Greenwash.com to raise consumer awareness regarding 'misleading' use of sustainable and green terms by big brands. The platform questioned the environmental credentials of companies like Coca-Cola, Unilever, IKEA, and

TESCO. CMF said that, these big brands though employed captions like 'ocean bound' and 'recyclable plastic' on their products, however, failed to present the product's and associated processes Contd.

Block 3: Management and Ethics II 68 impact on the environment. More specifically, the companies made use of 'ocean and beach plastics' frequently in the product promotional activities which concealed the brand's impact on the environment.

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One such example was Procter and Gamble's product of Head and Shoulders shampoo bottles

which described that the bottles were being made from 'beach plastic', however, the bottles were instead dyed blue, which couldn't be recycled further. For details, check out <https://resource.co/article/new-cmf-campaign-exposes-misleading-and-mendacious-packaging-claims> Dated: 30/6/2022 (accessed on 1/7/2022)

Though most MNCs are at the forefront of good environmental practice and management, they are often accused of using developing countries as dumping grounds for environmentally hazardous activities and products. MNCs are also blamed for causing greater damage to the environment than local businesses. They are also accused of following lower environmental standards than required by the host governments. 14.4.4 Technology MNCs usually do not develop the technologies required by the host countries. They find it cheaper to transfer an existing technology to a foreign country than to devise a new one that is better suited to the local conditions. Given here are the other unethical practices in this area.

- Not engaging in R&D in host countries. Encouraging 'brain drain' from poorer

- countries.
- Making host countries technologically dependent on the home country. Not giving local employees access to information about key technologies. Not training local nationals in the use of imported technologies. 14.4.5 Not transferring the latest technology Dumping old or outdated technologies to earn revenues. Most MNCs adopt capital-intensive production methods in less developed countries, thus challenging local businesses that use labor-intensive technologies to make similar items. Capital-intensive production methods also create unemployment, hence accentuating the unemployment problem. 14.4.6 Economic Activities MNCs have impeded the economic development of many poorer countries by concentrating economic activity in a few countries instead of promoting balanced economic development among developing countries worldwide. Multinationals operations in underdeveloped countries have led to 'dual' economic structures with foreign-owned capital-intensive high-technology high-productivity industry sectors operating in parallel with labor-intensive low-productivity industries. The foreign-owned sectors export most of their output at lower prices. The technical progress has led to higher incomes for local residents, and low prices that favor consumers in developed nations. These low prices in turn stimulate economic development. Sometimes, MNCs import raw materials for their foreign subsidiaries, instead of procuring them locally. Foreign exchange is used to pay for the imports. This impacts the host country's balance of payments.

Unit 14: Ethical Issues in Global Business 69 14.4.7

Personnel Management and Industrial Relations Given here are some of the unethical practices of MNCs in the area of human resource management. Refusal to recognize trade unions that engage in collective bargaining. Not ensuring equal opportunity policies for all at the workplace. Using expatriate staff for all significant managerial positions. Ignoring the occupational health and safety needs of local workers. Exploiting host country labor. Not involving local employees in management decision making. Trade unions in some Western countries have criticized MNCs for --

- Exporting jobs through investment in foreign production. exploiting low-paid foreign workers.
- Transferring skills to other nations and enabling them to compete more aggressively in the home country market.
- Circumventing home country laws on business competition, labor relations, etc., through shifting production to other countries.

Check Your Progress-1 1. For which of the reasons do companies go global? i. To reduce transportation cost ii. Due to saturation of local markets iii. To be away from the suppliers iv. To exploit opportunities in new markets

a. Only i, ii, and iii b. Only i, ii, and iv c. Only i, iii, and iv d. Only ii, iii, and iv 2.

Which of the following

unethical practices are multinational companies often accused of? i. Violation of human rights ii. Use of existing technology in a foreign country iii. Destabilization of national governments iv. Bribery a. i and ii b. i and iii c. i, iii and iv d. ii, iii and iv 3. MNCs have been accused of indulging in unethical practices in several areas. Which of the following is not an unethical practice related to the political activities? a. Paying bribes to gain political influences

Block 3: Management and Ethics II 70

b. Providing products that are inappropriate to local needs c. Supporting repressive regimes d. Destabilizing national governments of which they disapprove 4. Which of the following are the practices of multinationals that raise ethical issues in the area of sales, marketing, and advertisement? i. Advertising and marketing methods that may undermine ancient cultures and traditions ii. Marketing practices that promote goods that waste valuable resources in poor nations iii. Failure to accept responsibility for coming out with unsafe products iv. Causing harmful changes in local living conditions

a. Only i, ii, and iii b. Only i, ii, and iv c. Only i, iii, and iv d. Only ii, iii, and iv 5.

Multinationals are usually criticized by environmentalists for: i. Depleting natural resources and polluting the environment ii. Causing harmful changes in the local living conditions iii. Not paying compensation for environmental damage iv. Paying little regard to the risks of accidents and causing major environmental catastrophes

a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv

Activity:

Callserve, US based ITES Company, has decided to shift its operations to India. What do you think are the reasons behind a company shifting its operations to other countries? What ethical codes of conduct should these companies follow? List some characteristics of an ethical code? Answer:

Unit 14: Ethical Issues in

Global Business 71 Example: EUFL Raising Ethical Issues in China Coalition to End Forced Labor in the Uyghur Region (EUFL), was a coalition of 400 civil society organizations and trade unions from 40 countries, united to end state-sponsored forced labor and other egregious human rights abuses against people from the Uyghur Region in China. In Feb 2022, EUFL mentioned, Olympic uniforms and other products for the Beijing Winter Games were linked to forced labor and human rights abuses in China's Uyghur region. The coalition criticized brands such as Coca-Cola, Airbnb and Visa who had paid millions to sponsor the Winter Olympics 2022 in Beijing for endorsing violation of human rights. Many athletes were also expected to miss the opening ceremony to show solidarity with victims of human rights abuses in China, including Hong Kongers, Tibetans and, in particular, millions of Uighurs in the Xinjiang region who had been subject to "detention, torture and forced labour", according to Human Rights Watch (HRW). For details, <https://www.france24.com/en/asia-pacific/20220204-winter-olympics-puts-brands-under-pressure-on-human-rights-abuse-in-china> Dated: 4/2/2022 (Accessed on 1/7/2022)

Activity: The Government of India wanted to adopt German technology in generating, distributing and regulating power. What are the different factors that should be analyzed by the Indian government so that the transfer of technology does not raise any ethical issues? Answer: 14.5 Regulatory Actions in Acquisitions of Global Business Countries place restrictions on the business transactions of MNCs because of the fear that their businesses will dominate and negatively affect the local organizations. The US has been able to attract many MNCs to invest in business. Before acquiring a US company, the MNCs of all countries have to obtain formal approval from the Interagency Committee on Foreign Investment. The committee was set up to prevent foreign companies from gaining control of US businesses. Most of the other countries also require MNCs to obtain governmental clearance before purchasing an ongoing business or establishing a new operation. Such regulations ensure that the government remains in control of the economy.

Block 3: Management and Ethics II 72 Example: Regulatory Actions in the UK - Playing Heavily on the US Company to Acquire Company in the UK Parker Hannifin Corporation, usually referred to as just Parker, an American corporation specializing in motion and control technologies was in the process of acquiring Meggitt PLC in the UK, an international company specializing in components and sub-systems for the aerospace, defense and selected energy markets. Parker had received the first round of clearance from the UK's Secretary of State for Business, Energy and Industrial Strategy on the acquisition. This decision was now subject to a public consultation period, which was due to end on July 13, 2022. Subject to this consultation, the UK Secretary of State would be in a position to approve the acquisition without further review. The Acquisition required further go ahead and other regulatory clearances and sanctions by the High Court of Justice in England and Wales with respect to the UK Companies Act 2006. Q3, 2022 was the timeline that Parker anticipated for the closure of Acquisition process. For details,

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<https://finance.yahoo.com/news/parker-announces-uk-regulatory-clearances-200200766.html>

Dated 29/6/2022 (Accessed on 1/7/2022) 14.6

Social Obligations in Global Business Various countries are trying to carry out their social obligations. For instance, developing an ethical code for its global operations, helping third world countries to deal with their economic problems etc. Governments such as the US government developed anti-corruption laws. These laws called it illegal to influence foreign officials through personal payment or political contributions.

The laws

aimed to prevent MNCs from initiating corruption in foreign governments and to upgrade the image of business within and outside the home country. Some argued that such acts would decrease international business, especially in those countries where bribery was viewed as a way of doing business.

Some countries adopted practices to help

the underdeveloped countries by providing food, machinery, and equipment. Many third world countries that have borrowed huge amounts to improve their economic conditions are now finding it difficult to repay their debts. The advanced countries have taken the lead in providing support to those countries that are unable to repay their debts. The assistance includes debt reduction or renegotiation and direct grants.

This assistance enables third world countries to improve their economic conditions to some extent; most importantly, it encourages other countries to help to fulfill their social obligations.

Example: EU Prepared to Lead the World in Regulating Cryptocurrency The European Union (EU), subjected cryptocurrency to new rules and regulations in June 2022. These crypto regulations were expected to be highly influential worldwide. There was growing concern from regulators owing to Contd.

Unit 14: Ethical Issues in Global Business 73 the series of crypto-related irregularities. The EU rules objectives were to maintain financial stability amidst these concerns. For example, in May 2022, the stable coin Terra USD collapsed and squashed an estimated \$40 billion from investor funds without taking any accountability. One of the crypto venture advisers, Patrick Hansen, suggested authorities in small countries to accept EU norms with a few modifications that they would need. This would also help these countries to avoid starting from scratch. The rules also helped the first time crypto investors to be watchful and avoid being victims to frauds and scams prevalent in the industry as warned by the regulators. For details, <https://www.business-standard.com/article/markets/>

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cryptocurrency-rules-to- make-europe-a-global-leader-as-prices-plunge-122063001288_1.

html Dated 1/7/2022 (Accessed on 1/7/2022).

Activity: Nike, a global company, which has its manufacturing units in different countries, has framed a code of conduct to be implemented in all its manufacturing units across the world. What are the different issues to be considered while framing the code of conduct for a global corporation? Answer: Check Your Progress-2 6. Unethical practices of multinationals in the area of technology does not include which of the following?

a. Encouraging brain drain from poorer countries b. Making host countries technologically dependent on the home country c. Transferring latest technology and giving local employees access to information about key technologies d. Dumping old or outdated technologies to earn revenues 7. Some of the unethical practices of multinationals in the area of human resource management include which of the following? i.

Refusal to recognize trade unions who engage in collective bargaining. ii. Not ensuring Equal opportunity policies for all in the workplace. iii. Exploiting host country labor in management decision making. iv. Ignoring the occupational health and safety needs of local workers. a. Only i, ii, and iii

Block 3: Management and Ethics II 74

b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 8.

Trade unions in some Western countries have criticized multinationals for: i. Exporting jobs through investment in foreign production

ii. Exploiting low-paid foreign workers iii.

Transferring skills to other nations and enabling the latter to compete more fiercely in the home country market iv.

Circumventing home country laws on business competition, labor relations, etc., through shifting production to other countries

a. Only i, ii, and iii b. Only i, iii, and iv c. Only ii, iii, and iv d. i, ii, iii, and iv 14.7

Summary • MNCs are companies that have significant investments in several countries, which derive a large part of their income from foreign operations. While operating globally, MNCs encounter numerous ethical issues. • Companies going global have many advantages -- reduced sourcing and distribution costs; lower wage rates, reduced transportation costs, an opportunity to be closer to the suppliers, saturation of local markets, and the possibility of maintaining the growth rate and exploiting opportunities in new markets. • MNCs have been accused of indulging in unethical practices in various areas such as politics; sales, marketing, and advertisement; environment; technology; economic activities; and personnel management and industrial relations. • While carrying out global business, companies face and have to deal with numerous ethical issues in various countries. • The US has been able to attract many MNCs to invest in business. Most countries including the US require MNCs to obtain governmental clearance before purchasing an ongoing business or establishing a new operation. • Countries like the US and Japan are trying to carry out their social obligations. For instance, the US is developing an ethical code for its global operations, while Japan is helping third world countries to deal with their economic problems. 14.8 Glossary Multinational corporation: An incorporated firm that has extensive involvement in international business, engages in foreign direct investment, and owns and controls value-adding activities in more than one country.

Unit 14: Ethical Issues in Global Business 75 14.9

Self-Assessment Test 1. Most MNCs are said to dominate in the third world countries by adopting unethical (political, environmental, technological and marketing) practices. Discuss some of the unethical practices that the MNCs adopt? 2. Earlier when an organization wanted to extend its operations into a foreign country, it considered aspects such as the needs of the people of that country, the labor costs and the laws of the country. But nowadays organizations are also considering the ethical issues that may arise when they extend their operations to foreign countries. Discuss the ethical issues which have to be dealt with while entering countries like Japan, France, Germany and China. 3. Many countries have now developed a code of conduct for companies that are operating or entering their countries to protect the rights of their people. Discuss briefly the various steps taken by different countries to check the unethical practices of organizations? 4. Global businesses are expected to show commitment to social obligations. Comment. 14.10

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 14.11

Answers to Check Your Progress Questions 1. (b)

Only i, ii, and iv Companies go global for a variety of reasons such as to reduce sourcing and distribution costs; for lower wage rates; to reduce transportation costs; to be closer to the suppliers; etc. 2. (c) i, iii and iv MNCs have been accused of supporting repressive regimes, paying bribes to secure political influence, disrespecting human rights, paying protection money, and destabilizing national governments of which they disapprove. MNCs find it cheaper to transfer an existing technology to a foreign country than to devise a new one that is better suited to the local conditions.

Block 3: Management and Ethics II 76 3. (

b) Providing products that are inappropriate to local needs MNCs have been accused of supporting repressive regimes, paying bribes to secure political influence, disrespecting human rights, paying protection money, and destabilizing national governments of which they disapprove. Providing products that are inappropriate to local needs is an unethical practice carried out by multinationals in the areas of sales, marketing, and advertisement. 4. (a) Only i, ii, and iii The practices of MNCs in the areas of sales, marketing, and advertisement raise the following ethical issues -- following advertising and marketing methods that may undermine ancient cultures and traditions; engaging in misleading and deceitful advertising in third world countries; promoting goods that waste valuable resources in poorer nations; providing products that are inappropriate to local needs; not accepting responsibility for unsafe products; and degrading the environment. 5. (d) i, ii, iii, and iv Environmentalists criticize MNCs for depleting natural resources, polluting the environment, not paying compensation for environmental damage, causing harmful changes in local living conditions, and paying little regard to the risks of accidents, and causing major environmental catastrophes. 6. (c) Transferring latest technology and giving local employees access to information about key technologies. Except option (c), all the other options are unethical practices of multinationals in the area of technology. MNCs usually do not develop the technologies required by the host countries. They find it cheaper to transfer an existing technology to a foreign country than to devise a new one that is better suited to the local conditions. Transferring latest technology and giving local employees access to information about key technologies is an ethical practice. 7. (d) i, ii, iii, and iv Some of the unethical practices of MNCs in the area of human resource management include --- refusal to recognize trade unions that engage in collective bargaining; not ensuring equal opportunity policies for all at the workplace; using expatriate staff for all significant managerial positions; ignoring the occupational health and safety needs of local workers; exploiting host country labor; and not involving local employees in management decision making.

Unit 14: Ethical Issues in Global Business 77 8. (

d) i, ii, iii, and iv Trade unions in some Western countries have criticized MNCs for -- exporting jobs through investment in foreign production; exploiting low-paid foreign workers; transferring skills to other nations and enabling them to compete more aggressively in the home country market; and circumventing home country laws on business competition, labor relations, etc., through shifting production to other countries.

Business Ethics and Corporate Governance Course Structure Block I: Business Ethics Unit 1 Business Ethics - An Overview Unit 2 Importance of Ethics in Business Unit 3 The Ethical Organization and its Corporate Code Unit 4 Ethics and Rule of Law Unit 5 Business Ethics and Environment Block II: Management and Ethics I Unit 6 Ethical Issues in Strategic Management Unit 7 Ethical Issues in Marketing Management Unit 8 Ethical Issues in Operations Management Unit 9 Ethical Issues in Purchase Management Block III: Management and Ethics II Unit 10 Ethical Issues in Human Resources Management

Unit 11 Ethical Issues in Finance Unit 12 Ethical Issues in Accounting and Other Functions

Unit 13 Ethical Dilemmas at Workplace Unit 14 Ethical Issues in Global Business Block IV: Corporate Social Responsibility
 Unit 15 Unit 16 Unit 17 Corporate Social Responsibility - A Historical Perspective
 Corporate Responsibility - Stakeholders The Role of Business in Society Block V: Corporate Governance Unit 18
 Corporation - An Overview Unit 19 Corporate Governance - An Overview Unit 20 Corporate Governance - Board
 Structures and Styles Unit 21 Corporate Governance - Roles and Responsibility of Board of Directors Unit 22 Corporate
 Governance - Codes and Laws

Hit and source - focused comparison, Side by Side

Submitted text As student entered the text in the submitted document.

Matching text As the text appears in the source.

1/18	SUBMITTED TEXT	20 WORDS	55%	MATCHING TEXT	20 WORDS
	for the same clients in other organizations for at least six months post they leave Infosys. The clause			for the same client at a rival company for at least six months after they leave Infosys. The clause	
	W https://www.thehindu.com/sci-tech/technology/explained-infosys-controversial-clause/article655184 ...				
2/18	SUBMITTED TEXT	17 WORDS	81%	MATCHING TEXT	17 WORDS
	If organizations refused to pay for work, then were those unpaid internships really worth students' time?			If organizations refuse to pay for work, then are those unpaid internships really worth students' time?	
	W https://www.thedp.com/article/2022/06/unpaid-internships-exploitation				
3/18	SUBMITTED TEXT	20 WORDS	52%	MATCHING TEXT	20 WORDS
	more rounds of layoffs following the two rounds, as it tried to adjust for its heavily weakened stock price.			more rounds of layoffs would be coming this year following that first group, as the platform tried to adjust for its heavily weakened stock price.	
	W https://www.indiatvnews.com/technology/news/why-did-netflix-lay-off-300-more-employees-2022-06-24 ...				
4/18	SUBMITTED TEXT	1 WORDS	100%	MATCHING TEXT	1 WORDS
	https://zeenews.india.com/photos/business/elon-musk-twitter-saga-from-showing-interest-in-twitter-to-cancelling-the-44-billion-deal-here-s-how-the-story-unfolded-2483689/			https://zeenews.india.com/photos/business/elon-musk-twitter-saga-from-showing-interest-in-twitter-to-cancelling-the-44-billion-deal-here-s-how-the-story-unfolded-2483689	
	W https://zeenews.india.com/photos/business/elon-musk-twitter-saga-from-showing-interest-in-twitter ...				
5/18	SUBMITTED TEXT	13 WORDS	96%	MATCHING TEXT	13 WORDS
	during its ongoing money laundering probe against some dubious smartphone-based lending apps,			during its ongoing money laundering probe against some dubious smartphone-based loan lending apps	
	W https://www.business-standard.com/article/current-affairs/ed-attaches-rs-370-cr-deposits-includin ...				

6/18	SUBMITTED TEXT	1 WORDS	100% MATCHING TEXT	1 WORDS
	ed-attaches-rs-370-cr- deposits-including-crypto-assets-of-a-bengaluru-firm-122081200971_1.		ED attaches Rs 370 cr deposits, including crypto assets of a Bengaluru firm •	
	W https://www.business-standard.com/article/current-affairs/ed-attaches-rs-370-cr-deposits-includin ...			
7/18	SUBMITTED TEXT	40 WORDS	78% MATCHING TEXT	40 WORDS
	entities, including some NBFCs (non-banking financial companies), deposited ₹ 370 crore into the wallets of Yellow Tune Technologies Private Limited held with crypto exchange Flipvolt Technologies Private Limited. These amounts were allegedly proceeds of crime derived from lending practices		entities, including accused NBFCs (non-banking financial companies) and their fintech companies into the wallets of Yellow Tune Technologies Private Limited held with crypto exchange Flipvolt Technologies Private Limited." "These amounts were nothing but proceeds of crime derived from predatory lending practices,"	
	W https://www.business-standard.com/article/current-affairs/ed-attaches-rs-370-cr-deposits-includin ...			
8/18	SUBMITTED TEXT	13 WORDS	95% MATCHING TEXT	13 WORDS
	punishment for threatening a woman to express her opinion. • Insertion of		Punishment for threatening a woman to express her opinion etc. Insertion of	
	W http://164.100.47.4/BillsTexts/RSBillTexts/asintroduced/2-E.pdf			
9/18	SUBMITTED TEXT	34 WORDS	91% MATCHING TEXT	34 WORDS
	can and should explicitly reinforce the organization's concern for LGBT employees' well-being and its values around ethics and fairness. But perhaps most importantly, those conversations can and should be individualized for each employee		can and should explicitly reinforce the organization's concern for LGBT employees' wellbeing and its values around ethics and fairness. But perhaps most importantly, those conversations can and should be individualized for each employee.	
	W https://www.gallup.com/workplace/393983/lgbt-employee-experiences-know.aspx,			
10/18	SUBMITTED TEXT	2 WORDS	100% MATCHING TEXT	2 WORDS
	https://www.gallup.com/workplace/393983/lgbt-employee-experiences-know.aspx,		https://www.gallup.com/workplace/393983/lgbt-employee-experiences-know.aspx,	
	W https://www.gallup.com/workplace/393983/lgbt-employee-experiences-know.aspx,			
11/18	SUBMITTED TEXT	12 WORDS	100% MATCHING TEXT	12 WORDS
	recognized as one of India's Best Companies to Work for 2022		recognized as one of India's Best Companies to Work for 2022 -	
	W https://www.prnewswire.com/in/news-releases/startek-r-recognized-among-india-s-best-companies-to- ...			

12/18	SUBMITTED TEXT	14 WORDS	100% MATCHING TEXT	14 WORDS
	Top 100 by Great Place to Work Institute for the second consecutive year.		Top 100 by Great Place to Work® Institute for the second consecutive year. "	
	W https://www.prnewswire.com/in/news-releases/startek-r-recognized-among-india-s-best-companies-to-...			
13/18	SUBMITTED TEXT	4 WORDS	100% MATCHING TEXT	4 WORDS
	https://www.prnewswire.com/in/news-releases/startek-r-recognized-among-india-s-best-companies-to-work-for-2022-by-great-place-to-work-r-institute-893634238.html		https://www.prnewswire.com/in/news-releases/startek-r-recognized-among-india-s-best-companies-to-work-for-2022-by-great-place-to-work-r-institute-893634238.html 30	
	W https://www.prnewswire.com/in/news-releases/startek-r-recognized-among-india-s-best-companies-to-...			
14/18	SUBMITTED TEXT	41 WORDS	51% MATCHING TEXT	41 WORDS
	June 2022, Changing Markets Foundation (CMF) launched a new platform called Greenwash.com to raise consumer awareness regarding 'misleading' use of sustainable and green terms by big brands. The platform questioned the environmental credentials of companies like Coca-Cola, Unilever, IKEA, and		June), Changing Markets Foundation (CMF) has launched a new platform to raise consumer awareness of big brands' use of 'misleading' use of sustainable and green terms with little evidential backing. Branded plastic bottles The digital resource, Greenwash.com, questions the environmental credentials of companies like Coca-Cola, Unilever, IKEA, TESCO, and	
	W https://resource.co/article/new-cmf-campaign-exposes-misleading-and-mendacious-packaging-claims			
15/18	SUBMITTED TEXT	15 WORDS	66% MATCHING TEXT	15 WORDS
	One such example was Procter and Gamble's product of Head and Shoulders shampoo bottles		One example is Procter and Gamble's description of its Head and Shoulders shampoo bottles	
	W https://resource.co/article/new-cmf-campaign-exposes-misleading-and-mendacious-packaging-claims			
16/18	SUBMITTED TEXT	3 WORDS	100% MATCHING TEXT	3 WORDS
	https://finance.yahoo.com/news/parker-announces-uk-regulatory-clearances-200200766.html		https://finance.yahoo.com/news/parker-announces-uk-regulatory-clearances-200200766.html?	
	W https://finance.yahoo.com/news/parker-announces-uk-regulatory-clearances-200200766.html			
17/18	SUBMITTED TEXT	1 WORDS	100% MATCHING TEXT	1 WORDS
	cryptocurrency-rules-to- make-europe-a-global-leader-as-prices-plunge-122063001288_1.		Cryptocurrency rules to make Europe a global leader as prices plunge •	
	W https://www.business-standard.com/article/markets/cryptocurrency-rules-to-make-europe-a-global-le...			

18/18	SUBMITTED TEXT	108 WORDS	100% MATCHING TEXT	108 WORDS
	for grant of an injunction against the accused, or any other person, company, organisation or entity for deletion of the offensive text, image, audio, video or other format and for prohibition from storing, retransmitting or repeating the offensive text, image, audio, video or other format, as the case may be. 2		for grant of an injunction against the accused, or any other person, company, organisation or entity for deletion of the offensive text, image, audio, video or other format and for prohibition from storing, retransmitting or repeating the offensive text, image, audio, video or other format, as the case may be. (2)	
	<div> <div>W</div> <div>http://164.100.47.4/BillsTexts/RSBillTexts/asintroduced/2-E.pdf</div> </div>			