

India Studies in Business and Economics

Ananda Das Gupta

Business Ethics

Texts and Cases from the Indian
Perspective

 Springer

Business Ethics

India Studies in Business and Economics

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Business Ethics

Texts and Cases from the Indian Perspective

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Ananda Das Gupta
Jnana Bharathi Campus
Indian Institute of Plantation Management
Bangalore, India

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Foreword



The dual goals of socially responsible investing (SRI) are to maximize returns while contributing to social well-being by factoring in nonfinancial criteria. Also described as sustainable or ethical investing, SRI typically champions human rights, social justice, ecological responsibility, and corporate correctness. As this timely and instructive study shows religious institutions have a particular interest and a knack for SRI. Different forms of SRI have existed for a long time. Investor refusals to invest in tobacco, arms, and alcohol are just some of the historical examples. More recently, corporate greening and respect for the environment or sustainability are issues that have gained more attention. Investors have begun to realize the influence that they can wield on different organizations has led them to scrutinize both investment policies and investment vehicles and to use that influence to change or boycott, accordingly. Religious groups and investment vehicles are no longer foreigners to this turf.

Why should smart CIOs be cognizant of this trend and the growing market and mind share it represents? There are two reasons: One has to do with investor appetites and conscience; the other has to do with capital markets themselves and how companies are being valued and rated.

Where Is SRI Headed?

In a word – upwards. The figure for Assets Under Management for SRI continues to rise. With strong growth in European and American markets and a sizeable market potential in Asia, projections from organizations like Robeco and Booz & Company are for 25 % annual growth and a 15 % share of all assets under management worldwide within the next 5 years. Whether or not, the market segmentation remains the same however may be another matter. Today, core SRI is one-third of broad SRI, the whole market being driven for the most part by institutional investors who hold

92 % of the AUM for SRI. Bonds comprise 53 % of total SRI assets and equity just 33 % (figures for 2010). CIOs need to realize the size and dynamics of this market and the fact that a growing portion of the public and, most importantly, institutional investors are playing this game. The religious community globally is just one part of a much larger phenomenon.

SRI Returns and Performance

How does SRI compare with other investments? That's a fair question. There is a temptation to consider SRI as an exercise in investor altruism, where performance is a secondary consideration and restriction in the investment universe leads to mediocre returns. Yet a recent study (by Leuven University) on the risk return of Belgian SRI funds and a 2011 study on French SRI funds (by Capelle-Blancard and Monjon) showed neither underperformance nor overperformance when compared to their non-SRI counterparts. Another study by Weber, Mansfeld, and Schirrmann in the USA showed that a selection of 151 SRI funds performed better than the MSCI World Index between 2002 and 2011. Their conclusion suggests, however, that in-depth analysis and manager skill is still the most important determinant of performance. If there is any issue, it is that there is no standard approach to integrating SRI into portfolio management. Meanwhile, SRI continues to demonstrate respectable returns and more. Executive-level access to capital markets, employee 401k plans, and increasingly a socially minded public are all demanding SRI. The trend will only continue which is why smart investors need to learn more.

A Hedge Fund/SRI Standoff

Pension funds, insurance companies, and high-net-worth individuals are all contributing to the increasing demand for SRI. As this report demonstrates the religious community is also attracted. Hedge funds by comparison seem reticent. In Europe, for example, alternatives and hedge fund assets account for a modest 5.6 % of total SRI assets. Hedge fund managers have perhaps viewed SRI so far as an eccentric offshoot of alternative investments, while investors have not yet found the alignment they want between hedge funds and SRI. Their problem is not only with the nature of the sectors in which hedge funds invest. It is also with some hedge fund strategy practices like selling short, which restrict possibilities to engage management in the corporations or sectors concerned. Less engagement means less influence and in turn less chance for SRI to achieve its parallel objectives of returns and social impact.

Opening the Floodgates

SRI represents an increasingly important potential source of fresh capital for hedge funds and mutual funds. Conversely, if investors want to maximize their influence, hedge funds are a significant lever they cannot ignore. Trading sectors and trading practices may both need adjustment for the two to work together well. The argument that short sales help SRI by reducing the stock price of companies that do not comply with social or environmental standards is shortsighted at best. SRI seeks to encourage compliant organizations, but not to deliberately damage the noncompliant. For instance, when the California Pension Fund withdrew from the Thai stock market in 2002, the Thai Stock Exchange created an SRI fund to protect the better employers from any negative impact. SRI has also shown itself to be buoyant in the recent global financial woes, growing by 13 % in the USA between 2007 and 2011 compared to just 1 % for other professionally managed assets. SRI has the potential to provide hedge funds a useful diversification of their portfolios and their investor base. In the same way that industrial corporations have often found that going green turns out to be advantageous not only environmentally but also economically, hedge funds may well find that going “SRI” not only satisfies investor demand for justice but brings direct financial benefits as well. The academic, investor, and religious communities would all benefit from a close reading of this report and the case studies, which are illustrative. Investors who comprehend this growing trend around “responsible investing” are no longer early adapters or social innovators. The market has caught up. As this report argues we need to gage where it is going over the coming decade. It is a mega-trend – too big to miss.

Against this background the recent book of Prof. Ananda Das Gupta, entitled *Business Ethics: Text and Cases from the Indian Perspectives*, holds a clear position to discuss the issues pertaining to business ethics and SRI in the Indian context and cases and I think adds up significantly to the body of knowledge.

Research Professor, Yale University

Theodore Roosevelt Malloch

Preface

The Prologue

The Indian moral system has a metaphysical basis. In the West, ethics is autonomous and it does not need to have a metaphysical or religious foundation. It is a social affair and therefore the ought-questions of morality are to be decided simply on social and rational considerations. It does not need to have any transcendental basis. Moreover, metaphysics purports to deal with factual (although of a fundamental nature) questions and purely factual considerations can never become a foundation of deciding ought-questions. The two distinguished features of Indian concept of morality are as follows: (1) Authority has the basis for deciding what is moral and what is immoral and (2) morality refers not only to the social obligations but also to obligations related to one's own self.

The rightness and wrongness of an action are determined with reference to its conduciveness or un-conduciveness to pre-accepted nonmoral goals. The theory of ethics based on answer of this type is known as teleological theory. The other type does not refer to any ulterior nonmoral end or goal. According to it, an action is right or wrong in virtue of its own merit or demerit and not in terms of the goal that it leads or does not lead to. The theory of ethics based on answer of the above kind is known as the deontological theory.

Deontological theories deny what teleological theories affirm. They deny that the right, the obligatory, and the morally good are wholly, whether directly or indirectly, a function of what is nonmorally good. They assert that there are other considerations that may make an action or rule right or obligatory besides the goodness or badness of its consequences – certain features of the act itself other than the value it brings into existence, for example, the fact that it keeps a promise, is just, or is commanded by God or state. Teleologists believe that there is one and only one basic or ultimate right-making characteristic, namely, the comparative value (nonmoral) of what is, probably will be, or is intended to be brought into being. Deontologists either deny that this characteristic is right-making at all or insist that there are other basic or ultimate right-making characteristics as well.

It is clear from the above that for a teleological theory, conduciveness to some goal is the necessary criterion for the rightness of an action, whereas for deontological theory either it is not at all the case or at least it is not the only and exclusive criterion for judging an action to be right; there are also other considerations besides the ones mentioned. Now let us try to categorize the Indian theories of moral obligation and value as teleological and deontological on the basis of the above clarifications regarding the nature of the two theories.

Now, obviously, there are some difficulties with all these theories. It is often said that deontologists covertly appeal to utilization (teleological) consequences in order to demonstrate the rightness of actions, particularly when there is a clash of moral rules. Utilitarianism has to cope with the problem of lack of knowledge of all consequences, of weighing together different kinds of good and evil, and of the issue of unjust consequences. Rawls's second principle can be attacked as being too strong (as long as equal opportunities exist, why should rewards have to take place of producing benefit for the least advantaged groups in the society?) or too weak (in that it would allow the very rich to get very much richer as long as the very poor got a little less poor). But leaving these on one side, we want to take the central tenets of each theory and evaluate behavioral deviations.

Deontology: Treat people with respect and as ends in their own right, not solely as means to other's ends. Any moral rule must be capable of being consistently universalized, must respect the dignity of persons, and must be acceptable to rational beings. Any action performed out of self-interest is not moral.

Teleology: The greatest good to the greatest number allows people to be treated as means to ends, if it is to the advantage of the majority. Actions should be judged in terms of their consequences (Legge 1998).

Praxis: This school suggests a kind of need for acceptance. The word praxis has been borrowed from Marxist literature to denote the process of conversion of theory to practice. It signifies a conversion of their (manager's) value system into managerial decision making (Sadri et al. 1999).

Rawlsian: The good must be distributed with mutual consultation and so that no organizational stakeholders are complete losers while others are clear winners. Management must place a priority on the long-term interests of stockholders and the survival of the organization (Rawls 1971).

The Trend and Future Mapping

In addition to the theoretical underpinnings of ethical theories of the West and the East, the role of ethics revolve around meeting economic, legal, and ethical responsibilities of the business which is also expected to display a genuine concern for the general welfare of all constituencies. For example, society desires a cleaner environment, the preservation of wildlife and their habitats, as well as living wages for employees, but it also demands low-priced products. Companies must balance

the costs of these discretionary activities against the costs of manufacturing and marketing their products in a responsible manner (Das Gupta 2010).

The linkages, relationship, and interface between “business” and “society” are from their inception; however, over the years it has undergone spectacular changes. The survival and effectiveness of any organizational entity depend on the quality of support it gets from all stakeholders including the society at large. Although in the initial years of this interface between “society” and “business”, corporate social responsibility (CSR) was confined to “philanthropy,” there have been successive changes and developments in the understating of these stakeholders to make it more of “business strategy” rather than philanthropy.

The corporate social responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, their families, as well as of the local community and society at large. Business needs a stable social environment that provides a predictable climate for investment and trade. Understanding society’s expectation is quite simply enlightened self-interest for business in today’s interdependent world. The CSR, therefore, will be centered on (a) treating employees fairly and equitably, (b) operating ethically and with integrity, (c) respecting basic human rights, (d) sustaining the environment for future generations, and (e) being a caring neighbor in their communities (Das Gupta 2010).

This book examines inclusive growth, which includes more than just poverty alleviation and seeks to address the problem of equity through the enhancement of opportunities for all parties. In the real world of competition and coordination, various situations produce various trade-offs that the three pillars of economy – business, government, and society – have to pursue for their survival and sustenance. In this book, we look into many such case studies in which the strength of one component leads to a benefit for one of the other components and a detriment for the other, thus causing an imbalance between the three pillars. This book will be equally valuable to students, philosophers, decision makers in business, and policy makers at large.

Bangalore, India

Ananda Das Gupta

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Part I

Introducing Ethics

*Ethics is the activity of man directed to secure the inner
perfection of his own personality*

– Albert Schweitzer

Chapter 1

Understanding the Maze

Relativity applies to physics, not ethics

– Albert Einstein

Learning Objectives

Business ethics is the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large but also to their one-on-one dealings with a single customer. Many businesses have gained a bad reputation just by being in business. To some people, businesses are interested in making money, and that is the bottom line. It could be called capitalism in its purest form. Making money is not wrong in itself. It is the manner in which some businesses conduct themselves that brings up the question of ethical behavior.

There has been a long history of philosophical debate as to the complex nature of values/ethics as well as the validity of business or its purpose in society. Therefore, it is often argued that one should find a way to lead one's business life in harmony with one's inner life. Thus, with this "connectivity" between the subjective and objective perspectives, business is not to be regarded as something evil, unethical, or tainted. Business should be considered to be sacred, depending upon the spirit in which it is set up and carried out. All is a matter of attitude and approach, which is based on three major attributes:

1. Formulating attitude of business
2. Humanization of and
3. Interiorization of management

It becomes imperative, therefore, that the fresh thinking is done so as to underline the role of Man in contrast to mere emphasis on the wage earner. Technology makes things possible, but it is Man who makes it happen. Man is an integrated creature of the Divine Craftsman. Understanding of the nature of human values may

be so intimately associated with what might otherwise be considered to be distinct concepts that they cannot be effectively separated from some perspectives:

- (a) *Economic Value*: The concept of the value of a thing is central to traditional economic value theory for which value is the so-called exchange or market value of a commodity. Economists distinguish between value in this sense and the value of individuals or societies, which in welfare economics mean much the same as preferences or tastes. Such values may then be realized by the appropriate allocation of resources.
- (b) *Value Assessments and Imputations*: Value assessments are assertions to the effect that something did, will, or would favorably affect the life of someone. Value imputations are assertions to the effect that someone or some group has, holds, or subscribes to some value (*e.g.*, achievement, work, altruism, comfort, equality, thrift, friendship) or that some such thing is one of his values. The word value then means different things in these two contexts. Assessed values then become measures of the capacities of various kinds of entities, including persons, to confer benefits, whereas imputed values are measures of tendencies of persons to promote certain ends, for certain reasons.
- (c) *Instrumental and Intrinsic Values*: A distinction may also be made between instrumental values, which are the means to something else, and intrinsic values, which are those desired for themselves (such as goodness, truth, and beauty).
- (d) *Attitudes and Opinions*: Many surveys of the “values” held by people do not find it useful to distinguish between attitudes or opinions held by people and the values that they hold. A survey of values then becomes a survey of attitudes and opinions. Presumably some attitudes may be considered as relating to values, but the distinction is then difficult to establish in that context. It is difficult to identify “values” from such survey data.

1.1 Human Development and Values

Human development can be seen as the process of giving more effective expression to human values. Many of the advocated approaches to human development are quite explicit concerning the values in terms of which they are conceived or which they are desired to enhance. The more sophisticated approaches to policy making and management are quite deliberate in their efforts to identify the values on which any action is to be grounded.

Through some processes of human development, providing access to more subtle modes of awareness, new value insights emerge. In such cases there may be a very intimate relationship between the state of awareness and comprehension of the value. Emerging awareness of certain states may even lead to the articulation of more subtle understanding of commonly identified values. Certain modes of awareness can be understood as the embodiment of specific values or configurations of values.

Perhaps of most importance is the manner in which certain processes of human development integrate together previously disparate insights. Values can easily decay into empty, “bloodless” categories unless they are sustained by appropriate levels of awareness. Human development may thus build a subtle connecting pattern between values. Such integration provides a new foundation from which action may be undertaken in a sustainable manner. Again it is ironic that there is less and less in modern society that people are prepared to die for or to allow others to die for. Whole societies can now be held to ransom for a single known hostage. Millions can be spent to maintain a comatose, brain-damaged patient on life support for decades.

Euthanasia is illegal, no matter what the desire of the person concerned. Exposure to risk is progressively designed out of society, to be replaced by vicarious experiences of risk through videos or with the protection of required safety devices. The paradox is that unknown numbers are however sacrificed through carcinogenic products, abortion, structural violence, massacres, gang murders, cult rituals, “snuff” movies and associated perversions, or a failure of food and medical supplies.

The attitude to life has become as immature as that to death. Millions of dollars are spent on efforts to maintain youthfulness, whether through cosmetics, cosmetic surgery, or attempts to reverse the ageing process. Every other value is sacrificed to save lives in industrialized societies while allowing others to die elsewhere. Individuals in industrialized societies are prosecuted for life-endangering neglect. But these same societies fail to apply the same standards in their policies towards other societies. Reproduction is tacitly encouraged without any provision for the resulting population growth or for the effects on the environment. Society evokes problems to provide solutions for its own irresponsibility – a control mechanism for the immature lacking the insight for a healthy relationship to cycles.

The challenge of the times would seem to involve a call for personal transformation through which social and conceptual frameworks can be viewed anew. Willingness to sacrifice inherited perspectives is an indication of the dimension of the challenge – most dramatically illustrated by willingness to risk death. However, physical death is not the issue and may easily be a simplistic, deluded impulse lending itself to manipulation. Destruction of frameworks valued by others is equally suspect. Such dramatics provide rewards within the very frameworks whose nature the individual needs to question but by which he or she may need to choose to be constrained.

1.2 Value-based Management

Values are deeply held beliefs, the fundamental building blocks of a workplace culture reflecting a view about “what is good.” In a law firm, they can include integrity, superior performance, putting the client first, making a big profit, and so forth, but it is important to note that there is no real right or wrong in values.

There are two visions of the new approach of management: First is a new vision of business based on an evolutionary spiritual humanism. Second is the possibility of business

becoming an experimental workshop for a creative synthesis of ethics and management. This second possibility, if it becomes a reality, can provide the insights, learning, experience, and the capabilities for a creative synthesis of East and West in business.

To succeed in today's competitive market requires a high professional competence as well as a continual improvement of that competence. Equally important is cooperation among professionals, often of a great variety. Success also requires communication and cooperation with customers and with the community. Communication and cooperation require social and cultural competence. Cultural competence is shared knowledge and hence communal knowledge. Cultural or communal knowledge bridges the gap between individuals and between professions.

The whole set of values needed for management can be summed up in the words of dharma in the code of right conduct. In these days when corporate governance is emerging as a significant factor, we find that Indian management can emerge successfully in the marketplace if it is able to draw on its route for good corporate governance, which is available in our culture and tradition. But then the question may arise, how many of us are aware of scriptures, Upanishads, culture, and so on. Though one may not be consciously aware, one learns about basic principles from childhood, from parents, and from religion.

Spiritual identity of the character is essential for the buildup of a new paradigm characterizing integrity, truthfulness, caring, compassion, honesty, and supportive attitude.

1.2.1 Ethics and Conflicts

First, there is a private or personal interest. Often this is a financial interest, but it could also be another sort of interest, say, to provide a special advantage to a spouse or child. Taken by them, there is nothing wrong with pursuing private or personal interests; for instance, changing jobs for more pay or helping your daughter improves her golf stroke. The problem comes when this private interest comes into conflict with the second feature of the definition, an "official duty" quite literally the duty you have because you have an office or act in an official capacity. As a professional you take on certain official responsibilities, by which you acquire obligations to clients, employers, or others. These obligations are supposed to trump private or personal interests.

Third, conflicts of interest interfere with professional responsibilities in a specific way, namely, by interfering with objective professional judgment. A major reason why clients and employers value professionals is that they expect professionals to be objective and independent. Factors, like private and personal interests, that either interfere or appear likely to interfere with objectivity are then a matter of legitimate concern to those who rely on professionals – be they clients, employers, professional colleagues, or the general public. So it is also important to avoid apparent and potential as well as actual conflicts of interest. An apparent conflict of interest is one, which a reasonable person would think that the professional judgment is

likely to be compromised. A potential conflict of interest involves a situation that may develop into an actual conflict of interest.

Ethics should start from the top down in any organization. Being honest and open is the only way to succeed at business. As a chief executive officer (CEO) or top manager, how can one avoid ethics problems within the business? The Better Business Bureau offers the following tips:

1. Bringing highest sense of ethics to business and lead by example. Demonstrate high ethical standards of behavior towards the customers, suppliers, shareholders, employees, and communities in which one does business. Be honest in all the dealings.
2. Developing an ethics policy. Make certain that the policy starts at the top level so that company management sets an important example for all employees. Set up training programs that will assist employees in carrying out established ethics policies. Although an ethics policy may not stop unethical behavior, it may give people something to think about and provide a measurement against which to assess their behavior.
3. Establish an internal communication system that allows employees to express concerns directly to top management if they suspect wrongdoing or are uncomfortable with current practices. Consider appointing an ombudsman.
4. Treating employees with respect and fairness.
5. Rewarding employees for ethical decision making and actions.
6. Meeting with the accounting staff to reinforce the highest reporting and accounting standards and expectations. When the line between doing what is right and what is legal is not clear, move back to what one knows is right.
7. Know what is going on in the company. Routinely walking around and talking to the employees directly. Getting a feel for what they are doing. Becoming accessible and interested.

1.3 New Paradigm

We are almost bound to welcome the new paradigm in business because it opens the path for a decisive step forward in evolution from an authoritarian, mechanistic, Taylorian era to a freer and a more humanistic ethos in business. But even while the new paradigm values are spreading fast and getting established in business, we have to think ahead and visualize the next stage in the evolution of business. The crucial question we have to ask is what the highest potentiality of humanism is or, in other words, what the highest potential in man is and how to manifest it in the individual and corporate life, especially in business. Some ideas can be put forward, we believe, as a *New Paradigm for Management with Positivism* (NPMP):

A Holistic Approach to Management

1. Managing others
2. Need to play one's role well

3. Need to understand the importance and place of one's role
4. Need to understand and function within a proper hierarchy
5. Need for common and individual goals
6. Need to "give" and "take"

Values-Based Administration: To Add Value to Administration an Administrator Should:

1. Possess strategic thinking to integrate one's region with the nation
2. Recognize the world beyond one's office and face its challenge
3. Understand society's goals
4. See people as potential and strategic resources and mentor them accordingly
5. Nurture belief in value adding

The Real Need

1. Hierarchy should be replaced by self-managing structures such as (a) networks, (b) multidisciplinary teams, and (c) small action dyads.
2. Information dissemination should be a routine work.
3. Delivering service should be effective in terms of its cost, quality, and quantity.

Working with Others

1. Empathy
2. Teamwork

Modern business philosophy has a certain viewpoint or perspective on human potential based on the secular humanistic values of the West and the scientific theories on the nature of man and his evolution. We are presenting a complementing perspective based on the values of spiritual humanism and the spiritual vision of the Vedantic sciences of the East. In general most of the conceptions on spirituality emerging in business and management denote some form of moral, religious, social, and psychological fulfillment, like creativity, self-expression, sharing, charity, or community service.

Business cannot be abstracted from the society in which it exists and functions; it is an integral part of the human society. This "holistic" view of business is another perception emerging in modern business philosophy. And business happens to be the most dominant and representative organ of the modern society. So in an organic vision of business, it has to be viewed as an integral part of the economic, technological, social, political, and cultural environment in which it functions. And this environment, and the forces of the environment, at once influences and is influenced by the social organs which constitute it. But our focus will be not on the environment that belongs to the past, but of the new world of the future which is struggling to emerge from the ashes of the past and the facts of the present.

There are three major factors or forces, which, we believe, will shape the new world of the future. First is the urge for a new synthesis in thought and action; second, in the external world, the development of science and technology; and third, in the inner world, mapping a new horizon for the development of consciousness.

Indian moral system has a metaphysical basis. In the West, ethics is autonomous and it does not need to have a metaphysical or religious foundation. It is a social affair and therefore the ought-questions of morality are to be decided simply on social and rational considerations. It does not need to have any transcendental basis. Moreover, metaphysics purports to deal with factual (although of a fundamental nature) questions, and purely factual considerations can never become a foundation of deciding ought-questions.

The two distinguished features of Indian concept of morality are as follows:

1. Authority has the basis for deciding what is moral and what is immoral.
2. Morality refers not only to the social obligations but also to obligations related to one's own self.

In the Indian context, man's own nature furnishes a justification for his being moral. Perhaps this is why most Indian systems prove to be deontological in nature. According to them, "dharma" is to be followed because it is its own justification. "Moksa" has been brought forth as a motivation in the sense that one who will follow "dharma" will automatically pave his way for that, but "Moksa" has never been taken as a justification for being moral. Morality is involved in the nature of man. This can find an apt solution in solving the corporate ethical dilemmas.

On the other hand, we find that the "modern" Western conception of morality is a successor to the Judeo-Christian notion of a divine law that binds all souls. Another is that the moderns accept the empirical methods of modern science and want to achieve an understanding of ethics that is consistent with the worldview of modern science. Next is the rise of the idea of the liberal democratic state and the idea that the state must be justifiable to its citizens on equal terms without any premise that some lives are inherently better and nobler than others.

1.4 Indian Context on Moral System

1.4.1 Business Ethics and Socially Responsible Initiatives in India

1.4.1.1 The Genesis

The Indian economy has been under two distinct and diverse forces of "Swadeshi," i.e., buy Indian goods and the need to integrate with the larger world economy. Both forces have significant economic and political implications in the region.

Liberalization of the Indian economy in the late 1980s and early 1990s also saw the reestablishment of transnational corporations on the Indian horizon. The Indian political and economic climate has been far from stable in the last decade, and it has been claimed that transnational corporations, to influence this unstable political and economic climate in their favor, have used the concept of corporate social responsibility as bait. It is worth mentioning that though the concept of corporate social responsibility is gaining popularity with the Indian business too, its practice

has been under varied external and internal influences. Therefore, the benefit or loss of the increase in numbers and reach of transnational corporations is open to debate in the Indian context.

1.4.1.2 The Trends

The family-run businesses of the 1920s and 1930s such as the Tatas, the Shriram Group, and the Birla Group were actively involved in running and establishing schools, colleges, hospitals, temples, cultural centers, and training centers. Most of these infrastructural establishments are all well known today by the names of business that were instrumental in their establishment, for example, the Shriram College of Commerce, the Birla Mandir (temple) one of which exists in almost each major city of the country, and the Tata Institute of Fundamental Research. These infrastructural initiatives were instrumental in popularizing the identity of these companies. The initiatives were also essential as per independence and early post-independence India lacked advanced centers of research and education. The infrastructural initiatives and the economic reach of these businesses have made the Tatas, Birlas, and the Shrirams household names in the Indian context.

1.4.2 *Change in Threshold*

In the age of globalization corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. In the last 20 years the role of multinational corporations in defining the markets and consumers has been tremendous. The rules of corporate governance have changed. And there has been a range of reactions to this change. On the one hand, globalization and liberalization have provided a great opportunity for corporations to be globally competitive by expanding the production base and market share. On the other hand, the same situation discounted against multinational corporations in different parts of the world. Laborers, marginalized consumers, environmental activists, and social activists have protested against the unprecedented predominance of multinational corporations. The ongoing revolution in communication technology and the effectiveness of knowledge-based economics have created a new model of business and corporate governance. A growing awareness about the need for ecological sustainability has paved the way for a new generation of business leaders concerned about the responses of the community and sustainability of the environment.

1.4.3 *Issues on Board*

Globalization along with changed norms of *production, labor, and environment* with conditions of best practice has influenced behavior of businesses across the world. The success of the acceptance of these norms has been outside the letter of

law, and the adoption has often influenced the state to adopt better/improved or at least changed role for itself. The norms of resettlement and rehabilitation as dictated by the Indian state are by law adopted by joint venture companies involved in extractive industries, yet many other activities are also undertaken as corporate social responsibility, which are neither detailed nor dictated by law. Growth of civil society organizations has also led to increasing democratization in the marginalized and impoverished communities creating local responses to the grant meta-narratives.

Yet the nation-state needs to evolve a new role for itself in this fast changing world. A stable nation providing good governance is thus a basic requirement for developing countries in their attempt to safeguard rights and interests of their poor and marginalized. Yet, the businesses are wary of investing time and resources in proactively dealing with pressure groups, media, and local people for social or community development as they often lack familiarity and the skills to do so (Business World 1998). Indian business has been actively involved in corporate philanthropy since the early 1900s. The charitable outlook of Indian businesses is progressively undergoing change under some external and internal influences. The increase in the momentum of corporate social responsibility has created new routes or avenues via which issues of corporate social responsibility are put to practice.

1.4.4 New Waves in India: Aligning Brand with Values

The time for unmotivated philanthropy seems to be coming to an end in the Indian context, and the usage of the term “corporate social responsibility” is gaining currency since the 1990s. It needs to be mentioned that progressively businesses keen on corporate social responsibility also want “some visible benefits” identifying with the issue of “mutuality” of corporate social responsibility. Therefore, well-established business also may have a well-established strategy of “corporate social responsibility” to (a) effectively deal with the instability of the Indian politico-economic climate, (b) proactively deal with all the other stakeholders, and (c) meet the demands of international customer especially as regard to labor and environment.

1.4.4.1 Align with Brand Differentiator

Ideally ethical initiatives will directly support brand promise. Remember, a brand is a *promise delivered*... so consider what makes brand unique from competitors and develop key initiatives to support that. For example, one of Target’s philanthropy programs is to support the arts and design, which directly supports Target’s “affordable design” brand differentiator. Instead of cutting CSR programs during the downturn, consider shifting resources from generic programs to those that support and drive not just category, but the brand.

1.4.4.2 Create an Ingredient Brand

Creating a brand for ethical initiatives accomplishes several important objectives: helps clarify for employees and customers' ethical value proposition; makes it easier to allocate human and financial resources to initiative (hint: assign a brand manager to own, drive, and measure); serves as a growth platform for customer experiences, products, and services; and elevates social and environmental initiatives above me-too commodity status. There are a few risks of good washing with this approach, so be sure that everyone is committed to creating something of unique value that's completely aligned with the vision and values of the parent brand. And any misstep by the parent brand may end up discrediting the hard work done to build the ethical ingredient brand.

1.4.4.3 Create a Product Brand

If there are values-driven buyers in category (highly likely), consider launching a product just for them. Clorox GreenWorks and BP Solar are good examples. Note that these brands are tied closely to their parent brands, so don't consider this option unless the parent company is doing its part on the ethics front. But a product brand is an excellent opportunity to help customers experience values and simultaneously boost the profit part of the triple bottom line. Case in point, GreenWorks has now captured 42 % of the natural cleaner category in a little over a year.

1.4.4.4 Create a New Sub-brand

A separate brand (with its own customer experience, distribution channels, etc.) that is completely anchored on the triple bottom line puts a bit of distance between it and the parent company. Why use a sub-brand strategy? To lead category in capturing the hearts and minds of values-oriented consumers without being saddled with baggage of the parent company and to minimize claims of green washing, as all actions of the sub-brand are (should be) congruent.

1.4.4.5 Reposition the Brand

This option is especially important for companies with a history of contributing to the problems of the planet rather than the solutions. Formerly "evil" companies like Wal-Mart, McDonald's, and BP have made great strides in redefining their brands as more responsible. With a very large company, this is a process that takes years and top-down dedicated effort to fundamentally change the essence and ethos of the company. For a smaller brand it's definitely easier.

Reference: <http://indiancsr.wordpress.com/> (Jennifer Rice, May 27; 2009).

1.5 Research Areas

The emerging concept of CSR goes beyond charity and requires the company to act beyond its legal obligations and to integrate social, environmental, and ethical concerns into the company's business process. What is generally understood by CSR is that the business has a responsibility – towards its stakeholders and the society at large – that extends beyond its legal and enforceable obligations. The triple bottom line (people, planet, profit) approach to CSR emphasizes a company's commitment to operating in an economically, socially, and environmentally sustainable manner. The emerging concept of CSR advocates moving away from a “shareholder alone” focus to a “multi-stakeholder” focus. This would include investors, employees, business partners, customers, regulators, supply chain, local communities, the environment, and the society at large. The key components of CSR would therefore include the following:

1. *Corporate Governance*: Within the ambit of corporate governance, major issues are the accountability, transparency, and conduct in conformity with the laws which enable the company to realize its corporate objectives, protect shareholder rights, meet legal requirements, and create transparency for all stakeholders.
2. *Business Ethics*: Relates to values-based and ethical business practices.
3. *Workplace and Labor Relations*: Human resources can help in improving the workplace in terms of health and safety and employee relations as well as result in a healthy balance between work and nonwork aspects of employees' life.
4. *Supply Chain*: The business process of the company is not just limited to the operations internal to the company but to the entire supply chain involved in goods and services.
5. *Environment*: Merely meeting legal requirements in itself does not comprise CSR, but it requires the company to engage in such a way that goes beyond mandatory requirements and delivers environmental benefits.
6. *Community*: A major stakeholder to the business is the community in which the company operates. The involvement of a company with the community would depend upon its direct interaction with the community and assessment of issues/risks faced by those living in the company surrounding areas.

1.6 The Ethical Texture

1.6.1 Ethical Issues and Approaches

Philosophers and others disagree about the purpose of a business in society. For example, some suggest that the principal purpose of a business is to maximize returns to its owners or, in the case of a publicly traded concern, its shareholders.

Thus, under this view, only those activities that increase profitability and shareholder value should be encouraged. Some believe that the only companies that are

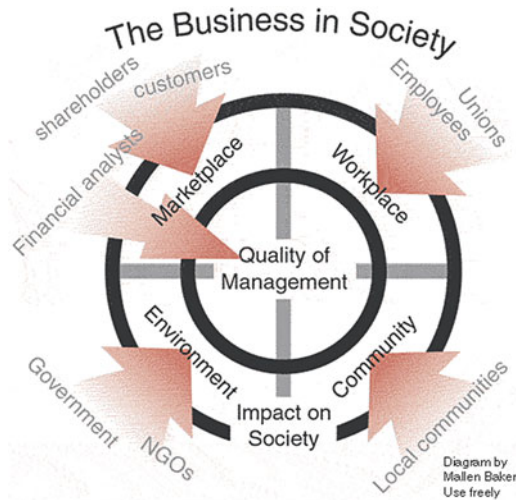
likely to survive in a competitive marketplace are those that place profit maximization above everything else. However, some point out that self-interest would still require a business to obey the law and adhere to basic moral rules, because the consequences of failing to do so could be very costly in fines, loss of licensure, or company reputation. The economist Milton Friedman is a leading proponent of this view.

Corporate social responsibility (CSR) is about how businesses align their values and behavior with the expectations and needs of stakeholders – not just customers and investors but also employees, suppliers, communities, regulators, special interest groups, and the society as a whole. CSR describes a company's commitment to be accountable to its stakeholders. CSR demands that businesses manage the economic, social, and environmental impacts of their operations to maximize the benefits and minimize the downsides. Key CSR issues include governance, environmental management, stakeholder engagement, labor standards, employee and community relations, social equity, responsible sourcing, and human rights. CSR is not only about fulfilling a duty to society; it should also bring competitive advantage. Through an effective CSR program, companies can:

1. Improve access to capital
2. Sharpen decision making and reduce risk
3. Enhance brand image
4. Uncover previously hidden commercial opportunities, including new markets
5. Reduce costs
6. Attract, retain, and motivate employees

Different organizations have framed different definitions – although there is considerable common ground between them. My own definition is that CSR is about how companies manage the business processes to produce an overall positive impact on society.

Take the following illustration:



Reference: <http://www.mallenbaker.net/csr/definition.php>

Companies need to answer to two aspects of their operations.

1. The quality of their management – both in terms of people and processes (the inner circle)
2. The nature of and quantity of their impact on society in the various areas

Outside stakeholders are taking an increasing interest in the activity of the company. Most look to the outer circle – what the company has actually done, good or bad, in terms of its products and services, in terms of its impact on the environment and on local communities, or in how it treats and develops its workforce. Out of the various stakeholders, it is financial analysts who are predominantly focused – as well as past financial performance – on quality of management as an indicator of likely future performance.

The European model is much more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. Personally, I believe this model is more sustainable because:

1. Social responsibility becomes an integral part of the wealth creation process – which if managed properly should enhance the competitiveness of business and maximize the value of wealth creation to society.
2. When times get hard, there is the incentive to practice CSR more and better – if it is a philanthropic exercise which is peripheral to the main business, it will always be the first thing to go when push comes to shove.

But as with any process based on the collective activities of communities of human beings (as companies are), there is no “one size fits all.” In different countries, there will be different priorities and values that will shape how business act. And even the observations above are changing over time. The USA has growing numbers of people looking towards core business issues.

For instance, the CSR definition used by business for social responsibility is:

Operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business

On the other hand, the European Commission hedges its bets with two definitions wrapped into one:

1. A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment
2. A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis

CSR has been systematically growing in companies of all sizes and across all sectors. Those companies have developed innovative strategies within their programs in areas such as:

1. Workplace
2. Environment

3. Responsible marketing
4. Community involvement

The topic of mission, vision, and ethical values as it relates to business is connected to the way in which a company integrates its underlying principles, thus structuring an overall “values-based” business approach.

1. Mission refers to a company’s fundamental purpose and the main reason for its existence; it is an action-oriented and enduring expression of what a company wants to accomplish and how it plans to achieve that goal.
2. Vision refers to a company’s long-term goals; it is a conception of the organization’s desired lasting impact.
3. Ethical values refer to a company’s core ideals and beliefs; these are the principles considered key factors to build a frame of reference to guide the organizational decisions.

Many companies are choosing to make an explicit commitment to corporate social responsibility in their mission, vision, and values statements. Such statements frequently extend beyond profit maximization to include an acknowledgement of a company’s responsibility to a broad range of stakeholders, as well as employees, customers, communities, and the environment.

1.6.2 Workplace

Generally speaking, workplace refers to human resource policies that connect directly to the employees: contracts, compensations and benefits, career development, diverse initiatives that promote work-fair environment balance, flexible work schedules, health and wellness programs, job security, family plans, and benefits for domestic partners. Beyond specific policies, workplace encompasses corporate culture, values, and an organizational design.

Several leading socially responsible companies are crafting innovative workplace policies and practices that closely reflect and respect the needs of all employees in order to meet core business objectives, including attracting and retaining the most talented employees. The dramatic changes in business that characterize the New Economy are reshaping the workplace. Global competition forces corporations to foster innovative, diverse, and flexible workplaces. In addition, consumers and investor groups are demanding that companies create fair, productive, and empowering workplaces. Media coverage of workplace issues has also increased, constantly challenging companies to change.

1.6.3 Environment

Over the past years, environmental responsibility has expanded to involve substantially more than compliance with all applicable laws and government regulations. Currently, many leadership companies define environmental responsibility a process

that involve participation and dialogue with their community and nongovernmental organizations. Companies must consider the impact that their operations have on the environment, which involves a comprehensive approach towards the company's processes and operations, products, and services; waste disposal and emissions; maximizing the efficiency and productivity of all assets and resources; and minimizing practices that might have negative impact for the planet's resources putting in risk the future generations. For example, initiatives such as recycling and energy efficiency regulations have become frequent practices.

Important amount of companies in a wide sectoral range and different geographic regions have found added value and competitive advantage in environmental initiatives. Those initiatives are into several categories: pollution prevention, energy efficiency, design for the environment, supply-chain management, industrial ecology, and sustainable development. Leadership companies have integrated environmental responsibility as a core for business value at all levels of their operations and practices.

1.6.4 Responsible Marketing

Marketplace issues extend across a wide range of business activities that define a company's relationship with its customers. These activities may be grouped into different categories:

1. Product manufacture and integrity
2. Labeling and packaging
3. Marketing and advertising
4. Selling practices
5. Prices
6. Distribution

In each of these areas, companies, which face increased scrutiny by consumers and nongovernmental organizations, are reorganizing their business strategies to address new issues, especially privacy and technology, marketing to children, heightened expectations of product safety, and environmental impact.

The scope of marketplace issues has expanded in recent years to include an ever-widening array of topics, including environmental sustainability and a firm's relationship to its competitors. In general, there has been a shift away from "buyer beware" towards an ethos in which companies are expected to accomplish a greater responsibility for the integrity, use, and consequences of their products and services. While businesses must first satisfy customers' key buying criteria – such as price, quality, appearance, taste, availability, safety, and convenience – other marketplace factors are taking on growing importance.

The globalization of commerce and competition has placed increasing value on companies and brands that are not only trusted by customers, also to which customers feel a sense of loyalty and commitment.

Achieving this relationship companies had to examine their operations, from customer service to community relations to cause-related marketing, in view of how

they may be directly or indirectly perceived by customers and employees. Overall, this situation has opened broader levels of issues which are driving companies to recognize that their success depends in the relationship with their customers, built as much on their reputation and practices as on the nature of their goods and services.

1.6.5 Community Involvement

Community involvement refers to a wide range of actions taken by companies to maximize their beneficial impact on the communities in which they operate. Involvement includes providing money, time, products, services, influence, management knowledge, and other resources. When strategically designed and executed, those initiatives not only bring value to recipients but also enhance the reputation of companies and their brands, products, and value in local communities where they have significant commercial interests, as well as around the world.

For many years, companies have been involved with their local communities, playing significant roles through philanthropy. At present time, companies are engaging in the community in a variety of ways (including donating products or services, creating global employee volunteer projects, lending executives and managers, creating projects to support social issues) and for a broader variety of reasons. One of the main reasons is that stakeholders (investors, customers, employees, public-interest groups, and government officials) are holding companies to a higher standard of citizenship, demanding a positive net impact on society.

1.7 New Horizon: Rationale for Social Impact Assessment and Management

Corporations are increasingly being challenged to act in ways that serve the best interests of society. Many companies are aggressively seeking strategies that can allow them to “do well by doing good,” leaving a positive “footprint” on the world and avoiding actions that could harm consumers, employees, investors, competitors, suppliers, and the general public. In this course, we will examine how corporations can become more effective at managing their social impact, improving the relationships they have with all of their stakeholders in the process.

Among the corporate social impact challenges that will be addressed in the course will be the following: How to achieve transparency without revealing proprietary information? How to differentiate a company/brand in the marketplace using social involvement? How to persuade consumers to engage in socially beneficial (e.g., healthier, environmentally friendly) behaviors? How to avoid misinforming consumers about product benefits and shortcomings? How to serve less-advantaged populations at the “bottom of the pyramid” profitably?

How to improve operational efficiency through careful environmental management? How to protect the welfare and rights of workers? How to manage and

promote employee volunteering? How to avoid antitrust charges of collusion, monopolization, or exclusionary behavior? Recent debates about issues such as obesity, tobacco and alcohol marketing, the immigration issues, and gasoline prices will receive special attention.

Some theorists have adapted social contract theory to business, whereby companies become quasi-democratic associations, and employees and other stakeholders are given voice over a company's operations. This approach has become especially popular subsequent to the revival of contract theory in political philosophy, which is largely due to John Rawls' *A Theory of Justice*, and the advent of the consensus-oriented approach to solving business problems, an aspect of the "quality movement" that emerged in the 1980s. Professors Thomas Donaldson and Thomas Dunfee proposed a version of Contract Theory for business, which they call Integrative Social Contract Theory. They posit that conflicting interests are best resolved by formulating a "fair agreement" between the parties, using a combination of:

1. Macro-principles that all rational people would agree upon as universal principles.
 2. Micro-principles formulated by actual agreements among the interested parties.
- Critics say the proponents of contract theories miss a central point, namely, that a business is someone's property and not a minstate or a means of distributing social justice.

1.8 Social Responsibility and Business Ethics

Social responsibility and business ethics are often regarded as the same concepts. However, the social responsibility movement is but one aspect of the overall discipline of business ethics. The social responsibility movement arose particularly during the 1960s with increased public consciousness about the role of business in helping to cultivate and maintain highly ethical practices in society and particularly in the natural environment.

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Already an increasing number of companies are recognizing that globalization is transforming corporate responsibility from a choice into an imperative. A recent international inquiry into consumer expectations concluded, for example, that 20 % of consumers surveyed had avoided products and services of particular companies because of their negative ethical profile and a further 20 % were considering doing so. The fact is that in today's connected world there is no hiding place for poor corporate citizens and no excuse for poor corporate citizenship. Whether it is labor practices, environmental habits, or human rights, companies today must be concerned about their global reputations because their actions can quickly become globally known. The Internet is both the great advertiser and the great tattler – it can open doors faster than you would believe. But it can also close them faster than you'd imagine.

1.8.1 The Threshold of CSR

CSR is generally understood to be the positive role that businesses can play in a host of complex areas, including safeguarding employees' core labor rights (to non-discrimination, freedom of association, and collective bargaining; against child labor and forced labor), protecting the natural environment, eliminating bribery and corruption, and contributing to respect for human rights in the communities where they operate.

CSR is not new to the international agenda; it has been around for many years. It has been gaining prominence and momentum worldwide: conferences are held weekly, papers and articles are published almost daily, and new and innovative partnerships are being developed. There is reason for optimism. Even if we look only as far back as the Battle of Seattle in the fall of 1999, since then numerous initiatives such as the OECD [Organization for Economic Co-operation and Development] Guidelines for Multinationals and the Global Compact have been introduced, implemented, and, in some cases, refined and implemented again.

1.8.2 The Global Scenario

The growing international and domestic interest in CSR stems largely from the concerns held by many in every society about the real and perceived effects of rapid globalization. The interest has been reflected in the expectation that globalization

must proceed in a manner that supports sustainable development in all regions of the world. People insist that the activities of corporations should make a positive contribution not only to the economic development and stability of the countries in which they operate but also to their social and environmental development. Failure to respond to such an agenda satisfactorily will contribute to increased social tensions, environmental degradation, and political upheavals. Good corporate conduct makes an important contribution to sustainable development in any community and thus goes a long way towards responding to the concerns that globalization raises.

Many companies and business associations have recognized the importance of CSR. Not very long ago, the dividing line between business and society appeared to be clearly drawn. According to the economist Milton Friedman, "There is one and only one social responsibility of business: to use its resources and engage in activities designed to increase its profits." This view no longer prevails. The CSR agenda is a complex one, requiring cooperation among a wide variety of stakeholders to be addressed effectively.

Improved dialogue between the private and nongovernmental sectors is one positive pattern emerging from recent corporate social responsibility trends. While early relationships were often characterized by mistrust and misunderstandings that fed a cycle of opposing actions and reactions, today stakeholders are increasingly recognizing the value of multi-sector dialogue or partnerships to achieve substantive, long-term reform. Such a dialogue can facilitate a better understanding of the expectations and concerns of key stakeholders, and it can also act as a forum where debates over differences are more about identifying mutually acceptable solutions and practical implementation steps than reiterating entrenched, nonretractable positions.

Forward-looking companies and NGOs are working with their stakeholders and, in the process, are benefiting from the expertise of all involved. Responsible development brings major challenges, and no one stakeholder is capable of adequately responding to them alone.

The international community has policy tools to influence business activity within and between nations and to help ensure that globalization proceeds in a way that benefits all. These tools include legislation and regulatory frameworks, voluntary compliance with an agreed set of standards monitored by a third party, or self-regulation by businesses, often in conformance with voluntary codes of conduct.

1.8.3 Indian Context

India is working to promote CSR through support for the development of globalization that is already a force for great change, not simply a specter on the horizon. Through technology, communications, and economics, globalization and our increasing interconnection are inevitable. Time, distance, and geography are disappearing: globalization is a reflection of that reality. In this environment, companies can and do make an important contribution to sustainable development in communities where they operate. Certainly progress has been made in some areas.

But we must temper our optimism with the awareness that there is still much to be done and many challenges for us to keep in mind as we strive to ensure that globalization is for the benefit of all people, in all countries of the world.

During the last 20 years, human resource management (HRM) has become a common way of managing people. Such an approach involves human resource professionals partnering with other managers so that people are used in the most effective way. More recently there have been calls for HRM to demonstrate that it adds value to the business.

Corporate social responsibility and responsible capitalism pose a number of challenges for HRM and for leadership in organizations. The HRM paradigm is based on a rational strategic management framework which is consistent with traditional economic analysis. This paradigm is limited in circumstances where organizations seek to behave responsibly with regard to a range of internal and external stakeholders and seek to take a longer-term perspective.

According to Milton Friedman, a business has no social responsibilities other than to maximize its profits. However, today there is a growing perception among enterprises that sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented yet responsible behavior. This responsible behavior of corporations can be called corporate social responsibility.

There are different approaches in explaining CSR. One of them is the classical theory stressing that the primary goal of a company is to secure its shareholders' financial goals and to respond to their wishes relative to the corporation. Secondly, the social demandingness theory of CSR means to promote and protect the general public's interests. On the other hand, the social activist theory holds that there exists a universal standard for determining responsible corporate conduct that is independent from the stockholders' interests.

Finally, the stakeholder theory on CSR, influenced by the view that companies are also corporate citizens, seeks to balance among the competing demands of stakeholders that support a company. From the stakeholder perspective, corporate social responsibility means a commitment by a company to manage its roles in a society as producer, employer, marketer, customer, and citizen in a responsible and sustainable manner.

Especially since the 1980s, CSR has become an important business issue. Today, it has an impact not only on the local and national levels but also on the global scale. It is getting more crucial for the global companies to support the social programs. They especially realize several social projects that the national governments can't give enough money. The purpose of this study is to present the main findings from a survey of the top 50 Turkish companies on the extent to which they evaluate the HRM dimensions of their CSR policies and practices. The paper analyzes five HRM dimensions of CSR: To what extent do the companies see the role of HRM in their CSR policies and practices? How do the companies communicate their CSR policies to their stakeholders? To what extent do the companies view the influence of CSR policies and practices on the HRM functions? To what extent do the companies consider the HRM practices from their CSR perspective? What kind of incentives do the companies offer to employees to get involved in CSR activities?

The stakeholder theory is an important and commonly used framework within corporate social responsibility. Therefore, the study relies on the stakeholder view as a basic approach in analyzing the dimensions of CSR.

In both practice-oriented and academic discourses, the concepts of corporate social responsibility (CSR) and human resource management (HRM) are often treated separately. It is argued here that this is an outdated approach. Starting from the observation that organizations develop towards open systems, it becomes obvious that CSR and HRM are intertwined. In open systems cooperative action is based on the willingness of humans to bring in and develop their talents as part of communities of work. The proper functioning of organizations becomes dependent on shared values between networks of people. At the same time these networks broaden the perception of what (new) roles and functions an organization should fulfill. This brings in the notion of CSR. Organizations are expected to encompass a broadening range of responsibilities combining the delivery of added value in the marketplace with broadening responsibilities. These developments require a repositioning of the role and perception of HRM towards a new strategic approach labelled here as Human Value Management.

Corporate social responsibility (CSR) and sustainable development is gaining increasing prominence in the global business culture, as many businesses attempt to accommodate the CSR agenda. The concept of corporate sustainable development is still the subject of controversy, and therefore the indicators used to measure CSR continue to be the topic of debate. However, no matter what indicators are used, the notion of responsibility includes responsibility for people in the collective sense (such as communities) and also for individuals.

The criteria used to measure workplace practices relate specifically to HR practices. The criteria include employee involvement, fair and reasonable rewards and conditions, a positive commitment to diversity and work-life balance, industrial relations arrangements based on mutual respect, occupational health and safety arrangements, executive remuneration that is fair and reflects the concerns of internal stakeholders, and independently verifiable performance measurement and evaluation systems and training and development policies. These criteria indicate that an organization that is seen as socially responsible creates a culture that is perceived as open, fair, and attractive to potential and existing employees.

Research demonstrates CSR initiatives have a positive impact on employee morale, motivation, commitment, loyalty, training, recruitment, and turnover. Benefits in these areas have been found to improve the bottom line of companies. Three surveys across Europe and the USA and a survey involving 25 countries found employees felt greater loyalty, satisfaction, and motivation when their companies were socially responsible.

Therefore, corporate initiatives can contribute to the branding of organizations in the labor market. These initiatives can make the organization attractive to employees with similar values and so assist the organization to become an employer of choice for these potential employees. And, if it lives out the values and initiatives on a daily basis, it will assist the retention of desirable employees.

This is supported by the experience at the 2004 Economic Forum in Switzerland. Less than 20 % of the 1,500 delegates, most of whom were business leaders,

identified profitability as the most important measure of corporate success. Almost 30 % identified criteria that reflected CSR – almost one in four cited reputation and integrity of the brand and one in 20 cited CSR as the most important measure of corporate success. CSR certainly seems to be the emerging flavor of the month, but is it a reflection of a “two-faced capitalism”? In some senses it could be.

First, Porter argues CSR initiatives need to be undertaken not for “feel-good reasons” or as defensive actions to avoid scandals, but they should be integrated into an organization’s competitive strategy. Companies need to be clear about how CSR initiatives contribute to organizational success and efficiency. This view reflects an emphasis on the desired outcomes of one stakeholder: shareholders.

Second, many CSR initiatives could just reflect the intention of management and be no more than rhetoric. The intention to further corporate and social responsibility does not appear to be implemented in many cases. Research by Business in the Community (BiTC) found that 60 % of firms are not living up to their values. In addition, a report by a charity, Christian Aid, cites Shell, British American Tobacco (BAT), and Coca-Cola as paying lip service to CSR, but in reality the community development projects they undertake are ineffective.

It appears that many CSR initiatives reflect the essence of human resource management activities. So what is the role of HRM in CSR? At present, it appears HR is falling down in this task. A survey by Cronin and Zappala in Australia revealed that HR played a negligible role in decision making in corporate citizenship. However, CSR will become an even more widespread and accepted way of doing business and it should have a further impact on HR’s role. Not only will HR need to see its role as strategic from the shareholders’ viewpoint but it will also need to accommodate this view with the need to create a situation in which the workforce and the organization is sustainable over the longer term.

HR has a role in demonstrating the benefits of workplace practices that both reflect CSR and, at the same time, contribute to organizational efficiency and success. In order to do this, HR needs to be familiar with the latest research on work practices and employee performance and also the language of business. It requires HR to integrate CSR initiatives through its roles as business partner, employee champion, administrative expert, and change agent. It also requires HR to be an organizational advocate in the community and with other external stakeholders.

Much examination of corporate social performance has related whether or not good social performance is directly related to financial performance (Harrison and Freeman 1999). By analyzing the interest of stakeholder groups, such as customers, employees, and investors, the multifaceted aspects and contributions of corporate citizenship can be understood. Implementing a balanced perspective of stakeholder management can provide the opportunity to obtain maximum productivity from each stakeholder.

A key principle is that managers should acknowledge the potential conflicts between:

- (a) Their own role as corporate stakeholders
- (b) Their legal and ethical responsibilities for the interest of other stakeholders and should address such conflict through open communication, appropriate reporting, and incentive systems, and where necessary, third-party review (Clarkson 1995).

Our overall hypothesis is that corporate citizenship contributes to competitive advantage. We argue that corporate citizenship is a potentially lucrative business practice, a position based primarily on the findings of two research projects that demonstrate the existence of a relationship between corporate citizenship and improved competitive advantage.

1.8.4 Stakeholders' Responsibilities

Despite the variety of stakeholder groups and their demands, corporate social responsibilities can be classified into four broad categories: (1) economic, (2) legal, (3) ethical, and (4) discretionary responsibilities. Corporate citizenship can therefore be defined as the extent to which businesses meet the responsibilities imposed by their various stakeholders.

As society's economic agents, businesses are expected to:

1. Generate and sustain profitability
2. Offer goods and services that are both desired and desirable in society
3. Reward employees and other agents who help create success. To satisfy these expectations, businesses develop strategies to keep abreast of changing customer needs, to compensate employees and investors fairly, and to continually improve the efficiency of organizational processes. A long-term perspective is essential when establishing these strategies: a responsible business must continue to earn profits from its ongoing business in order to benefit its stakeholders.

Regardless of their economic achievements, businesses must abide by established laws and regulations in order to be good citizens. Because training all the members of an organization as lawyers is impossible, the identification of legal issues and implementation of compliance training are the best approach to preventing violations and costly litigation. The establishment of strict ethical standards in the workplace may also be an excellent way to prevent legal violations by creating a focus on integrity in decision making.

In addition, an organization guided by strong ethical values may also be better able to satisfy ethical responsibilities, the third type of responsibility imposed by stakeholders. Two main types of ethical issues are likely to emerge in an organizational context:

1. Decisions in so-called gray areas in which the right decision is debatable
2. Decisions in which the right course of action is clear, but individual and organizational pressures propel even well-intended managers in the wrong direction. A proactive corporate citizen develops precise guidelines that help organizational members deal with such pressures by stressing the importance of stakeholders' viewpoints relative to organizational achievements.

In addition to meeting economic, legal, and ethical responsibilities, businesses are also expected to display a genuine concern for the general welfare of all constituencies.

For example, society desires a cleaner environment, the preservation of wildlife and their habitats, as well as living wages for employees, but it also demands low-priced products. Companies must balance the costs of these discretionary activities against the costs of manufacturing and marketing their products in a responsible manner.

1.8.5 The Relationship Between Ethical Citizenship and Intra-firm Trust: Commitment to Quality and Market Orientation

One of the dimensions of corporate citizenship is an ethical work climate that includes values, traditions, and pressures exerted in the work environment to make legal and ethical decisions. An ethical climate involves formal values and compliance requirements as well as an understanding of how interpersonal relationships affect the informal interpretation of ethics. Loe (1996) examined the association between an ethical climate and improved organizational processes. When clear barriers are established to limit the opportunity for unethical activities, and when ethical behaviors are rewarded, an ethical climate prevails in an organization.

In an ethical work climate, employees are able to identify ethical issues as they arise and are aware of the company resources available to help them act ethically and according to organizational policy and culture. An ethical climate characterizes businesses that are committed to ethical citizenship. Before we examine the benefits of an ethical work climate, it may be useful to briefly consider the negative outcomes that may arise from a work climate that does not emphasize ethical conduct. Consider the case of Bausch and Lomb.

The company's operations were governed almost exclusively by strict sales and earnings objectives. Under stringent bottom-line pressures and with no counterbalancing values helping them to differentiate right from wrong, managers engaged in unscrupulous pricing and fraudulent billing. These practices translated into a series of lawsuits from customers and distributors, bad publicity, and a sharp decline in the firm's market value. Thus, a major benefit of an ethical climate is avoidance of negative consequences that may result from unscrupulous conduct in the workplace.

1.8.6 The Linkages Between "Business" and "Society"

The linkages, relationship, and interface between "business" and "society" are from their inception; however, over the years it has undergone spectacular changes. The survival and effectiveness of any organizational entity depend on the quality of support it gets from all stakeholders including the society at large. Although in the initial years of this interface between "society" and "business," corporate social responsibility (CSR) was confined to "philanthropy," but there have been successive changes and developments in the understating of these stakeholders to make it more of "business strategy" rather than philanthropy.

The corporate social responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce, of their families, as well as of the local community and society at large. Business needs a stable social environment that provides a predictable climate for investment and trade. Understanding society's expectation is quite simply enlightened self-interest for business in today's interdependent world. The CSR, therefore, will be centered on (a) treating employees fairly and equitably, (b) operating ethically and with integrity, (c) respecting basic human rights, (d) sustaining the environment for future generations, and (e) being a caring neighbor in their communities.

Due to globalization, corporations are no longer confined to the traditional boundaries of the nation-state. On the one hand, globalization has provided a great opportunity for corporations to be globally competitive by expanding their production base and market share. On the other hand, the same situation poses a great challenge to the sustainability and viability of such mega-businesses. Laborers, marginalized consumers, environmental activists, and social activists have protested against the unprecedented predominance of MNCs. The success of CSR initiatives, in future, will largely depend upon the relationship between the corporate system and the social and political systems. The notion of a generalized responsibility is not an operational concept, anymore than is the idea of profit maximization. A company's goals, policies, and strategies must be uniquely determined in the light of opportunities and threats sighted in its external environment, its internal resource strengths and weaknesses, and the values hailed by its principal managers.

Globalization along with changed norms of production, labor, and environment with conditions of best practice has influenced behavior of businesses across the world. The success of the acceptance of these norms has been outside the letter of law, and the adoption has often influenced the state to adopt better/improved or at least changed role for itself. The norms of resettlement and rehabilitation as dictated by the Indian state are by law adopted by joint venture companies involved in extractive industries, yet many other activities are also undertaken as corporate social responsibility, which are neither detailed nor dictated by law. Growth of civil society organizations has also led to increasing democratization in the marginalized and impoverished communities creating local responses to the grant meta-narratives. Yet a nation-state needs to evolve a new role for itself in this fast changing world. A stable nation providing good governance is thus basic requirement for developing countries in their attempt to safeguard rights and interests of their poor and marginalized.

Indian business has been actively involved in corporate philanthropy since the early 1900s. The charitable outlook of Indian businesses is progressively undergoing change under some external and internal influences. The increase in the momentum of corporate social responsibility has created new routes or avenues via which issues of corporate social responsibility are put to practice. This has led to a marked and a welcome participation of corporate house in the local development agenda, showing that they do feel responsibility for the environment and people of the area where they set up business. Now it is no longer a question of what and how they help, because they have already proven, more so in the last decade, that they do want to help and that they do have the local welfare at heart. This attitudinal shift is not a

response to any industrial, commercial, or government diktat, of course, certainly increasing goodwill. The fact that this makes it a two-way interaction is very welcome too, as that was the primary goal of the exercise anyway.

The time for unmotivated philanthropy seems to be coming to an end in the Indian context, and the usage of the term “corporate social responsibility” is gaining currency since the 1990s. Therefore well-established business also may have a well-established strategy of “corporate social responsibility” to (a) effectively deal with the instability of the Indian politico-economic climate, (b) proactively deal with all the other stakeholders, and (c) meet the demands of international customer especially as regard to labor and environment.

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1.8.6.1 Critical Issues

Mainstreaming Social Impact Assessment

- Concepts of Social Impact Management and Its Significance
- Environmental Decision Making vis-à-vis Social Impact Management
- Public Participation and Its Thrust upon Social Impact Managements
- The Legal Framework for Social Impact Management in India
- Mainstreaming Social Impact Management: Need of the Hour

Corporate Environmental Management Practices in India: Socially Responsible Initiatives for Sustainable Development

- Background: Industrialization Versus Environmentalism
- Regulatory Policies: Good Governance and CSR Initiatives
- The Challenges Before India: Business and Social Perspectives
- Socially Responsible Initiatives: Towards Future Mapping

Social Impact Assessment and Management: Few Practical Case Studies

The bunch of case studies here would focus to explain the phenomenon of pushing the Social Impact Assessment/Management studies to the backseat. However, the instructor would put emphasis on the need for mainstreaming the Social Impact Assessment and Management in today’s globalized world.

Application of Ethics: Cases

Enron

The downfall of Enron provides proof positive of the thesis of this paper. For years, Enron excelled at satisfying one of its goals: (seemingly) increasing shareholder value. Enron did a mediocre job of serving the common good, and it did not satisfy all of the numerous stakeholders it affected. While some employees were very well compensated, others worked in unsafe conditions. To Enron's credit, it did greatly benefit the community surrounding and its corporate headquarters. Its ultimate failure was that it did not truly increase shareholder value, at least not at the rate it reported to. By reporting gross overestimates of actually financial conditions, Enron raised its stock price but also lost future credibility. When the public learned of Enron's misdeeds, the lost credibility translated into a lack of trust and a loss of customer business and financial credit. If Enron had honestly reported its financial condition all along, the gigantic bankruptcy would have been avoided.

Nike: Labor Practice

The case describes the maltreatment of employees and sweatshop conditions in Nike's Asian factories. In many Asian countries, Nike violated local labor laws. According to the Vietnam labor watch, Nike did not pay the minimum wages, did not provide proper working conditions, and did not take adequate health and safety measures. In addition, Nike turned a blind eye to child labor and sexual harassment in its factories. Though the company has taken some measures to improve the situation, it has failed to improve the working conditions and put an end to the ill treatment of its employees.

On 17 October 1996, CBS News ran a 48-h program covering the inhumane treatment of workers by their supervisors, the payment of wages below the legal minimum wage, and the sexual abuse of several women workers at Nike's shoe manufacturing plants in Vietnam. Workers had been physically assaulted on the job. Temporary workers were paid, on an average, 20 cents per hour, while team leaders were paid \$42 per month; regular workers were paid even less.

The CBS news program aired interviews with team leaders and even showed a copy of a labor contract to substantiate its claims. On March 14, 1997, Reuters reported that 56 women were forced to run around one Nike factory. Twelve of them went into shock, fainted, and were taken to the hospital. As a result of these reports, a group of Vietnamese Americans contacted labor groups and journalists in Vietnam. A group called Vietnam Labor Watch (VLW) was organized to study the working conditions of workers at factories in Vietnam and monitor Nike's labor practices on an ongoing basis. VLW visited Nike's factories in Vietnam and met workers, shoe manufacturing executives, labor union representatives, and legal experts.

By late 1997, VLW came out with a report that accused Nike of violating numerous labor laws. According to the report, Nike did not pay the minimum wages, did not provide proper working conditions, and did not take adequate health and safety measures. In addition, Nike turned a blind eye to child labor and sexual harassment in its factories.

The report also observed that there was a difference between the practices in Nike's factories in Vietnam and what Nike told American consumers about its labor

practices. Analysts said that in spite of its good image in the USA, Nike was a very different company in Vietnam and other Asian countries. The sweatshop conditions in Nike's Asian factories were confirmed by several leading newspapers and journals including The New York Times, USA Today, The Wall Street Journal, AP, and Reuters. However, Nike had repeatedly claimed that it did not tolerate worker maltreatment in its Asian factories. The company had developed and published both a "code of conduct" and an agreement with its Asian subcontractors, setting out the company's position on wages and working conditions.

1.9 Study Questions for "Introduction to Business Ethics"

Introduction

1. What three things do business people usually mean by "business ethics"?
2. Why can't philosophers "teach" people to be ethical?

Deriving Business Ethics from the Profit Motive

3. What is the weak version of theory that connects business ethics to the profit motive?
4. What are the problems with the weak version?
5. What is the strong version of theory that connects business ethics to the profit motive?
6. What are the problems with this?

Deriving Business Ethics from General Moral Obligations

7. Give an example of a broad moral principle suggested by philosophers.
8. What is the problem with deriving business ethics from broad moral principles?
9. What is a stakeholder?
10. What is the problem with articulating good business behavior in corporate codes of ethics?

Conclusion

11. What are some benefits of all three approaches to business ethics?
12. What can we learn by looking at case studies in business ethics?

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Chapter 2

What Good Is a Set of Principles?

*In law a man is guilty when he violates the rights of others.
In ethics he is guilty if he only thinks of doing so*

– Immanuel Kant

Learning Objectives

Good business ethics should be a part of every business. There are many factors to consider. When a company does business with another that is considered unethical, does this make the first company unethical by association? Some people would say yes, the first business has a responsibility and it is now a link in the chain of unethical businesses. If a company does not adhere to business ethics and breaks the laws, they usually end up being fined. Many companies have broken antitrust, ethical, and environmental laws and received fines worth millions. The problem is that the amount of money these companies are making outweighs the fines applied. Billion dollar profits blind the companies to their lack of business ethics, and the dollar sign wins.

There are many tools for decision making, but few (secular) guides to indicate when situations might have an ethical implication. Yet this awareness is a crucial first step before decisions are made. Recognizing the moral context of a situation must precede any attempt to resolve it. Otherwise, what's to resolve? Ethical dilemmas rarely present themselves as such. They usually pass us by before we know it or develop so gradually that we can only recognize them in hindsight – a little like noticing the snake after you've been bitten. But what are the signs that a snake might be present? An ethical framework is like a "snake detector."

We offer the following principles as landmarks – generic indicators to be used as compelling guides for an active conscience. They are NOT absolute rules or values. They are more like a rough measurement where an exact one is not possible. They often conflict with each other in practice, and some will trump others under certain circumstances. But as principles that need to be considered, they appear constant. These principles are compatible with the argument that we should simply follow our

intuition and rely on the “inner voice.” However, that voice is not always audible, and today’s society presents a wide range of complex circumstances that require more guidance than simply “concern for others” or “does it feel right?” And so these principles are offered effectively as a more detailed reference.

In a sense, the principles are outcomes of the mother of all principles – unconditional love and compassion – which appears in virtually all faiths and is expressed here as “concern for the well-being of others.” (This principle is at the heart of the stakeholder model of ethics, i.e., what is my impact on others?) At first glance, they will appear obvious and perhaps trite or simplistic. Keep in mind that they are meant to be practical rather than groundbreaking and that many people have found them useful in the absence of other guides. The principles have been organized into three categories for ease of use: personal, professional, and global ethics.

2.1 Principles of Personal Ethics

Personal ethics might also be called morality, since they reflect general expectations of any person in any society, acting in any capacity. These are the principles we try to instill in our children and expect of one another without needing to articulate the expectation or formalize it in any way.

Principles of personal ethics include:

1. Concern for the well-being of others
2. Respect for the autonomy of others
3. Trustworthiness and honesty
4. Willing compliance with the law (with the exception of civil disobedience)
5. Basic justice; being fair
6. Refusing to take unfair advantage
7. Benevolence: doing good
8. Preventing harm

2.2 Principles of Professional Ethics

Individuals acting in a professional capacity take on an additional burden of ethical responsibility. For example, professional associations have codes of ethics that prescribe required behavior within the context of a professional practice such as medicine, law, accounting, or engineering. These written codes provide rules of conduct and standards of behavior based on the principles of professional ethics, which include:

1. Impartiality; objectivity
2. Openness; full disclosure
3. Confidentiality
4. Due diligence/duty of care

5. Fidelity to professional responsibilities
6. Avoiding potential or apparent conflict of interest

Even when not written into a code, principles of professional ethics are usually expected of people in business, employees, volunteers, elected representatives, and so on.

2.3 Principles of Global Ethics

Global ethics are the most controversial of the three categories and the least understood. Open to wide interpretation as to how or whether they should be applied, these principles can sometimes generate emotional response and heated debate.

Principles of global ethics include:

1. Global justice (as reflected in international laws)
2. Society before self/social responsibility
3. Environmental stewardship
4. Interdependence and responsibility for the “whole”
5. Reverence for place

Each of us influences the world by simply existing, and it is always wise to “think globally.” An added measure of accountability is placed on globally influential enterprises such as governments and transnational corporations. (Responsibility comes with power whether we accept it or not.) One of the burdens of leadership is to influence society and world affairs in a positive way. Can a person, nation, or company truly be “successful” while causing human suffering or irreparable environmental damage? A more modern and complete model of success also considers impact on humanity and the earth’s ecology.

2.4 Coexistence of Principles

Principles can only provide guidance. There are a myriad of situations that will never lend themselves to an easy formula, and the principles can only be used to trigger our conscience or guide our decisions. (As stated earlier, they are also useful for ethics education.)

It is important to note that principles of personal ethics are the first checkpoint in any situation, often overriding those at the professional and global levels. For example, when judging if a corporation has been socially responsible, we still need to consider principles of personal ethics as prerequisites. Contributions to charities and the like (doing good) may appear to be in the interests of society, but loses its significant if the corporation has not also taken responsibility to minimize the damage done by their core business operations (preventing harm). Similarly, trustworthiness is fundamental to professionalism and so on.

As well, there are many times when principles will collide with other principles. Let's say you are a scientist who has been coerced by a corrupt military dictatorship into designing a biological weapon. Since the project is top secret, you have a professional duty to maintain confidentiality. But if there were an opportunity to inform United Nations observers, global and personal principles would justify divulging confidential information to protect the overall good of humanity. (Compare this to selling confidential information for personal gain.)

Still, the scientist is faced with a tough decision since they or their family could be harmed as a result of the whistle blowing. This is where the principles must be viewed in the context of universality.

2.5 Principles Versus Absolute Rules and Universality

It is tempting to apply these principles selectively, or only within set boundaries, such as next-of-kin, countrymen, race, gender, etc. This is called cronyism. For example, I'm half Sicilian and also related to Gypsies. The Mafia will engage in despicable acts but has a rigid code of honor within their own "family." Trustworthiness is highly valued, and they have a strong (but perverse) sense of justice. Many a Gypsy will have no qualms about picking your pocket, but would never pick mine since I'm a relative. Limiting the application of ethical principles negates their value. They must *all* be applied to *everyone*.

There are also selective violations of the principles that society considers acceptable. Murder is illegal, unless we are fighting a (just) war. Lying is wrong, unless we are telling a child about Santa Claus or saving them from harm, and so on. These interpretive variations cause people to conclude that there are no universal standards for ethics and that moral responsibility is relative to cultural practices. This is a dangerous conclusion that relieves us of any responsibility other than what we choose in our own interests and what has been dictated by the rules of our faiths or governments, our personal values, or the local status quo.

As generic principles, these can be practiced in many different ways. For example, virtually all cultures value trustworthiness, but they have different views on truth telling. This is illustrated by Eastern vs. Western preferred values for harmony vs. forthrightness. An Asian being polite to maintain friendly relations may be perceived by an American as deceitful, although that is not the case. Both cultures agree in principle that deceit is unethical and trustworthiness is ethical, but misunderstandings can arise when the underlying principle is embodied in diverse ways that reflect different cultural values and virtues.

Morality can never be distilled into a universally acceptable list of absolute rules (even killing can be justified, viz., a sniper who refuses to negotiate). These principles are simply recurring patterns of ethically responsible behavior that our conscience can use as landmarks.

2.6 Qualifiers

It is important to understand that these principles are not the result of scholarly research, have not been proven in any way by empirical data or rigorous philosophical debate, and are not presented as an authoritative or complete list. In honoring the (professional) principle of full disclosure, I must state that I have no qualification as an ethicist. I created this framework primarily for my own use in business, where I found it difficult to get a clear idea of how ethics related to my everyday work. Like most business people, I had no time to study philosophy or theology in depth and simply needed a quick reference tool.

The framework is intended to be acceptable to anyone, anywhere, and from any walk of life. I have personally tested it on audiences from diverse backgrounds, with opposing objectives, people at both ends of the political spectrum, in small and large groups, etc. In every case I asked for feedback on any principles that might be objectionable, inappropriate, or unclear. (The “reverence for place” principle serves to test for shyness since it is not an obvious one, especially to Western audiences.) With one minor modification, the framework has so far stood the test of over a thousand people attending talks and seminars. I hope to refine it further through feedback on this document (<http://www.ethics.ubc.ca/papers/invited/colero.html>).

The history of business ethics is probably as old as business itself. Even in pre-historic societies there were most likely rules governing acceptable trade practices. Certainly the oldest known written legal code, the Code of Hammurabi (1700s BC), dealt considerably with issues concerning commerce, tariffs, and pricing.

Similarly, the laws of the Old Testament, including the Ten Commandments (approximately 1500 BC), applied moral rules to commercial activity.

By the fourth century BC, ethical issues related to business and trade had begun to receive academic treatment in the philosophies of Plato and Aristotle. Plato’s preoccupation with justice and morality in such works as the “Republic” often had significant implications for trade and commerce.

Aristotle directly addressed the morality of economic relations and responsibilities in his discussions of household management in his “Politics.”

Throughout the Middle Ages, the Christian doctrines of the Catholic Church governed much of moral and legal considerations of commerce, though little systematic development of such ideas occurred.

In the thirteenth century AD, Thomas Aquinas considered some issues of borrowing and usury and reiterated much of Aristotle’s discussion of these issues in light of church doctrine. Still, even Aquinas was somewhat inconsistent in his philosophical positions about such matters.

The history of business ethics also has its formative years in the reformation. Reformation figures like Martin Luther and John Calvin, in the fifteenth and sixteenth centuries AD, applied religious and moral considerations to trade and economics leading to the development of the Protestant work ethics. But in the

following two centuries, Enlightenment thinkers such as John Locke and Adam Smith began to separate religious doctrine from moral and ethical considerations of commerce and business.

Locke introduced the concept of property as a natural right, and Smith developed the foundation for modern economic theory by championing the moral value of self-interest in guiding and promoting the progress of markets. In the nineteenth century, theories like Smith's came under attack from Karl Marx and his followers, who saw the maximization of profit dictated by self-interest as necessarily exploitative of labor.

To this day, many of the issues and concerns raised by the religious, philosophical, and economic traditions have continued in various forms in discussions of ethics and morality in business practices. But business ethics as a separate, formal academic discipline is a fairly recent development.

In the midst of the changes in social attitudes that emerged in the 1960s, questions about the social and moral responsibilities of businesses and corporations began to emerge in academic and professional circles. Sociologist Raymond Baumhart was among the first academics to explicitly teach and study the ethics of business and commerce in the 1960s, and by 1974 there was enough of a developing discipline in the field to give rise to a landmark conference at the University of Kansas.

Since then, courses and organized studies in the field have emerged in universities throughout the world, even spawning subdisciplines such as marketing, accounting, and finance ethics. Meanwhile, noted theorists and academicians such as Norman Bowie, John Rawls, and Thomas Donaldson have made important contributions to the legitimization of the field as an academic discipline in its own right.

Today, the history of business ethics has led to an established area of theory and practice in both the professional and academic worlds. Many of the same issues considered since the earliest writings on the subject, some four thousand years ago, remain just as relevant today as ever (<http://www.practical-business-ethics.com/history-of-business-ethics.html>).

Aristotle was the most practical and business oriented of all philosophers who asked ethical questions. You may stop at the idea that a person who's been dead for nearly 2,400 years has anything practical to say about modern organizations. But Aristotle remains relevant because he is particularly interested in defining principles in terms of the ethics of leadership.

In his *Nicomachean Ethics*, Aristotle concludes that the role of the leader is to create the environment in which all members of an organization have the opportunity to realize their own potential. He says that the ethical role of the leader is not to enhance his or her power but to create the conditions under which followers can achieve their potential (<http://www.scu.edu/ethics/publications/submitted/otoole/business-ethics-aristotle.html>).

Normative ethical systems can generally be broken down into three categories: deontological, teleological, and virtue ethics. The first two are considered deontic or action-based theories of morality because they focus entirely upon the actions which a person performs. When actions are judged morally right based upon their

consequences, we have teleological or consequentialist-ethical theory. When actions are judged morally right based upon how well they conform to some set of duties, we have a deontological ethical theory.

Whereas these first two systems focus on the question “What should I do?,” the third asks an entirely different question: “What sort of person should I be?” With this we have a virtue-based ethical theory – it doesn’t judge actions as right or wrong but rather the character of the person doing the actions. The person, in turn, makes moral decisions based upon which actions would make one a good person.

2.6.1 Deontology and Ethics

Deontological moral systems are characterized primarily by a focus upon adherence to independent moral rules or duties. Thus, in order to make the correct moral choices, we simply have to understand what our moral duties are and what correct rules exist which regulate those duties. When we follow our duty, we are behaving morally. When we fail to follow our duty, we are behaving immorally.

2.6.2 Teleology and Ethics

Teleological moral systems are characterized primarily by a focus on the consequences which any action might have (for that reason, they are often referred to as consequentialist moral systems, and both terms are used here). Thus, in order to make correct moral choices, we have to have some understanding of what will result from our choices. When we make choices which result in the correct consequences, then we are acting morally; when we make choices which result in the incorrect consequences, then we are acting immorally.

2.6.3 Virtue Ethics

Virtue-based ethical theories place much less emphasis on which rules people should follow and instead focus on helping people develop good character traits, such as kindness and generosity. These character traits will, in turn, allow a person to make the correct decisions later on in life. Virtue theorists also emphasize the need for people to learn how to break bad habits of character, like greed or anger. These are called vices and stand in the way of becoming a good person (http://atheism.about.com/library/FAQs/phil/blfaq_phileth_sys.htm).

Kant begins his little book *The Groundwork of the Metaphysics of Morals* by praising a goodwill: “Nothing in the world can possibly be conceived which could be called good without qualification except a good will.” He proceeds to argue that power, health,

wealth, intelligence, wit, judgment, and other qualities are only conditionally good. What is needed to complete these qualities is a goodwill. For even a villain can have intelligence, sound judgment, and the rest. Osama bin Laden and Adolf Hitler could be described as intelligent; they cannot be described as having the requisite goodwill or character needed to make proper use of such gifts. A will is good, Kant says, not because of what it achieves. It is good solely because of its willing. In other words, it must be “good in itself” without regard for consequences. To illustrate his notion of a goodwill, he compares the morality of two merchants.

The merchants in question perform the same action by giving the correct change to their customers. Suppose you find out that one gave the correct change because he didn’t want to suffer a bad reputation by cheating customers. Suppose further that the other gave the correct change because he thought it was his moral duty to do so. Which merchant’s action had moral worth? Only the action done from a motive of duty had moral worth. The other action revealed a selfish concern with one’s own business reputation and thus possesses no moral worth. Thus, for Kant actions leading to identical consequences do not have the same moral worth. The goodness of an action has everything to do with its motive (Kant calls it a “maxim”) and nothing to do with what the action produces.

2.6.3.1 Acting from Duty: The Categorical Imperative

An agent acting from duty acts with respect for the moral law, according to Kant. This is the only attribute of a goodwill. Kant’s basic moral principle is “Act according to that maxim which you can at the same time will to become a universal law.” This is his famed categorical imperative.

It has also been called his universality principle. It requires that we act in a manner that we would will everyone to act. He gives four illustrations of duties to show how the imperative applies.

Deontological moral systems typically stress the reasons why certain actions are performed. Simply following the correct moral rules is often not sufficient; instead, we have to have the correct motivations. This might allow a person to not be considered immoral even though they have broken a moral rule, but only so long as they were motivated to adhere to some correct moral duty.

Nevertheless, a correct motivation alone is never a justification for an action in a deontological moral system and cannot be used as a basis for describing an action as morally correct. It is also not enough to simply believe that something is the correct duty to follow. Duties and obligations must be determined objectively and absolutely, not subjectively. There is no room in deontological systems of subjective feelings; on the contrary, most adherents condemn subjectivism and relativism in all their forms.

Perhaps the most significant thing to understand about deontological moral systems is that their moral principles are completely separated from any consequences which following those principles might have. Thus, if you have a moral duty not to lie, then lying is always wrong – even if that results in harm to others. For example, you would be acting immorally if you lied to Nazis about where Jews were hiding.

The word deontology comes from the Greek roots *deon*, which means duty, and *logos*, which means science. Thus, deontology is the “science of duty.” Key questions which deontological ethical systems ask include:

1. What is my moral duty?
2. What are my moral obligations?
3. How do I weigh one moral duty against another?

2.7 Types of Deontological Ethics

Some examples of deontological ethical theories:

Divine Command: The most common forms of deontological moral theories are those which derive their set of moral obligations from a god. According to many Christians, for example, an action is morally correct whenever it is in agreement with the rules and duties established by God.

Duty Theories: An action is morally right if it is in accord with some list of duties and obligations.

Rights Theories: An action is morally right if it adequately respects the rights of all humans. This is also sometimes referred to as Libertarianism, the political philosophy that people should be legally free to do whatever they wish so long as their actions do not impinge upon the rights of others.

Contractarianism: An action is morally right if it is in accordance with the rules that rational moral agents would agree to observe upon entering into a social relationship (contract) for mutual benefit. This is also sometimes referred to as Contractualism.

Monistic Deontology: An action is morally right if it agrees with some single deontological principle which guides all other subsidiary principles.

2.8 What Business Could Address

When business people speak about “business ethics,” they usually mean one of three things:

1. Avoid breaking the criminal law in one’s work-related activity.
2. Avoid action that may result in civil lawsuits against the company.
3. Avoid actions that are bad for the company image. Businesses are especially concerned with these three things since they involve loss of money and company reputation.

In theory, a business could address these three concerns by assigning corporate attorneys and public relations experts to escort employees on their daily activities. Anytime an employee might stray from the straight and narrow path of

acceptable conduct, the experts would guide him back. Obviously this solution would be a financial disaster if carried out in practice since it would cost a business more in attorney and public relations fees than they would save from proper employee conduct. Perhaps reluctantly, businesses turn to philosophers to instruct employees on becoming “moral.” For over 2,000 years philosophers have systematically addressed the issue of right and wrong conduct. Presumably, then, philosophers can teach employees that a basic understanding of morality will keep them out of trouble.

However, it is not likely that philosophers can *teach* anyone to be ethical. The job of teaching morality rests squarely on the shoulders of parents and one’s early social environment. By the time philosophers enter the picture, it is too late to change the moral predispositions of an adult. Also, even if philosophers could teach morality, their recommendations are not always the most financially efficient. Although being moral may save a company from some legal and public relations nightmares, morality in business is also costly. A morally responsible company must pay special attention to product safety, environmental impact, truthful advertising, scrupulous marketing, and humane working conditions. This may be more than a tight-budgeted business bargained for.

We cannot easily resolve this tension between the ethical interests of the money-minded businessperson and the ideal-minded philosopher. In most issues of business ethics, ideal moral principles will be checked by economic viability. To understand what is at stake, we will look at three different ways of deriving standards of business ethics.

2.8.1 Deriving Business Ethics from the Profit Motive

Some business people argue that there is a symbiotic relation between ethics and business in which ethics naturally emerges from a profit-oriented business. There are both weak and strong versions of this approach. The weak version is often expressed in the dictum that *good ethics results in good business*, which simply means that moral business practices are profitable. For example, it is profitable to make safe products since this will reduce product liability lawsuits. Similarly, it may be in the best financial interests of businesses to respect employee privacy, since this will improve morale and thus improve work efficiency.

First, many moral business practices will have an economic advantage *only* in the long run. This provides little incentive for businesses that are designed to exclusively seek short-term profits. As more and more businesses compete for the same market, short-term profits will dictate the decisions of many companies simply as a matter of survival.

Second, some moral business practices may not be economically viable even in the long run. For example, this might be the case with retaining older workers who are inefficient, as opposed to replacing them with younger and more efficient workers.

Third, and most importantly, those moral business practices that are good for business depend upon what *at that time* will produce a profit. In a different market, the same practices might not be economically viable. Thus, any overlap that exists between morality and profit is both limited and incidental.

The strong version of this profit approach takes a reverse strategy and maintains that, in a competitive and free market, the profit motive will in fact *bring about* a morally proper environment. That is, if customers demand safe products, or workers demand privacy, then they will buy from or work for only those businesses that meet their demands. Businesses that do not heed these demands will not survive. Since this view maintains that the drive for profit will create morality, the strong version can be expressed in the dictum that *good business results in good ethics*, which is the converse of the above dictum. Proponents of this view, such as Milton Friedman, argue that this would happen in the USA if the government would allow a truly competitive and free market.

But this strong view also has problems, since it assumes that consumers or workers will demand the morally proper thing. In fact, consumers may opt for less safe products if they know they will be saving money. For example, consumers might prefer a cheaper car without air bags, even though doing so places their own lives and the lives of their passengers at greater risk, which is morally irresponsible. Similarly, workers may forego demands of privacy at work if they are compensated with high enough wages. In short, not every moral business practice will simply emerge from the profit principle as suggested by either the weak or strong views.

2.8.2 Business Ethics Restricted to Following the Law

A second approach to business ethics is that moral obligations in business are restricted to what the law requires. The most universal aspects of Western morality have already been put into our legal system, such as with laws against killing, stealing, fraud, harassment, or reckless endangerment. Moral principles beyond what the law requires – or *supra-legal* principles – appear to be optional since philosophers dispute about their validity and society wavers about its acceptance. For any specific issue under consideration, such as determining what counts as responsible marketing or adequate privacy in the workplace, we will find opposing positions on our supra-legal moral obligations. It is, therefore, unreasonable to expect businesses to perform duties about which there is so much disagreement and which appear to be optional.

The unreasonableness of such a moral requirement in our society becomes all the more evident when we consider societies that *do* have a strong external source of morality. Islam, for example, contains a broad range of moral requirements such as an alms mandate, prohibitions against sleeping partners that collect unearned money, and restrictions on charging interest for certain types of loans, particularly for relief aid. Thus, in Muslim countries that are not necessarily ruled by Islamic law, there is a strong source of external morality that would be binding on Muslim businesses apart from what their laws would require.

Similarly, Confucianism has a strong emphasis on filial piety; thus, in Chinese and other Confucian societies, it is reasonable to expect their businesses to maintain a respect for elders even if it is not part of the legal system. In Western culture, or at least in the USA, we lack a counterpart to an external source of morality as is present in Muslim or Confucian societies. One reason is because of our cultural pluralism and the presence of a wide range of belief systems. Even within Christianity, the diversity of denominations and beliefs prevents it from being a homogeneous source of Christian values. In short, without a widely recognized system of ethics that is external to the law, supra-legal moral obligations in our society appear to be optional, and it is unreasonable to expect business people to be obligated to principles which appear to be optional.

In our culturally pluralistic society, the only business-related moral obligations that are majority-endorsed by our national social group are those obligations that are already contained in the law. These include a range of guidelines for honesty in advertising, product safety, safe working conditions, and fair hiring and firing practices.

In fact, the unifying moral force of businesses within our diverse society is the law itself. Beyond the law we find that the moral obligations of businesses are contextually bound by subgroups, such as with a business that is operated by traditional Muslims or environmental activists. In these cases, the individual businesses may be bound by the obligations of their subgroups, but such obligations are contingent upon one's association with these social subgroups. And, clearly, the obligations within those subgroups are not binding on those outside the subgroups.

2.8.3 *Deriving Business Ethics from General Moral Obligations*

The third approach to business ethics is that morality must be introduced as a factor that is external from both the profit motive and the law (Laczniak 1983).

The most convenient way to explore this approach is to consider the supra-legal moral principles that philosophers commonly offer. Five fairly broad moral principles suggested by philosophers are as follows:

1. *Harm principle*: Businesses should avoid causing unwarranted harm.
2. *Fairness principle*: Business should be fair in all of their practices.
3. *Human rights principle*: Businesses should respect human rights.
4. *Autonomy principle*: Businesses should not infringe on the rationally reflective choices of people.
5. *Veracity principle*: Businesses should not be deceptive in their practices.

The attraction of these principles is that they appeal to universal moral notions that no one would reasonably reject. But, the problem with these principles is that they are *too* general. These principles do not tell us *specifically* what counts as harm, unfairness, or a violation of human rights. Does all

damage to the environment constitute harm? Does it violate an employee's right to privacy if an employer places hidden surveillance cameras in an employee lounge area? Does child-oriented advertising mislead children and thus violate the principle of veracity?

The above principles are abstract in nature. That is, they broadly mandate against harm and broadly endorse autonomy. Because they are abstract, they will be difficult to apply to concrete situations and consequently not give clear guidance in complex situations. An alternative approach is to forget the abstract and focus instead on concrete situations that affect the particular interests of consumers, workers, stockholders, or the community. The recent *stakeholder* approach to business ethics attempts to do this systematically. It may be expressed in the following:

2.8.3.1 Stakeholder Principle

Businesses should consider all stakeholders' interests that are affected by a business practice. A stakeholder is any party affected by a business practice, including employees, suppliers, customers, creditors, competitors, governments, and communities. Accordingly, the stakeholder approach to business ethics emphasizes that we should map out of the various parties affected by a business practice. But this approach is limited since proponents of this view give us no clear formula for how to prioritize the various interests once we map them out.

Although corporate codes of ethics are often viewed cynically as attempts to foster good public relations or to reduce legal liability, a corporate code of ethics is a reasonable model for understanding how we should articulate moral principles and introduce them into business practice. The practical advantage of this approach is that it directly stipulates the morality of certain action types, without becoming ensnared in the problem of deriving particular actions from more abstract principles, such as the harm principle.

But, the limitation of the corporate code model is that the principles offered will appear to be merely rules of prudence or good manners unless we can establish their distinctly *moral* character. And this requires relying on more general principles of ethics described above, which, we've seen, comes with its own set of problems.

We have looked at three approaches to business ethics, and we've seen that all three have limitations. If we hope to find an approach to business ethics that is free from conceptual problems, we will not likely find any. Ethics is a complex subject and its history is filled with diverse theories that are systematically refuted by rival theories.

So, we should expect to find controversies when applying ethics to the specific practices of business. However, following *any* of the above three approaches to business ethics will bring us closer to acceptable moral behavior than we might otherwise be. Close attention to one's profit motive and the moral interests of consumers might in fact generate some morally responsible business decisions. We can

indeed find additional moral guidance by looking at the laws that apply specifically to businesses.

In addition to the above three approaches to business ethics, it also helps to examine stories of businesses that have been morally irresponsible. By citing specific cases of deceptive advertising, environmental irresponsibility, or unsafe products, we can learn by example what we should not do. Such cases often reveal blatantly crude, insensitive, or reckless attitudes of businesses, which we can view as warning signs of unethical conduct.

The moral challenge for businesses in the USA is difficult enough when balancing one's profit interests against the needs of employees, consumers, governments, and special interest groups. The moral challenge is even more intense for multinational companies who need to live up to moral expectations both in the USA and in host foreign countries. In developed countries, the moral expectations of the host country are as stringent as our own. With third world host countries, though, the moral expectations are often more lax, and multinationals are tempted to lower their standards when situations permit. In this chapter we will look at three areas of moral concern for multinationals: bribery, influencing foreign governments, and exploiting third world countries.

Case Study One

The Collapse of Lehman Brothers

On September 15, 2008, US-based Lehman Brothers (Lehman), one of the top five investment banks in the USA, filed for Chapter 11 bankruptcy sending shock waves through the financial sector the world over. As per the details filed by Lehman in its bankruptcy filings, it held assets worth US\$639 billion, whereas its total liabilities stood at US\$613 billion. With this, Lehman earned the dubious distinction of having filed the biggest bankruptcy ever in the world. The bank reported a loss of US\$2.8 billion in the second quarter of 2008 ending May 2008, its first loss since it went public in the year 1994.

However, on September 10, 2008, Lehman again reported a net loss of US\$3.9 billion (after provisioning for US\$5.6 billion in write-downs) for the third quarter ending August 2008 (Refer to Exhibit I for the financial highlights of Lehman Brothers between 2003 and 2007). To turn around its operations, the bank announced a restructuring plan that intended to sell a majority stake in its investment management business (Refer to Exhibit II for the business segments of Lehman Brothers). The plan also included spinning off a majority of its remaining commercial real estate holdings that had gone bad, into a new public limited company.

The Korea Development Bank (KDB) which had earlier evinced an interest in purchasing a 25 % equity stake in Lehman announced that it had withdrawn this offer. KDB backed off stating that the price Lehman quoted was too high and hence it was not interested in purchasing the stake because of bad market conditions.

Lehman's shares plunged by almost 45 % from US\$14.15 to US\$7.79 after KDB's announcement. Lehman could not manage to restore confidence in the

markets and raise capital by selling a part of its equity stake and eventually had to file for Chapter 11 bankruptcy.

While many analysts attributed different reasons for the collapse of Lehman, most of them agreed that the then ongoing subprime crisis was a root cause. Analysts claimed that the move by JP Morgan Chase (JP Morgan) to freeze Lehman's assets days before the bank filed for bankruptcy was one of the factors responsible for Lehman's collapse.

They claimed that the bankruptcy could have been avoided if JP Morgan had not frozen Lehman's assets, which had led to a liquidity crisis.

The Subprime Crisis

In order to overcome the crisis caused by the dot com burst and 9/11 attacks, the US government adopted a policy of credit-driven consumption-led growth for its economy. To stimulate consumption, American policy makers started slashing interest rates to ease the liquidity in the system from late 2001. Industry experts blamed the subprime crisis and the resultant collapse of Lehman Brothers on the global macro-economic imbalance that the USA had created. The US economy had a savings rate close to zero in 2007. Experts opined that with the huge fiscal deficit and balance of payment deficit the USA had, the US dollar (dollar) would have depreciated unless it was a global currency.

Case Study Two

Lockheed Scandal

A dramatic example of bribery naivete involves the Lockheed Corporation, which in the 1970s was caught offering a quarter of a billion dollars in bribes overseas. A major US defense contractor, Lockheed fell on hard times for both economic and technological reasons. The US government commissioned the company to design a hybrid aircraft, but, after one crashed, the government canceled orders. Lockheed received other contracts based on bids that they made that were far lower than the cost of producing the project. As a consequence, they lost money on the projects. They tried to move into the commercial jet aircraft market by making planes with engines built by Rolls Royce. Rolls Royce went bankrupt, and Lockheed lost 300 million in canceled orders. They believed that the solution to their financial woes was to expand their overseas sales. To get the contracts, they made a series of payoffs to middlemen from various countries, including the Netherlands, Japan, Saudi Arabia, Iran, Italy, and Spain. Still on the verge of bankruptcy, they requested a loan of 200 million dollars from the US government, which meant opening their records for scrutiny. Government investigators discovered the extent of Lockheed's bribery. They also discovered that Lockheed offered bribes that totaled ten times more than the bribes made by other US companies. Lockheed's chairman and president were forced to resign. However, to avoid compromising national defense, the US government chose not to cancel its contracts with Lockheed.

Case Study Three

Multinational Coercing in the Third World

A vivid illustration of this is International Telephone and Telegraph's (ITT) interference in the Chilean government during the 1970s. At the time, ITT was the 8th largest Fortune 500 company, with 350,000 employees in 80 countries, including Chile. The South American country of Chile was poor but politically stable. A presidential candidate named Salvador Allende campaigned on a communist platform, emphasizing the issue of land reform and indicating a desire to take control of privately owned Chilean telephone companies because of their inefficiency. Government acquisition policies work two ways. First, a government might buy controlling shares of private companies, paying them at a fair market price. Alternatively, a government might nationalize or simply take ownership of the company with no compensation, as happened with private businesses in Cuba and Peru during their communist takeovers.

ITT feared the worst and tried to stop Allende from being elected, part of which involved an offer of one million dollars to the CIA for support. The scandal surfaced, and critics worldwide attacked ITT for interfering in the activity of a foreign government. Some of ITT's property was even bombed in protest. Allende was elected anyway, and in retaliation, he nationalized ITT's Chilean property. Allende did not nationalize other firms, however, even though some had to sell the government shares of its stock. Allende was assassinated shortly after, and ITT later sued for losses.

The actions of American multinationals in foreign markets have a direct effect on the image on the USA itself. People around the world see the USA as an economic imperialist, ready to gobble up the resources of small foreign countries. The situation is made worse when multinationals coerce foreign governments especially in third world countries.

2.8.3.2 Business and the Environment

The greatest damage done to the environment is inflicted by business and industry and not from domestic activities. Businesses extract the greatest tolls in terms of energy consumption, toxic waste, air and water pollution, and deforestation. Increasing amounts of industrial toxic waste contaminates groundwater, which in turn becomes harmful for human consumption. Oil spills from petroleum industries destroy shorelines and kill millions of sea animals. The burning of fossil fuels such as oil, gas, and coal produces excess carbon dioxide, which adds to global warming through a greenhouse effect. Fluorocarbon gasses used in making domestic products such as refrigerators and styrofoam deplete the Earth's ozone layer, which shields the Earth from the sun's life-destroying ultraviolet rays. Some of these problems are expensive nuisances, such as oil spills and toxic waste. Others, though, threaten the survival of life on our planet, such as carbon dioxide production and the release of fluorocarbon gasses. In this chapter we will look at some of the causes of environmental irresponsibility in businesses and some theories about why businesses should be more responsible.

2.8.3.3 Businesses' Resistance to Environmental Responsibility

Although businesses don't consciously set out to harm the environment, several factors create an unfortunate situation, which in many cases is worse than it needs to be. First, large businesses and industries are inherently imposing on nature. They take pieces of nature and reshape them into things that didn't exist before, such as automobiles, skyscrapers, television sets, and shopping malls. Not only are the end products artificial, and in that sense unnatural, but the means of producing these things are taxing on natural resources. Second, it is easy to disregard natural resources that are held in common and seem abundant, such as air and water. It doesn't seem wrong to pollute the air if, technically, no one owns the air and the particular damage that I do isn't too noticeable. Environmentalists sometimes refer to this phenomenon as a *tragedy of the commons*, that is, a disaster that happens to things that are held in common. Given the size and complexity of businesses in industrial countries, such as the USA, it is not surprising that they contribute heavily to this tragedy.

Third, businesses are driven by the motive to make a profit. Stockholders demand a return on their investment, and this mandate transfers down through the management hierarchy. Part of making a profit is to reduce costs, and environmental responsibility is highly costly, with few immediate financial rewards. Finally, government environmental watchdog agencies, such as the Environmental Protection Agency, are limited in what they can do in imposing restrictions on businesses. To protect their financial interests, businesses lobby for support at all levels of government, and agencies such as the EPA must be politically compromising. Agencies such as the EPA say that they know that they do their jobs correctly when everyone is angry with them. That is, businesses feel that the EPA restricts them too much, and environmental advocates such as the Sierra Club will feel that the EPA does too little to protect the environment.

On a global level, many of the environmental offenders are businesses in third world countries. Underdeveloped countries are trying to catch up to the economic level of industrialized countries and certainly have a right to do so. However, they cannot play catch up in a way that is both economically feasible and environmentally responsible. Maintaining a balance between economic development and energy conservation is far more difficult for poorer countries than it is for wealthier ones. For example, developed countries can shift to energy sources that give off less pollution, but developing countries cannot do so easily.

Environmental problems are intensified in third world countries because of growth in population, which doubles about every 70 years. Increased population places increased demand on the utilization of land, which, in turn, leads to deforestation. It is not effective to simply encourage developing countries to do better. Recommendations from world organizations, such as the United Nations, have only limited leverage. Sometimes developed countries, such as the USA, try to assist developing countries by offering them free technology. But this is only partially effective.

Since the 1960s, our society has become increasingly more environmentally conscious, and now we simply take it for granted that we all are responsible for

maintaining the integrity of the environment. However, conservative businesses people commonly feel that their responsibility to the environment is limited. Typically, they give two distinct arguments for their views. First, they argue that businesses do not have an obligation to protect the environment above what the law requires. Although laws are strict concerning environmental regulation, they are not perfect and they allow for many kinds of environment judgment calls. If businesses showed special concern for the environment beyond what the law requires, then this would interfere with their ability to compete. Ultimately, they argue, environmental responsibility rests with consumers. If consumers are not interested in favoring businesses that have environmentally friendly policies, then it is not up to businesses to champion environmental policies on their own. The problem with this view is that environmental responsibility cannot be left to what consumers are willing to tolerate. Most consumers will be attracted to the least expensive consumer products, irrespective of moral considerations surrounding the manufacturing of those products. Even if I knew that a pair of tennis shoes was manufactured in a third world sweatshop, my purchase decision might still be motivated only by the price tag. This is so too with my motivation to purchase products that are manufactured by environmentally unfriendly companies. In a sense, businesses need to save consumers from succumbing to their most thrifty inclinations.

Second, if businesses agree that they have an environmental responsibility beyond what the law requires, they often take a “good ethics is good business” approach and emphasize areas of environmental responsibility that will generate a profit. For example, they might push recycling, which they can indicate on their packaging and thereby attract environmentally conscious consumers. They might also update older energy-hungry heating or production units if the investment has the right payoff. However, as noted above, what is best for the environment is not always financially best for business. When cases of conflict arise between the environment and profit motive, the “good ethics is good business” approach quickly appears deceptive and shallow.

2.8.3.4 Examples of Environmentally Unsound Business Practices

Although most companies are guilty of varying degrees of environmental irresponsibility, some extreme cases vividly illustrate irresponsibility at its worst. A first case involves resistance to air pollution control measures. In the early 1950s, Union Carbide built a series of metal and chemical plants in the Ohio Valley, between Ohio and West Virginia. Mountains on both sides of the valley trap in soot, ash, and other air pollutants, which resulted in increased incidents of respiratory disease among local residents. During the 1960s, Union Carbide refused to participate in public discussions about the problem and ignored a governmental request for an on-site inspection.

The company soon became a symbol of corporate resistance to pollution control. Part of their resistance owes to the fact that the environment was not an issue in the 1950s and new pollution control measures were both expensive and untested.

Also, Union Carbide was less susceptible to consumer boycotts since only 20 % of its products were direct consumer goods that we might purchase in a department store, such as antifreeze. In 1970s they became the target of the investigation by the newly formed Environmental Protection Agency, which instructed Union Carbide on several pollution control measures. Union Carbide responded by shutting down a boiler plant and laying off workers, claiming that was the only way they could comply with the required pollution reduction. Critics charged that Union Carbide's tactics amounted to environmental blackmail, threatening to cut jobs if they had to be environmentally responsible. Ultimately, Union Carbide restructured their company and adhered to pollution control standards.

A second case of environmental irresponsibility involves nuclear power accidents. There are currently around 400 nuclear power plants worldwide, providing about 15 % of the world's electricity. For the past few decades, the nuclear power industry has been under attack by environmentalists and few new plants have been started. Ironically, the original intent of nuclear power was to provide a safe, clean, and cheap alternative to coal and oil, which are notoriously damaging to the environment. Nuclear power produces no smoke or carbon dioxide, and only harmless steam. It also doesn't require environmentally intrusive mining or drilling efforts. Two major disasters contributed to the now tarnished image of the nuclear power industry, both the result of safety violations and human error.

Case Study Four

Environmental Disasters

The first incident occurred at the Three Mile Island nuclear power plant in Harrisburg, Pennsylvania. In 1979, a series of mechanical and human failures contributed to a partial core meltdown to one of its reactors. Radiation was released into the local community, and, although connections with health problems were difficult to prove, a family of a Down syndrome child received 1 million dollars in compensation. A much more serious nuclear power disaster occurred in 1986 in the Ukrainian city of Chernobyl, then part of the Soviet Union.

Partly from negligence and partly from design problems, a steam explosion and fires threw tons of radioactive material into the environment. 31 people were killed and 1,000 injured from direct exposure to radioactive material by means of inhaling radioactive gasses and dust and ingesting contaminated food or water. 135,000 people were evacuated from the surrounding area, hundreds of square miles of land were contaminated, and the long-term health effects of the accident are still being assessed. Financial losses reached \$3 billion, and countries throughout Europe claimed losses into the hundreds of millions of dollars.

Although the Soviet government owned the Chernobyl plant – and not private industry – the disaster had a decisive impact on the entire nuclear power industry. In addition to the risks of catastrophic disasters such as Chernobyl, nuclear power plants create other environmental problems that involve nuclear waste disposal. Nuclear waste is deadly to animal life and remains toxic for a very long time.

After Three Mile Island and Chernobyl, critics called for a moratorium on the construction of all future nuclear power plants and a systematic closing of the ones currently in use. Defenders, though, argue that nuclear energy is necessary in view of the limitations of alternative energy sources, such as coal, oil, and solar technology. They also argue that nuclear waste sites need to confine wastes for only a few thousand years since after 1,000 years the ingestion toxicity is comparable to that of the original uranium from which the wastes were derived. Finally, defenders say that we can reasonably expect a decrease in nuclear accidents even if we increase nuclear power use, similar to how airline travel has increased while their accident rate has decreased. Defenders recommend that clustered reactors provide better operational support, security, and handling of wastes.

A third and final case of environmental disaster involves large-scale oil spills. In 1989, an Exxon oil tanker called the Valdez struck a reef in Alaska's Prince William Sound and created the largest crude oil spill in US waters. The captain of the ship, 42-year-old Joseph Hazelwood, was with Exxon for 20 years. He had a reputation as a drinker, which some departments at Exxon knew about, and at the time of the disaster his blood alcohol level was .06. The tanker trip was part of a routine convoy from Alaska to Long Beach California that was successfully made by other tankers over 8,000 times. Hazelwood assigned the piloting of the vessel to a less experienced officer and then retired to his quarters. Icebergs were in the path of the ship, which an ineffective radar system failed to detect earlier.

The ship was so large that it took a full minute to respond to steering changes. Attempting to navigate around an iceberg, the piloting officer miscalculated and ran the ship into a reef. Oil poured from the ship and, when the weather changed, it sloshed onto the beaches for hundreds of miles. Initially viewing it as only a public relations problem, Exxon was slow to respond with cleanup efforts, which made the situation worse.

The spill had a terrible impact on plant and animal life in the area, which the news media vividly captured in pictures and on television. The cleanup was also expensive; the average cost of rehabilitating a seal was \$80,000. Hazelwood was ultimately fired for not being on the bridge at the time of the disaster and was convicted of negligent discharge of oil, with a punishment of 1,000 h of community service in the cleanup. Exxon paid in excess of two billion dollars in the cleanup efforts and, just as significantly, suffered an almost irreplaceable loss of reputation because of the disaster. 40,000 Exxon credit card holders destroyed their cards.

2.8.3.5 Three Philosophical Theories of Environmental Responsibility

As noted earlier, some businesses argue that their environmental responsibility is confined to what the law requires and what will yield a profit. However, ethicists typically argue that businesses need to look beyond profit motive and legal regulations to find more persuasive reasons for environmental responsibility. We will

consider three of these theories, each of which yields substantially different conclusions about the environmental responsibility of businesses.

The first of these theories is *anthropocentric* or human centered. Environmental anthropocentrism is the view that all environmental responsibility is derived from human interests alone. The assumption here is that only human beings are morally significant persons and have a direct moral standing. Since the environment is crucial to human well-being and human survival, then we have an indirect duty towards the environment, that is, a duty that is derived from human interests. This involves the duty to assure that the Earth remains environmentally hospitable for supporting human life and that its beauty and resources are preserved so human life on Earth continues to be pleasant.

Some have argued that our indirect environmental duties derive both from the immediate benefit which living people receive from the environment and the benefit that future generation of people will receive. But, critics have maintained that since future generations of people do not yet exist, then, strictly speaking, they cannot have rights any more than a dead person can have rights. Nevertheless, both parties to this dispute acknowledge that environmental concern derives solely from human interests.

A second general approach to environmental responsibility is to base it on the moral consideration that we owe to animals, a position that we will call the *animal rights view*. On this view, higher animals qualify as morally significant creatures, such as dogs, cats, cows, horses, pigs, dolphins, and chimpanzees. Animal rights advocate Peter Singer goes a step further and argues that even lower animals, such as chickens, deserve equal moral consideration insofar as they are capable of experiencing physical pleasure and pain, just as humans are.

The third theory is that of *ecocentrism*, which is that we have direct responsibilities to environmental collections, such as animal species and rain forests, just as we have direct responsibilities to humans. Even if there is no direct human consequence of destroying environmental collections, we still have a moral responsibility to those collections anyway. Ecocentrists use various terms to express this direct responsibility to the environment. They suggest that the environment has *direct rights*, that it qualifies for *moral personhood*, that it is deserving of a direct duty, and that it has *inherent worth*. Common to all of these claims, though, is the position that the environment by itself is on a moral par with humans.

2.8.3.6 Implications for Businesses

Each of the above theories has different implications on business's responsibility to the environment. From the anthropocentric perspective, businesses have an obligation not to damage the environment in ways that negatively impact on human life. From the animal rights perspective, businesses have an obligation to avoid harming animals either directly or indirectly. They need to avoid harming animals directly, such as they might do through animal testing or inhumane food production techniques.

They need to avoid harming animals indirectly, such as they might do by destroying animal environments. For example, we should not control pests through

poisoning, since this causes animals to suffer; instead, we should prefer a sterility chemical. This is especially pertinent given that the environment is the immediate habitat of animals and damage to the environment harms animals more than it harms humans. Finally, from the ecocentrist perspective, businesses have a direct obligation to protect the environment since it is wrong to harm members of the moral community, and the environment is a member of the moral community.

In many cases the anthropocentric, animal rights and ecocentric interests overlap. For example, toxic waste, air and water pollution, excess carbon dioxide, and release of fluorocarbons equally affect humans, animals, and environmental collections. In many cases, though, the interests of the three do not overlap. For example, sometimes when businesses are found legally responsible for polluting a stream, several corrective options may be open to them. First, they may restore the stream, which costs a lot of money, or they may pay off a community in compensation for living with the polluted stream, which might cost them less money.

Although the anthropocentrist will be satisfied with paying off the community, this would not touch the concerns of the animal rights and ecocentrist. To use another example, suppose that a business considered building a factory on a site that, if constructed, would destroy a breeding ground for birds. Typically, from the anthropocentrist position, the business would only need to take into account the recreational value that the bird breeding ground would have to human bird watchers. For the animal rights advocate and ecocentrist, though, this reasoning ignores the needs of animals and the integrity of the ecosystem itself.

In view of these various theories of environmental obligation, what should businesses do? First, businesses will automatically be bound by the environmental regulations that are required by law. Although this covers much ground, it doesn't cover everything. Second, businesses should at least be sensitive to environmental concerns from both the anthropocentric and animal rights perspectives. Animal rights and environmental lobby groups today are becoming increasingly more influential, and, as a matter of good public relations and even survival, companies need to take this into account. Many environmental problems lend themselves to graphic portrayal by the media – such as sea animals covered in oil – which intensifies negative public opinion towards a company. If companies do not respond properly, they appear to be arrogant and uncaring, which greatly harms their reputation (<http://www.utm.edu/staff/jfieser/vita/research/Busbook.htm>).

Case Study Five

The Bhopal Gas Tragedy in India

In the early morning hours of December 3, 1984, a poisonous gray cloud (40 tons of toxic gases) from Union Carbide India Limited's (UCIL's) pesticide plant at Bhopal spread throughout the city. Water carrying catalytic material had entered methyl isocyanate (MIC) storage tank No. 610. What followed was a nightmare. The killer gas spread through the city, sending residents scurrying through the dark streets. No alarm ever sounded a warning and no evacuation plan was prepared. When victims arrived at hospitals breathless and blind, doctors did not know how to treat them, as UCIL had not provided emergency information.

It was only when the sun rose the next morning that the magnitude of the devastation was clear. Dead bodies of humans and animals blocked the streets, leaves turned black, and the smell of burning chilli peppers lingered in the air. Estimates suggested that as many as 10,000 may have died immediately and 30,000–50,000 were too ill to ever return to their jobs.

The catastrophe raised some serious ethical issues. The pesticide factory was built in the midst of densely populated settlements. UCIL chose to store and produce MIC, one of the most deadly chemicals (permitted exposure levels in USA and Britain are 0.02 parts per million), in an area where nearly 120,000 people lived. The MIC plant was not designed to handle a runaway reaction. When the uncontrolled reaction started, MIC was flowing through the scrubber (meant to neutralize MIC emissions) at more than 200 times its designed capacity. MIC in the tank was filled to 87 % of its capacity while the maximum permissible was 50 %.

MIC was not stored at zero degree centigrade as prescribed and the refrigeration and cooling systems had been shut down 5 months before the disaster, as part of UCC’s global economy drive. Vital gauges and indicators in the MIC tank were defective. The flare tower meant to burn off MIC emissions was under repair at the time of the disaster and the scrubber contained no caustic soda. As part of UCC’s drive to cut costs, the workforce in the Bhopal factory was brought down by half from 1980 to 1984. This had serious consequences on safety and maintenance. The size of the work crew for the MIC plant was cut in half from 12 to 6 workers. Following the accident, the Government of India filed a compensation lawsuit against the UCC for an estimated US\$3 billion. However, UCC felt that the Government of India was to blame for the disaster. In December 1986, UCC filed a countersuit against the GoI and the state of Madhya Pradesh.

The Settlement

Within months after the disaster, the Government of India issued an ordinance appointing itself as the sole representative of the victims for any legal dealings with UCC as regards compensation. The ordinance was later replaced by the Bhopal Gas Leak (Processing of Claims) Act, 1985.

2.9 Study Questions for “Business and the Environment”

Introduction

1. What are some of the life-threatening environmental issues connected with business and industry?

Businesses’ Resistance to Environmental Responsibility

2. What are the four reasons why businesses have such a negative impact on the environment?
3. Why do many businesses in third world countries pose big environmental problems?

4. What is wrong with businesses saying that their environmental responsibility is confined to what the law requires?
5. What is wrong with businesses saying that their environmental responsibility is linked with what will generate a profit?

Examples of Environmentally Unsound Business Practices

6. What is “environmental blackmail”?
7. What are some of the environmental problems associated with nuclear power plants?
8. What reasons do some people give in defense of nuclear power plants?
9. What were some of the negative consequences for Exxon resulting from the Valdez accident?

Three Philosophical Theories of Environmental Responsibility

10. What is the basis of our environmental responsibility according to anthropocentrism?
11. What is speciesism? Discuss critically.
12. What is the basis of our environmental responsibility according to ecocentrism?

Implications for Businesses

13. On what environmental issues do anthropocentrism, animal rights, and ecocentrism overlap?
14. Why should businesses be sensitive to environmental concerns from the anthropocentric and animal rights perspectives?

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Chapter 3

The East and the West

In civilized life, law floats in a sea of ethics

– Earl Warren

Learning Objectives

Many global businesses, including most of the major brands that the public use, can be seen not to think too highly of good business ethics. Many major brands have been fined millions for breaking ethical business laws. Money is the major deciding factor. A business may be a multimillion seller, but does it use good business ethics and do people care? There are popular soft drinks and fast food restaurants that have been fined time and time again for unethical behavior. Business ethics should eliminate exploitation, from the sweat shop children who are making sneakers to the coffee serving staffs that are being ripped off in wages.

3.1 Ethics in Buddhism

Moral conduct for Buddhists differs according to whether it applies to the laity or to the Sangha or clergy. A lay Buddhist should cultivate good conduct by training in what are known as the “five precepts.” These are not like, say, the Ten Commandments, which, if broken, entail punishment by God. The five precepts are training rules, which, if one were to break any of them, one should be aware of the breach and examine how such a breach may be avoided in the future. The resultant of an action (often referred to as karma) depends on the intention more than the action itself. It entails less feelings of guilt than its Judeo-Christian counterpart. Buddhism places

a great emphasis on “mind” and its mental anguish such as remorse, anxiety, and guilt which is to be avoided in order to cultivate a calm and peaceful mind. The five precepts are:

1. *To undertake the training to avoid taking the life of beings.* This precept applies to all living beings not just humans. All beings have a right to their lives and that right should be respected.
2. *To undertake the training to avoid taking things not given.* This precept goes further than mere stealing. One should avoid taking anything unless one can be sure that is intended that it is for you.
3. *To undertake the training to avoid sensual misconduct.* This precept is often mistranslated or misinterpreted as relating only to sexual misconduct, but it covers any overindulgence in any sensual pleasure such as gluttony as well as misconduct of a sexual nature.
4. *To undertake the training to refrain from false speech.* As well as avoiding lying and deceiving, this precept covers slander as well as speech which is not beneficial to the welfare of others.
5. *To undertake the training to abstain from substances which cause intoxication and heedlessness.* This precept is in a special category as it does not infer any intrinsic evil in, say, alcohol itself, but indulgence in such a substance could be the cause of breaking the other four precepts.

These are the basic precepts expected as a day to day training of any lay Buddhist. On special holy days, many Buddhists, especially those following the Theravada tradition, would observe three additional precepts with a strengthening of the third precept to be observing strict celibacy. The additional precepts are:

6. *To abstain from taking food at inappropriate times.* This would mean following the tradition of Theravadin monks and not eating from noon one day until sunrise the next.
7. *To abstain from dancing, singing, music, and entertainments as well as refraining from the use of perfumes, ornaments, and other items used to adorn or beautify the person.*
8. *To undertake the training to abstain from using high or luxurious beds.*

These rules are regularly adopted by members of the Sangha and are followed by the layperson on special occasions.

Laypersons following the Mahayana tradition, who have taken a Bodhisattva vow, will also follow a strictly vegetarian diet. This is not so much an additional precept but a strengthening of the first precept: to undertake the training to avoid taking the life of beings. The eating of meat would be considered a contribution to the taking of life, indirect though it may be.

The Buddhist clergy, known as the Sangha, is governed by 227–253 rules depending on the school or tradition for males or Bhikkhus and between 290 and 354 rules, depending on the school or tradition for females or Bhikkhunis. These rules, contained in the Vinaya or first collection of the Buddhist scriptures, are divided into several groups, each entailing a penalty for their breach, depending on the seriousness of that breach. The first four rules for males and the first eight for females, known as parajika or rules of defeat, entail expulsion from the Order

immediately on their breach. The four applying to both sexes are: sexual intercourse, killing a human being, stealing to the extent that it entails a jail sentence, and claiming miraculous or supernormal powers. Bhikkhunis' additional rules relate to various physical contacts with males with one relating to concealing from the order the defeat or *parajika* of another. Before his passing, the Buddha instructed that permission was granted for the abandonment or adjustment of minor rules should prevailing conditions demand such a change. These rules apply to all Sangha members irrespective of their Buddhist tradition.

The interpretation of the rules, however, differs between the Mahayana and Theravada traditions. The Theravadins, especially those from Thailand, claim to observe these rules to the letter of the law; however, in many cases, the following is more in theory than in actual practice. The Mahayana Sangha interprets the rule not to take food at an inappropriate time as not meaning fasting from noon to sunrise but to refrain from eating between mealtimes. The fasting rule would be inappropriate, from a health angle, for the Sangha living in cold climates such as China, Korea, and Japan. When one examines the reason that this rule was instituted initially, the conclusion may be reached that it is currently redundant.

It was the practice in the Buddha's time for the monks to go to the village with their bowls to collect food. To avoid disturbing the villagers more than necessary, the Buddha ordered his monks to make this visit once a day, in the early morning. This would allow the villagers to be free to conduct their day to day affairs without being disturbed by the monks requiring food.

Today, of course, people bring food to the monasteries or prepare it on the premises so the original reason no longer applies. As many of you would be aware, in some Theravadin countries, the monks still go on their early morning alms round, but this is more a matter of maintaining a tradition than out of necessity. Also, a rule prohibiting the handling of gold and silver, in other words – money – is considered by the Mahayana Sangha a handicap were it to be observed strictly in today's world. They interpret this rule as avoiding the accumulation of riches which leads to greed. Theravadin monks tend to split hairs on this rule as, although most will not touch coins, many carry credit cards and check books.

Going back to the early history of Buddhism, Emperor Asoka, who, after a bloody but successful military campaign, ruled over more than two-thirds of the Indian subcontinent, suffered great remorse for the suffering that he had caused, banned the killing of animals, and exhorted his subjects to lead kind and tolerant lives. He also promoted tolerance towards all religions which he supported financially. The prevalent religions of that time were the sramanas or wandering ascetics, Brahmins, Ajivakas, and Jains. He recommended that all religions desist from self-praise and condemnation of others. His pronouncements were written on rocks at the periphery of his kingdom and on pillars along the main roads and where pilgrims gathered. He also established many hospitals for both humans and animals. Some of his important rock edicts stated:

1. Asoka ordered that banyan trees and mango groves be planted, rest houses built, and wells dug every half mile along the main roads.
2. He ordered the end to killing of any animal for use in the royal kitchens.

3. He ordered the provision of medical facilities for humans and beasts.
4. He commanded obedience to parents, generosity to priests, and ascetics and frugality in spending.
5. All officers must work for the welfare of the poor and the aged.
6. He recorded his intention to promote the welfare of all beings in order to repay his debt to all beings.
7. He honors men of all faiths.

The Buddhist work ethic and business and professional ethics would, ideally, be closely tied to respect for the environment. It is well described in E. F. Schumacher's book *Small Is Beautiful*:

While the materialist is mainly interested in goods, the Buddhist is mainly interested in liberation. But Buddhism is the Middle Way and therefore in no way antagonistic to physical well being. The keynote of Buddhist economics is simplicity and non-violence. From an economist's point of view, the marvel of the Buddhist way of life is the utter rationality of its pattern – amazingly small means leading to extraordinarily satisfying results.

Ken Jones in a paper called "Buddhism and Social Action" comments:

Schumacher outlines a 'Buddhist economics' in which production would be based on a middle range of material goods (and no more), and on the other a harmony with the natural environment and its resources.

The above principles suggest some kind of diverse and politically decentralised society, with co-operative management and ownership of productive wealth. It would be conceived on a human scale, whether in terms of size and complexity or organisation or of environmental planning, and would use modern technology selectively rather than being used by it in the service of selfish interests. In Schumacher's words, 'It is a question of finding the right path of development, the Middle Way, between materialist heedlessness and traditionalist immobility, in short, of finding Right Livelihood'.

Despite the theory surrounding Buddhist business practice, greed still seems to be the order of the day in many Buddhist countries. In Thailand, a monk in the north, Acharn Ponektajadhammo, has been leading a campaign against the environmental vandalism of the timber industry. Tree felling in Northern Thailand has caused erosion and flooding and has economically ruined small farmers. For his environmental efforts, Acharn Ponektajadhammo has had death threats and was recently arrested. In Japan, another country where the majority of the population is Buddhist, the killing of whales and dolphins is still prevalent. Animals seem to find no place in the group culture of Japanese society.

As may be seen from the foregoing, Buddhist ethical principles are very noble, and in an ideal world their practice would lead to peace and harmony, but, unfortunately, as the Buddha has taught, people are motivated by greed hatred and delusion – even Buddhists (<http://www.buddhanet.net/e-learning/budethics.htm>).

Although Buddha and his principles were around long before technology and the businesses of today, they can still be applied effectively. This is a mainstream topic and there are already dozens of books being sold to consultants who spread the doctrine in the boardroom. For instance, businessmen and businesswomen have been applying Buddhist principles in order to cut inventory and reduce the costs for chain supply. Buddhist principles also teach that it is necessary for its followers to minimize their attachments.

Another principle of Buddha teaches that you should be mindful and avoid doing work that causes harm to yourself or others. Now, this doesn't mean that we should all be counselors or social workers. Following Buddha doesn't have to mean taking the road to poverty just to satisfy everyone either. It's important that we be mindful at all times while doing the work we do, no matter what our business is.

One of the main things learned through Buddhism is discipline, having the discipline to not overreact in stressful situations or overindulge in the money-making aspects of business. Keeping calm, cool, and collected and remaining humble are very important. To give you a better idea of how followers should imitate, imagine a monk working at Wall Street or as an executive for a large financial corporation. Implementing Buddhism in the workplace can relieve stress and make you happier all around. If you think about it, our work has a great impact on our lives, so if we're happy at work, we're more likely to be happy at home. Balancing your work, spiritual, and personal life can affect the outlook on everything. Buddhism teaches compassion, meditation, livelihood, and, as mentioned earlier, mindfulness (<http://www.prlog.org/10365858-implementing-buddhism-principles-in-business-robin-trehan.html>).

3.2 Jainism and Ethics

Jainism and ethics both are related. Business ethics and aparigraha or non-possessiveness preservation are part of the Jain's religion principles. Aparigraha or non-possessiveness is the moral ethics of Jainism which provides the solutions for life management as well as solutions for social, economical, and environmental problems.

Principle of *aparigrahavāda* – doctrine of non-possession – is applicable in solving the social and economical problems such as poverty and inequality, ecological problems (management of natural resources and environmental protection), and also in the field of business crisis and management.

Charitra dharma is a Jain ethics having two main components:

1. Ethics – *Charitra dharma*
2. *Shrut* or philosophy:
 1. Jainism is founded on the equality of all living beings – to an extent – it puts all nonliving beings also on a status of respect. Hence, Jainism represents the highest standard of ethics ever. Jainism stresses on the importance of controlling the senses including the mind, as they can drag one far away from true nature of the soul.
 2. Limit possessions and lead a life that is useful to yourself and others.

Non-possessiveness is the balancing of needs and desires while staying detached from our possessions.

The second foundation is Jainism's philosophy, which stresses on *ahimsa* (nonviolence) as *ahimsa* is said to be the supreme religion and *himsa* is considered to be source of all evil and of all miseries.

3.2.1 *Business Ethics and Jainism*

Jainism core beliefs and values: According to Jainism, the following are the core beliefs, i.e., spiritual principles, of human beings:

1. Every living being has a soul.
2. Every soul is potentially divine, with innate qualities of infinite knowledge, perception, power, and bliss (masked by its karmas).
3. Right faith (right vision), right knowledge, and right conduct (known as triple gems of Jainism) provide the guidance for business management and also provide the way to self-realization.

A major characteristic of Jain belief is the controlling of mind – one's unconquered mind with anger, pride (ego), deceit, greed, and uncontrolled sense organs is the powerful enemy of humans. Anger spoils good relations, pride destroys humility, deceit destroys peace, and greed destroys everything. Jainism recommends conquering anger by forgiveness, pride (ego) by humility, deceit by straightforwardness, and greed by contentment.

Purity of mind: Purity of environment will bring purity of mind. Purity of mind will make a nation to progress. Jainism provides practical solutions for mankind to follow and live. Jainism is a religion of love and dharma of truth. We learn love, compassion, and respect for all living beings, big and small, from Jainism (Chandra 2010).

3.3 The Ethics in Vedanta

The Gita which expands and explains the ethic of Vedanta emphasizes that the activities of the world must go on. We should so act that thereby the world improves in the coming generations. The Vedanta ethic is not for the advancement of the individual but of the world as a whole, advancement in the best sense of the word. The world is peopled by ourselves reborn and so there is an intimate connection between our spiritual improvement and the future of the world. We leave conditions behind for posterity not only in the environment, but according to the doctrine of rebirth we decide the character of the future population by our thoughts and acts. Like good people who plant trees for their children, we should work to improve humanity by improving ourselves for future births, even though there may be no continuity of memory and identity of personality. Otherwise, the world cannot become progressively better as we all desire it should.

The good man should do the tasks to which he is called and which appertain to his actual place in society. Whatever be the position to which he may aspire, his actual place in society for the time being determines his obligations in the general interest. In all his activities he does things like others outwardly, but inwardly, he maintains a spirit of detachment. He does everything like others but without any selfish motive. He maintains equilibrium of mind in success and failure, in pleasure

and pain, and in joy and sorrow. Purified thus, the good man is qualified for further progress by meditation and prayer.

The way of life that is prescribed in Vedanta is called Yoga in the Gita. It consists in maintaining a detached mind while participating in all the affairs that appertain to one's place in society. The great secret is that work should be done in a spirit of duty performed and dedicated to God. Results should not be permitted to agitate the mind. The results do not belong to the doer. They may form the subject matter of fresh duties but should not be allowed to become cause for mental excitement.

This unselfish and detached attitude can and should be cultivated even while we are diligently engaged in life's activities. "Do everything with detachment and dedicate it to Me. This ever of me. This is *buddhiyoga*. Practice it and I shall enable you to overcome all difficulties."¹ The Gita establishes this truth. The essence of the Vedantic life consists in the unbroken practice of this attitude.

The Vedantin always bears in mind that within him and in every object in the world, living and nonliving, dwells the Supreme Soul. He will not give room in his mind to feelings of lust or anger or longing for sensual pleasures. He performs fully, carefully, and conscientiously, though without developing attachment, all the duties that devolve upon him as a result of the position he occupies by birth or as a result of events and circumstances. Duties arise because of the place one occupies in society. There is in truth no superiority or inferiority in the various tasks devolving on individuals or groups in any social order, all being equally necessary of performance for the maintenance and welfare of society. They should all be performed in a spirit of cooperation and unselfishness. This spirit ennobles and equalizes all the tasks which devolve on one.

Discrimination by its evil strength, and puts it out of action. Realizing this danger, do thou exercise the inherent strength of thy soul and defeat this elusive and terrible enemy and save yourself.²

Let no one say to himself that this schedule of conduct is not for him who is an ordinary man but for saints and sages. Even a little effort in this direction, assures the Gita, will yield great fruit.

There is no waste in this. It is not like the rule of medicine by which if one fails to follow the prescribed diet in any respect, the medicine not only does no good but does harm. There is no such danger arising out of defects and imperfections in following the discipline herein taught. Even a very little effort in following this rule will protect one from great danger.³

The Gita lays down and repeatedly emphasizes an important warning: do not be tempted by philosophy to inaction.⁴ It is inevitable for everyone to act according to his nature, and therefore, inaction is futile and leads to consequences worse than what is sought to be avoided.⁵ Freedom lies in the effort to avoid passion and hatred

¹ This is Sri Krishna's pledge in the Gita (XVIII-57).

² Gita III, 37-43.

³ Gita II-40.

⁴ Gita II-47.

⁵ Gita XVIII-59, besides many other places.

and giving the right shape to what issues from the urge of one's own nature. Do therefore the work that falls to your share with detachment and find joy in sacrificing your own pleasure for the advantage of others. Do not try to find peace in inaction and confuse it with sanyas. Renunciation or sanyas consists in the detachment with which one acts and not in inaction. When one's nature maintains internally the urge for action, as it must, it is detachment, not abstinence, that is called for. Inaction with the urge alive inside leads only to hypocrisy and shame.

All this that was written in the Gita is remarkably anticipatory of the copious modern literature about repression and suppressed complexes.

The question may be asked, how can it produce any enthusiasm to be told that something will be fruitful in a future birth? We shall be born in the next birth without any memories of the past. We do not now remember anything of our past lives nor will the memories of this life follow us in the next birth. Therefore, why does it matter whether we do good or evil? Let us seek the pleasures of the present moment. If I am born again as you say, I shall then be a different person remembering nothing of the present. When there is no continuity of memory there is no bond between him and me. How can one feel an identity without continuity of memory? Why should I labor, renounce, or retrench my joy for one who will come to exist who is not me? For with death the memories of this life end.

Thus, may the seeker of pleasure or student of human incentives object to the teaching of Vedanta about right conduct and self-control for the sake of a future birth whereunto the go-memory is not conveyed.

The answer is that the joy of right conduct is inherent in human nature. There is a hunger in the soul which mere self-seeking and momentary pleasures cannot satisfy. This stands confirmed by the inner feeling of everyone of us, by experience as well as by all history recorded and unrecorded. Members of a family work for the good of the family and of the village. We see ordinary men suffering privations for the sake of others whom they have never even seen. People are not indifferent to the good of their village or town. We see that numerous men sacrifice their self-interest and suffer for the good of the State and for the safety of their country. What is important to remember is that in all this, they derive a joy apart from and independent of any belief in promises or expectations of rewards for such conduct. We do not know who will enjoy the shade of the trees that we plant on the roadside, but we plant them so that men of future generations may enjoy their shade. We take real pleasure in all such work. We should widen this broad-mindedness to a further degree and think of the good of the whole world and its future happiness. The future of the world is in our hands. We can people it with good men if we choose to act according to this teaching. If we accept the law of cause and effect with its extension to future births, then, if we live the Vedantic life, the growth of evil will be stopped. The souls that will inhabit the future world will progressively rise to a higher stage.

We have seen with our own eyes the progressive improvement of livestock and the health of men as a result of care and attention bestowed even in one generation. What we have seen in the physical world applies to the minds and souls of men also. If the postulates of Vedanta are accepted, the Vedantic ethic is spiritual eugenics. The object of right living to a Vedantin is twofold: one's own true happiness and one's

contribution to a better world irrespective of disconnection in memory when we are reborn. The appeal of Vedanta is based on a feeling of oneness with the world and responsibility for its future. Social and civic cooperation permanently benefits the town or village wherein one is a citizen; patriotism benefits the future generations of the country to which one belongs; Vedanta seeks the welfare of the future world of which we are the present builders. If we live detached and dedicated lives as Vedanta lays down, the world will be peopled by better men as time goes on. It is after all a comparatively selfish pleasure that would come of a memory of personality in rebirth.

A soldier in the army does not wish to know the names and particulars of the people who will benefit by his bravery and death. The Vedantin is a citizen of the world and a soldier in the world's army in a totally non-martial but no less heroic war against evil, the more heroic since he seeks no personal reward.

The call of ultimate reality heard in the recesses of noble hearts is by itself something which has led earnest seekers into the transcendental. Those who have drunk deep of the awe and beauty of the universe and to whom the lofty achievements of science have revealed extended horizons and as yet undiscovered realms of enchantment cannot find satisfaction in shallow faiths and crude anthropomorphism.

The mysticism involved in Vedanta relates the good life to truth and science. The conflict between religion and science is replaced and healed by harmony and integrated thought.

Vedanta offers a religious faith that can have no quarrel with the scientists who work in the laboratory or with the geologists who do research in the history of the physical world, and yet it offers a firm spiritual foundation for the just polity of a new world (Rajagopalachari 1959).

3.4 The Philosophy of Justice: John Rawls, Amartya Sen, and Robert Nozick

Rawls' two principles of justice known as the principle of equal liberties and the combined equal opportunity and difference principle are intended to govern the basic structure of society. They are part of what Rawls calls a "political conception of justice." They determine whether the sociopolitical order is a just one or not. But even with these principles, we still require more guidance so as to know what our concrete duties and obligations are Rawls (1971).

3.4.1 "Natural" Duties

First, he recognizes a class of ("natural") duties that "apply to us without regard to our voluntary acts." These can be defended from the original position by much the same logic as the two principles of justice intended to govern the basic structure. Rawls says "the principles that hold for individuals, just as the principles for institutions,

are those that would be acknowledged in the original position” (TJ, 115). In other words, these are principles that representative persons in the original position would have chosen to govern individuals in a real society. They differ from the two (basic) principles of justice in that they directly govern individual (and corporate) conduct but do not directly govern the basic social, political, and economic framework.

Among the “natural” duties are the following:

1. The “duty not to be cruel” (114)
2. The duty not to injure and the duty not to harm the innocent (chart, 109)
3. The “duty to help one another” (114, 338)
4. The duty of justice
5. [which] requires us to support and comply with just institutions that exist and apply to us ... to further just arrangements not yet established, at least when this can be done without too much cost to ourselves (115)
6. A “duty of mutual respect” (337)

“Natural” duties, together with what Rawls calls obligations, make up the set of what Rawls calls requirements. Requirements are moral rules that govern the conduct of individuals. Obligations, as Rawls defines the category, arise from the application of the principle of fairness.

3.4.2 *The Principle of Fairness*

In his theory of justice, Rawls recognizes what he calls the principle of fairness. This principle of fairness should not be confused with the two principles of justice, which are at the heart of Rawls’ theory of (social) “justice as fairness,” or what Rawls calls in his recent writing “a political conception of justice.” We could call this principle of fairness a bridge principle (PF as BP) because it is the bridge or link between the two principles of social or political justice and individual obligations to comply with specific social practices. The principle of fairness (PF as BP) is one of the principles that applies to individuals. Rawls says that he will try to use this principle “to account for all [moral] requirements that are obligations” (111). Obligations, Rawls explains, arise out of our voluntary acts ... The content of obligations is always defined by an institution or practice the rules of which specify what it is that one is required to do. And finally, obligations are normally owed to definite individuals, namely, those who are cooperating together to maintain the arrangement in question (113).

Rawls thus distinguishes between “natural” duties, which apply regardless of whether we have voluntarily opted into a practice, and obligations, which assume that we have in some sense “taken them on” by voluntarily participating in a practice. The duty not to be cruel holds regardless of whether the person towards whom the moral agent is acting is participating in a practice the moral agent has voluntarily joined. The requirement not to be cruel is a (“natural”) duty in Rawls’ sense, not an “obligation.”

The principle of fairness (PF as BP) holds that a person is required to do his part as defined by the rules of an institution when two conditions are met: First, the

institution is just ... that is, it satisfies the two principles of justice; second, one has voluntarily accepted the benefits of the arrangement or taken advantage of the opportunities it offers to further one's interests (111–12; see 342–43).

3.4.3 Rawlsian Support for the Contract Theory of Manufacturers' Duties to Consumers

The two most important middle-level theories that govern interactions between manufacturers and marketers are (1) the Contract Theory and (2) the Due Care Theory.

In brief, the Contract Theory states that manufacturers and marketers must follow four duties in relation to the buyer. They must fully disclose the nature of the product or service; they must not misrepresent the product or service; they must not coerce the prospective buyer into agreeing to the sale; and finally, once the contract is agreed to, there is a duty to comply with the terms of the contractual agreement.

We see that the Contract Theory receives general endorsement from Rawls. In effect, the Contract Theory can be seen as a restatement of the principle of fidelity, which in turn is an application of the principle of fairness, which in turn (along with the two basic principles of justice) would be endorsed from the original position.

1. Representative persons in the original position would acknowledge:
2. Two principles of justice and the principle of fairness (the bridge principle). The application of the latter to promising generates:
3. The principle of fidelity, which, applied to the double promise of a contract, generates:
4. Contract Theory

The Contract Theory is endorsed by Rawls only "for the most part." Should it turn out that the result of numerous apparently free contractual exchanges violates the basic two principles of justice, the Contract Theory could not be endorsed without further qualification. In other words, should a system of pure contractual exchanges violate these principles, additional constraints might need to be added to correct for the social injustice that has emerged.

One obvious area in which the Contract Theory would be limited by Rawls' two principles of social justice is slavery. In a slave-owning society, slaves are typically bought and sold on the market and thus are the subjects of contractual arrangements. But this application of contracting violates the basic principle of equal basic liberty because it is implied in this principle that freedom from slavery is a basic liberty not to be violated.

3.4.4 Rawlsian Support for Due Care

The basic idea of the Due Care Theory of manufacturers' obligations to consumers is that since manufacturers have much greater knowledge and power than their consumers, they have a special obligation to look out for the interests of the buyers

(and members of their households) and above all to take special care to make sure that the buyers are not harmed by manufacturers' products. Due Care Theory starts from the assumption that the rough equality that exists between those who form truly voluntary contracts does not characterize many relationships between sellers and buyers in a technologically complex world where the sellers are large corporations.

One might give a Rawlsian defense of the principle of due care from two perspectives. One approach might take Due Care Theory to be an application of the natural duties not to injure people and not to harm the innocent, and one could make the case that negligent design or production of defective products that harm customers violate the rule of noninjury.

But it seems to me the more meaningful approach is to regard the principle of due care as part of a mutually beneficial practice and the failure to exercise due care as a kind of failure in fairness, a lack of respect for the generally understood rules of this particular practice.

Rawls (1971) in his *Theory of Justice* articulates the principles of Justice (pp. 259–65) that might underlie a democratic state. In order to arrive at these, Rawls revives the notion of a social contract while arguing that people would prefer to live in a society where there was equal liberty with a minimum of social and economic inequities. He rejects utilitarianism on the ground that it allows the rights of some people to be pushed aside for the greater good of society. His just social contract is one we would agree on, providing we did not know in advance what it would mean to us individually. This is an echo of Adam Smith's doctrine of the "impartial spectator" whose assumed disinterested judgment we should use to distinguish right from wrong in any given situation or society (Smith 1984). The concept of the impartial spectator would seem useful for judging the relative merits in an equity dispute. However, to many, this would seem more properly to be the domain of ethical theory.

Standard economic theory views people as rational maximizers of "utility" who are rational to the extent that they select the most efficient means of achieving the goal of maximizing utility (Hollis 1987, 1996). Rationality, in this context, is defined as the pursuit of ends in the most efficient way, and the most well-known theory of this version of rationality is the economist's rational choice theory (RCT) that explains rational behavior in terms of maximizing expected utility. RCT is a method of modelling behavior on the supposition that individuals are rational agents who optimize, through considerations of costs and benefits. The notion of utility maximizing in self-interest is the key notion in all variations of rational choice theory.

3.4.5 Rational Choice Theory (RCT) and Amartya Sen

In terms of its basic tenets, the use of RCT is extensive. Alan Ryan (2003), in a review of Amartya Sen's (2003) *Rationality and Freedom*, points out that the prestige of economics, among the other social sciences, is such that sociologists, legal scholars, and political scientists have been applying its analytical methods to their

own disciplines under the label of rational choice theory (RCT). Ryan claims RCT appeals to those academics in social science that yearn for the kind of consensus they see among economists about the standards for good professional work. Ryan might also have included biology, theology, politics, and history (Alan Ryan 2003).

3.4.6 *Nozick's Decision-Value Model*

Robert Nozick was Arthur Kingsley Porter Professor of Philosophy at Harvard until his death a few years ago, being generally considered one of the major philosophers in America. His well-known book *Anarchy, State, and Utopia* won the National Book Award in 1975. Nozick's decision-value model (1993) has yet to receive recognition in the marketing literature even though Nozick's model focuses on the inadequacies of decision theory as a descriptive model of what actually occurs. Nozick's model offers a more overall view of rationality in decision making than alternative approaches. It constitutes a model that is universal in application, not just applicable to equity issues (Nozick 1993).

Nozick moves away from the simplistic view of rationality being exclusively concerned with consequentialist thinking about gains and losses (what Nozick describes as causal utility) to highlight the importance of symbolic utility in that actions can symbolize or stand for something. The notion of symbolic utility is of the utmost importance to marketing and the consumer in that so much of buying is concerned with symbolism. Nozick's notion of evidential utility modifies and adds to the realism of the concept of expected utility. The other elements add clarity and realism to a model concerned with rationality. Nozick's model should be a major perspective in looking at consumer decision making and provide a basis for generating and testing hypotheses. The model has an elegance and coherence without sacrificing realism for abstraction.

More specifically, Nozick argues we should more realistically talk about maximizing decision-value rather than maximizing utility. For Nozick, causally expected utility is that which relates means to ends. But this is just one component of rationality. Nozick conceptualizes rational decision making, not as consisting merely of causal utility (relating means to ends), but as taking into account three other elements:

First Element: rational action accords with principles:

1. Acting in a consistent way in like circumstances.
2. Coordinating actions to give greater coherence to one's life.
3. Ensuring others can depend on our principled behavior and that we benefit from others so depending on us.
4. Taking the long view rather than seeking instant gain.

Nozick (1993) thinks of principles as going beyond being mere rules, being deeper and less mechanical, and capturing the notion of acting for reasons. And consumers do act for reasons. Enunciating principles constitute a form of binding to

what the principles mandate. But in developing principles on which to act, Nozick argues we should not be simply concerned with basing them on consequentialist thinking about gains. Thus, for example, ignoring sunk costs is not appropriate as a universal principle of decision making as it would mean violating trust by treating past commitments to others as of no account unless directly tied to gain.

Second Element: The decision rule of maximizing expected utility is inadequate as account should be taken of symbolic utility and evidential expected utility. Causally (expected) utility cannot be the whole of rationality since rationality is more than instrumentality. In pursuing this claim, Nozick highlights three different modes of connecting action to outcome, namely, causal, evidential, and symbolic.

What the Nozick (1993) model does, though, is allow us to consider equity issues under the rubric of rationality without trying to incorporate equity into a maximizing utility or cost/tangible benefit format. Consumers have a sense of themselves as moral agents with their buying often symbolizing/expressing ethical values, but they also have an image of themselves as not being taken in and avoiding unfair deals. Whatever concerns the consumer has the potential to arouse the emotions, and whatever consumers get emotional about is a guide to their concerns (Nozick 1993).

Case Study Six

Rational Decision-Making Model: Soccer Betting in Hong Kong

After the soccer World Cup in 1998, soccer betting became increasingly popular and widespread, both in terms of the number of people participating in it and the betting money involved. But there was no any legal gambling outlet for soccer betting in Hong Kong. Consequently, local punters tended to place betting on cross-border illegal gambling outlets.

For almost three decades prior to the late 1990s, legal sports betting in Hong Kong seemed to serve two major purposes very effectively. Government regulation provided a safe and reliable way for Hong Kong residents to wager, primarily on local horse races, at the same time providing for a steady stream of both tax revenues and charitable funds for local social service agencies, schools, and parks. In the late 1990s, however, the closed doors of Hong Kong gambling were forced open by introduction of new technologies such as cable television, inexpensive cell phone service, and the advent of the Internet. Illegal gambling, especially on international soccer matches, boomed. As a result, the Hong Kong Home Affairs Department was forced to consider how to control the new wave of illegal gambling, which had cost the government and local charities millions of dollars in potential lost income and was threatening to provide a steady income for organized crime.

A comparison study was compiled by Hong Kong Polytechnic University for the Home Affairs Bureau in 2001. On June 22, 2001, the Government of Hong Kong Special Administrative Region released a consultation paper to the public on its gambling policy. On November 26, 2002, the Government announced its intention to authorize and regulate soccer betting as a mean of tackling the problem of illegal soccer gambling in Hong Kong. The coalition handed in protest signatures and held a press conference. This was followed by a seminar on the consultations paper on July 7. The consultation lasted for 3 months.

On December 13, 2002, Mr Tung Chee Hwa gave a speech explaining how he believed allowing soccer betting would be good for Hong Kong. There were two main objectives of the policy change: firstly, to tackle the problem of illegal gambling and, secondly, to stick with a proven record of success by asking Hong Kong Jockey Club to develop and operate an authorized soccer betting system in Hong Kong. In April 2003, the Government introduced the Gambling (Amendment) Bill. On July 9, 2003, there was the second reading of Gambling (Amendment) Bill in Legislative Council. Thirty-three were in favor compared to twenty-five opposed to the legalization of soccer gambling. Finally, on July 10, 2003, in the third reading of Gambling (Amendment) Bill, 30 were in favor of introducing the bill versus 24 against in the Legislative Council, and thus, the law was enacted.

After the comparison of the theoretical rational decision-making model with the practical Government decision-making process, it can be understood that the legalization of soccer betting is a rational policy decision taken to significantly reduce the problem of illegal soccer betting. According to our case study, the Government’s policy making in this matter has represented a rational policy process as it follows the five sequences of the rational decision-making model:

1. *Identify the problems, goals, and objective*
2. *List all the alternative means to the problems*
3. *Estimate all the consequences of the means*
4. *Compare all the alternatives*
5. *Choose the most suitable policy*

The Government included all of the above steps, and procedure rationality was present throughout enabling the achievement of a rational and effective final decision – the legalization of soccer betting.

The social problem arise is like the evolution of bacteria which requires new measures to cure. It clearly shows that the Government has tried its best to solve the problem and follows the long-established gambling policy to tackle those new challenges.

In fact, the role of rationality in public policy making provides a framework for understanding, evaluating, and discussing of the presence of policy problems. It is a useful tool to analyze, criticize, and justify particular policies. The rational model speaks of economic and technical rationality and prescribes what sort of policy analytical model the Government should adopt (benaston.com/).

3.5 Study Questions for “Doing Business in Emerging Economies”

Bribery in Third World Countries

1. What is the definition of bribery and how does it differ from extortion and gift giving?
2. What are the two main arguments usually given in favor of bribery?
3. What is the main problem with both of the arguments for bribery?
4. What penalty did Lockheed pay when it was caught in a bribery scandal?

Endorsing, Influencing, and Opposing Foreign Governments

5. What problems might arise when a multinational sets up in right-wing country and left-wing foreign countries, respectively?
6. During the 1970s and 1980s, some critics argued that US companies should leave South Africa. What were some of their reasons?
7. What were the negative consequences of ITT interfering in Chile's government in the 1970s?

Exploiting Third World Countries

8. What are some ways that multinationals exploit third world countries?
9. What were the principal irresponsible actions of Union Carbide in the Bhopal explosion?
10. What actions of the tobacco companies in third world countries are especially exploitive?
11. What reasons do some multinationals give for not abiding by US standards in third world countries?
12. What external monitoring organizations help assure that multinationals act responsibly?

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Part II
Ethics in Business Practice:
Functional Areas of Management

Ethical Duties towards Others – Truth Telling

– Immanuel Kant

Chapter 4

Ethics in Business Practice: Human Resource Management

There cannot be a situation where a businessman says, "I base all my business on moral considerations." Equally, you can't say you can run a business without morality.

Sir Timothy Bevan (1927–), British banker, said as Chairman of Barclays Bank Ltd, when asked about Barclays' withdrawal from South Africa.

Learning Objectives

Globalization has brought about the concept of globalizing labor, trade unions have started to decline, and the role of HR as such in issues like employee policies and practices has become a debatable topic. In fact, many people are of the opinion that HR is nothing but an arm of the stakeholders through which major strategic and policy decisions are divulged geared towards profit making! Though there can be no single opinion on ethics in HR that is convincing. Market in itself is neither an ethical institution nor unethical, and no policies and procedures alone cannot govern and align markets to human well being. However, the requirement of such policies and procedures can also not be denied. In lieu of this, HR ethics should take care of things like discrimination (sexual, religion, age, etc.), compensation, union and labor laws, whistle blowing, and health and safety of the employees.

Human resource management (HRM) within an international context has grown exponentially within the past three decades with the advent of the World Wide Web and the worldwide increase in the availability of information (Taylor 2007). Competing within a global market has created major economic pressures on organizations, not only because of the costs and competencies required to expand into new markets but as competing international firms expand into one's own existing markets (Hill 2008). Sparrow and Brewster (2006) emphasized that being globally successful includes being (1) competitive throughout the world; (2) responsive locally; (3) flexible, timely, and adaptive to change; (4) efficient; and (5) capable of transferring knowledge and the ability to learn across globally dispersed units.

Within this internationally competitive economic context, Pfeffer (1998a) has argued that high-performance/high-trust work systems can make a meaningful contribution. The “high-performance work organization” is a business concept coined by the US Department of Labor (1993:1) to encourage American businesses to be creative, adaptive, and effective in problem solving in response to an increasingly competitive global marketplace. Research on high-performance management systems have their roots in Peters and Waterman’s (1982) business classic, *In Search of Excellence*, Walton’s (1985) discussion of high commitment management, and Lawler’s (1986) description of high involvement management.

The seven specific management practices of high-performance management systems include:

1. *Employment Security* – Providing employees a safe work environment addresses a crucial human need for safety against possible threats (Nohria et al. 2008:81) and substantially increases the likelihood that employees will be committed to the improvement of productivity without fearing that they are working themselves out of a job (Locke 1995). A company that commits to creating job assurances for employees is also more likely to implement improved selection and hiring practices “because the firm knows it cannot simply let people go quickly if it has overestimated its labor demand” (Pfeffer 1998a, b:67). The management downsizing literature confirms that downsizing results in minimal economic benefits while increasing organizational distrust and lowering morale.
2. *Selective Hiring of New Personnel* – Collins (2001:41) discovered in his study of great organizations that they “get the right people on the bus, the right people in the right seats, and the wrong people off the bus.” Screening for cultural fit and employee attitude from among a broad pool of well-qualified applicants is critical to hiring people who fit an organization’s needs (Pfeffer 1998a, b:74). Enterprise, the fast-growing car rental agency, emphasizes screening applicants based upon attributes that are difficult to change through training and hires its employees based upon basic ability and attitude rather than on technical qualifications which are often easily acquired (O’Reilly 1996).
3. *Self-Managed Teams and Decentralized Decision Making* – Empowering employees is increasingly important in a knowledge-, service-, and wisdom-based economy that requires employees to take initiative and discretionary action in delivering customized service (Covey 2004). Self-managed work teams are “a critical component of virtually all high performance management systems” and results in increased autonomy, job satisfaction, and productivity (Pfeffer 1998a, b:74). Boonzaier and colleagues (2001:12) noted that increased autonomy and discretion substantially improve organizational outcomes and build increased commitment which is the key to long-term wealth creation (Senge 2006).
4. *Comparatively High Compensation Contingent Upon Organization Performance* – Reward systems that contribute to corporate-wide performance and that focus on contributions that distinguish companies from their competitors not only make it possible to successfully compete for key employees who make a critical difference but provide a foundation for meaningful employee incentives that match the

organization's ability to share profits with those who contribute to financial success (Boudreau and Ramstad 2007). Compensation systems communicate to employees whether they are truly valued or whether the organization is merely giving lip service to the importance of employees while treating them as a commodity rather than as a valued asset (Pfeffer 1998a, b:80). Nucor Steel is an outstanding example of a company that offers employees contingent pay, often paying employees more in bonuses than they make in base salary each quarter (Marks 2001:112–113).

5. *Training* – Investing in employees as valued assets in a knowledge-based economy pays off in huge dividends when that training is carefully planned and delivered – particularly in problem solving and in quality improvement (Pfeffer 1998a, b:85). Investments in both technical and nontechnical training have a positive impact on a firm's success in developing knowledge and skills (Fey and Bjorkman 2001:62). Improving the skills of employees in addressing customer needs and eliminating the causes of customer complaints can result in improved long-term profitability and a strategic competitive advantage that is difficult to duplicate (Pfeffer 1998a, b:300–301; Yagiela and Munson 1997). Measuring the return on investment from training is increasingly being recognized as a critical management responsibility in a world where knowledge and information have exploded exponentially (Bersin 2006).
6. *Reduced Status Distinctions and Barriers* – Factors such as dress, language, office arrangement, and wage differentials are being relaxed in many high-performance organizations to create a culture that treats employees throughout the organization more equitably and to acknowledge the role of employees as “owners and partners” (Block 1996). Affirming the importance of people as the source of organization success includes incorporating language that treats all employees with dignity and respect. Providing access to organizational leaders and empowering employees with the opportunity to add their voices in decentralized decision-making processes create a culture that is people oriented and that models the virtues of leadership trustworthiness.
7. *Sharing Information* – Creating a transparent organization that shares key information with employees not only sustains a high-trust culture but enables employees to legitimately contribute to organizational decision making (Bandsuch et al. 2008). Training people to play a key role in the organization requires that employees possess the critical information necessary for them to make well-informed and intelligent decisions.

As human resource managers and organizational leaders strive to build high trust organizational cultures, those who guide their organizations must carefully assess not only the implicit and explicit assumptions of their own social contracts but must also carefully tune in to the perceptions of others (Caldwell and Hayes 2007; Van Buren and Greenwood 2008). Ethical duties owed in responding to complex issues are encompassed in a stewardship obligation that rises to the standard of a covenantal relationship (Pava 2003). Hosmer's (2008) model of ethical leadership provides a valuable framework for examining the subtle nature of ethical obligations

owed to stakeholders and reflects the growing importance of business leaders understanding the implications of their moral choices.

In his highly regarded text, *The Ethics of Management*, LaRue Hosmer (2008:13) argued that “an ethical principle is meaningless unless it can be applied” and defines business rules as “a method of moral analysis that ... would be in the interest of society under all conditions and/or situations.” But Hosmer (2008:5) also noted that moral standards “differ between peoples because the goals, norms, beliefs, and values upon which they depend also differ, and those goals, norms, beliefs, and values in turn differ because of variations in the religious and cultural traditions and the economic and social situations in which the individuals are immersed.” Hosmer clearly understood today’s global business environment that is characterized by constant change, complexity, and uncertainty (Cameron 2003:186).

To resolve the conflicts that inevitably occur in making morally responsible decisions, Hosmer (2008:9–15) posed a series of six steps to follow as a framework for evaluating those decisions:

1. *Recognize the Moral Impacts* – To recognize the moral impacts of a choice, four issues should be addressed. *First*, what individuals or groups are going to be benefitted by the implementation of the decision and what is the financial or personal benefit expected? *Second*, who will be harmed by the implementation of the decision and what is the financial or personal nature of those harms? *Third*, who will be able to more effectively exercise their rights as a result of the proposed action? *Fourth*, whose rights will be denied as a result of the proposed action?
2. *State the Moral Problem* – Defining and precisely articulating the moral problem clarifies the nature of the decision so that it can be effectively communicated without overlooking any stakeholder’s interests. Framing the moral problem as an extended question also acknowledges the concerns of others and validates their interest in decisions to be made. Those concerns, specifically identified as costs, harms, or loss of the rights of one party and benefits accruing to another, can then be carefully addressed in the analysis, discussion, and ultimate conclusions drawn from the development of solutions. Hosmer (2008:9) noted that people from differing backgrounds and cultures view the same issue through their individual lenses and may arrive at substantially different conclusions as to the nature of the moral problems involved because of their culturally based values and assumptions.
3. *Determine the Economic Outcomes* – Economic outcomes accrue as a net benefit over harms for a full society within the context of an open and free market. The economic assumption is that benefits are determinable in the preference expressed for goods and services, in utilizing the money, time, and raw materials of society to maximize societal wealth efficiently. The assumptions implicit in Hosmer’s assessment are (1) all markets must be free, (2) all laws must be obeyed, and (3) all costs must be included in determining economic benefits. Supporting this same position, Hausman and McPherson (1993:673) have argued that virtually all economic choices have a moral outcome and that the morality of economic agents influences their behaviors as well as economic outcomes.

4. *Consider the Legal Requirements* – Legal requirements in moral analysis balance the rights that are empowered or exercised versus rights denied. These legal requirements seek to determine that which is most equitable or evenhanded within the framework of a Veil of Ignorance (i.e., determining fairness and the balance of rights versus wrong if everyone considered the laws to adopt while ignorant of their own self-interests). Hosmer acknowledged the difficulty of focusing on the self-interest of all of society but argued that this Veil of Ignorance model is ideal for evaluating the efficacy of laws. Nesteruk (2004:306) has noted that legal and moral issues are historically intertwined in the analysis of workplace issues.
5. *Evaluate the Ethical Duties* – In assessing ethical duties, moral analysis encompasses obligations owed by members of society to others within that society and often balances personal self-interests with the impacts of actions on society. Ethical duties provide a set of rules that benefit society under multiple scenarios. Although there are many ethical perspectives which call out slightly different outcomes, Hosmer proposed that the essence of morality can be summarized by six universal rules. The table below briefly explains these six universal rules.

Ethical perspective	Explanation of argument	Summary of the rule
<i>Personal virtues</i>	We may each do as we wish and follow our own self-interests as long as we adopt a set of standards for “right,” “just,” and “fair” treatment of others. We ought to do that which makes us proud of our actions and of our lives	<i>Never take any action which is not honest, open, and truthful which you would not be proud to see reported in national newspapers and network television</i>
<i>Religious injunctions</i>	We also ought to live to show compassion and kindness towards others. Both reciprocity and compassion build a sense of community	<i>Never take action that is not kind and that does not build a sense of community in working together for a commonly accepted goal</i>
<i>Utilitarian benefits</i>	We need to evaluate acts in terms of their societal impact. An act is “right” if it leads to greater net social benefits than social harms	<i>Never take any action that does not result in greater good than harm for society</i>
<i>Universal rules</i>	We need to eliminate the self-interest of a person who evaluates a given situation by universalizing this decision process. Choices should be based upon actions that others in a similar situation would be encouraged to take	<i>Never take any action that others in the same situation would not be free or even encouraged to take</i>
<i>Distributive justice</i>	We need rules that protect the poor and uneducated who lack power or the position to achieve their interests	<i>Never take any action in which the least among us would be harmed</i>
<i>Contributive liberty</i>	We need to protect individuals from extremes of the constraints of the law and markets. No one should interfere with the rights of others to seek to improve their legal abilities or their marketable skills	<i>Never take any action that would interfere with other’s rights for self-improvement or self-development</i>

6. *Propose a Moral Solution* – A proposed moral solution must specifically identify the stakeholders affected; the moral issues to be considered; and the corresponding benefits, harms, and associated rights impacted. Management practitioners (DePree 2004) and scholars (Caldwell and Karri 2005; Cameron 2003) have noted that moral solutions must not only positively impact the welfare, growth, and wholeness of all stakeholders but must also contribute to societal wealth creation.

Hosmer's (2008) model provides a framework for evaluating a broad variety of business domains, including the key issues of international human resource management. Following this model enables moral decision-makers to craft a solution that is transparent in its articulation of impacts and that facilitates objective discussion of the tacit values, beliefs, assumptions, and goals associated therewith.

Integrating the Hosmer (2008) framework of ethical management with high-performance work systems applies within an international context, just as those concepts apply within businesses that primarily do business solely within the USA or within any other single country. In this section, we identify five important human resource-related propositions about high-performance systems that have critical moral implications for employees and other stakeholders.

As human resource managers and organizational leaders strive to build high trust organizational cultures, human resource professionals must carefully assess not only the implicit and explicit assumptions of their own social contracts but must also carefully tune in to the perceptions of others (Caldwell and Hayes 2007; Van Buren and Greenwood 2008). Ethical duties owed in responding to complex issues are encompassed in a stewardship obligation that rises to the standard of a covenantal relationship (Pava 2003). Hosmer's (2008) model of ethical leadership provides a valuable framework for examining the subtle nature of ethical obligations owed to stakeholders and reflects the growing importance of business leaders understanding the implications of their moral choices.

Case Study One: Sexual Harassment at Infosys: Reka Versus Phaneesh and Infosys

Phaneesh was an integral part of Infosys' success story. While Chairman and Chief Mentor Narayana Murthy and a few others established Infosys in India back in 1981, Phaneesh successfully set up the company's overseas businesses.

He was often called the "other Murthy" of Infosys and had many admirers within and outside the company. Not surprisingly, he was the highest paid executive in the company with a take home package of Rs 20 million. Belonging to a middle-class South Indian family, Phaneesh graduated from one of India's premier business schools. Before joining Infosys, Phaneesh was working with another software company, Sonata Software, as a regional manager. He was said to be one of the main reasons for the company's good performance. In 1992, Phaneesh joined Infosys, then a \$ 2 million company with a negligible presence in the USA. Within 3 years, Phaneesh became the head of sales at the company, and in 1996, he was made the head of worldwide sales.

Even as uncertainty about the outcome of Reka's suit continued, Phaneesh seemed to have moved on. Media reports mentioned how many IT companies in India were trying to lure him to work for them. It was also reported that Phaneesh

was planning to promote his own business process outsourcing (BPO) firm. Infosys meanwhile issued a press release that categorically stated that Phaneesh would not be taken back after the case was settled. In December 2002, Phaneesh and his wife Jaya Murthy launched Primentor (in California), an advisory firm, to outsource consulting for clients and vendors.

For clients, the services were to include partner/vendor selection, deal structuring, and ongoing contract administration; for vendors, the services were to include strategy consulting, service definitions, brand consulting, blueprints for the future, sales, and account management training...At the press conference, Narayana Murthy, Nilekani, and Mohandas Pai (among others) made public the entire sequence of events in the case. Firstly, Narayana Murthy made it very clear that Phaneesh was very much a party to the settlement deal and that he had signed the documents himself. Also, Infosys had reserved the right to proceed against him for his conduct and for the fact that he did not contribute financially to the settlement. Nilekani said that Phaneesh had first mentioned the lawsuit to him in January 2002, portraying it as a very minor issue.

Recollecting the events, Nilekani said, "He told me he was innocent and that the charge was without merit, and the company was not at risk. He did not tell me anything else about the relationship or the other matters of things being filed against the company." However, when the issue became more serious in June 2002 and Infosys was served a legal notice, the company's board stepped in.

Infosys Moves On

At the press conference, Narayana Murthy did not answer a question about the fact that Reka did not seek redressal of her grievances through the company's internal systems. However, his refusal to answer did not necessarily mean that the company's internal systems were still not equipped to handle such problems.

In fact, Infosys had taken several measures to strengthen its grievance redressal procedures and had designed and implemented an effective sexual harassment policy. Narayana Murthy said, "The litigation is behind us. We have taken further steps to strengthen our internal processes and improve the checks and balances to handle similar situations." Mohandas Pai added, "We have conducted several training programs, widened the dissemination of information and met employees on this issue." Infosys conducted a course for all its officers and members (in India as well as abroad) on sexual harassment and the importance of being sensitized about the issue. The code of conduct provided in the employee manual was modified in line with the above decision.

Lessons to Be Learned

Though out-of-court settlements were the norm for most workplace sexual harassment suits the world over, it clearly was not the best solution. Instead of addressing the problem, this solution simply paid off the victim, so that the accused could walk away. The larger issue of the emotional, physical, and financial damage caused to the victim could be dealt with only if strict policies and guidelines regarding sexual harassment were established by the companies for a note on preventing sexual harassment at the workplace.

4.1 Glass Ceiling Effect in HRM: The Discrimination

In economics, the term glass ceiling refers to situations where the advancement of a qualified person within the hierarchy of an organization is stopped at a lower level because of some form of discrimination, most commonly sexism or racism.

Sexual discrimination was outlawed in the USA through the Civil Rights Act of 1964 in the hopes of allowing women to rise in the working world once proper experience has been achieved.

The term “glass ceiling” has been thought to have first been used to refer to invisible barriers that impede the career advancement of women in the American workforce in an article by Carol Hymowitz and Timothy Schellhardt in the March 24, 1986, edition of the Wall Street Journal. However, the term was used prior to that; for instance, it was utilized in a March 1984 Adweek article by Gay Bryant. The term glass ceiling was used prior to the 1984 article by two women at Hewlett-Packard in 1979, Katherine Lawrence and Marianne Schreiber, to describe how while on the surface there seemed to be a clear path of promotion, in actuality women seemed to hit a point which they seemed unable to progress beyond. Upon becoming CEO and chairwoman of the board of HP, Carly Fiorina proclaimed that there was no glass ceiling. However, the term was used by the US Department of Labor in 1991 in response to a study of 9 Fortune 500 companies. The study confirmed that women and minorities encountered considerable glass ceiling barriers in their careers; these barriers were experienced earlier in their professions than previously thought.

Senator Hillary Clinton used the term glass ceiling in her concession speech as she withdrew from the 2008 democratic primary: “And although we weren’t able to shatter that highest, hardest glass ceiling this time, thanks to you, it’s got about 18 million cracks in it.”

Types of glass ceiling barriers:

- Different pay for comparable work
- Sexual, ethnic, racial, religious discrimination, or harassment in the workplace
- Lack of family-friendly workplace policies (or, on the flipside, policies that discriminate against gay people, nonparents, or single parents)
- Exclusion from informal networks, stereotyping and preconceptions of women’s roles and abilities, failure of senior leadership to assume accountability for women’s advancement, lack of role models, lack of mentoring
- Requiring long hours for advancement, sometimes called the hourglass ceiling

4.2 Survey on Glass Ceiling

Major research into the existence of the “glass ceiling” began with “Breaking the Glass Ceiling: Can women reach the top of America’s largest corporations?” and was sustained through the across-industry study by the Federal Glass Ceiling

Commission from 1991 to 1996 and continues with the work of organizations such as Catalyst and Boston College. Reports of the Federal Glass Ceiling Commission (1995a, b) provide disturbing statistical evidence: 95 % of senior managers of Fortune 500 service and Fortune 1,000 industrial companies are men. In the Fortune 2,000 companies, only 5 % of senior managers are women. These numbers present a statistical profile that is troubling when we consider that the percentage of bachelor's degrees earned by women rose from 35 % in 1960 to 50 % in 1980 and to 57 % in 2000. Similar growth exists at the master's degree level: from 32 % in 1960 to 50 % in 1980 and 58 % in 2000. In contrast, the rate of growth is even greater for women earning business degrees. At the bachelor's level, the percentage rose from 7 % in 1960 to 34 % in 1980 and 50 % in 2000. At the master's level, the percentage of degrees earned by women went from a low of 4 % in 1960 to 22 % in 1980 and 40 % in 2000 (US Department of Education 2002). Therefore, more women are graduating from college, more women are earning degrees in business, but their presence in senior management is negligible. Despite comprising more than two-thirds of the population and more than 57 % of the labor force in 1995, women were underrepresented at upper levels of management. This representation of women in management suggests that at executive levels, we would see a similarly strong representation of women. Contrary to their presence at middle management, women comprise only 5 % of executive suites. The data have not improved, for while women now make up more than 45 % of the labor force, they represent only 12 % of all corporate officers (Catalyst 1999). Women are graduating and entering management positions, yet there is a bottleneck at middle management levels (Current Population Survey (2001) <http://ferret.bls.census.gov>). Women experience glass-ceiling effects that keep them from climbing corporate ladders to levels above middle management. As more women graduate with business and other professional degrees and enter corporate life, the problem becomes more urgent as they experience a slower progression compared to their male counterparts (US Department of Education 2002; OECD 2002). So, while entry is easier, progression slows, and in most situations regardless of their qualifications or achievements, women are prevented from climbing the corporate ladder to the top. Thus, the glass ceiling describes an organizational level beyond which female managers are not promoted even though they are as qualified as their male counterparts.

Women consistently work longer hours (paid plus unpaid) than men and perform the majority of the unpaid household work (Crittenden 2001). Thus, women attempting to move into senior management are challenged not only by being parents but also by the fact that women work longer hours without the requisite remuneration and reward of upward promotion. Now added to workplace stress from inequity, we have a disproportionate distribution of household tasks. Women at the highest executive levels experience more obstacles than both their male counterparts and than lower-level women. Executive women and men are similar in many ways, including pay grade and work attitudes. Yet, these women differ from executive men in that they have less authority, receive lower total compensation, have less international mobility, and have greater pressures from family demands (Catalyst 2003a; Federal Glass Ceiling Commission 1995a; Lyness and

Thompson 1997). The Families and Work Institute, Catalyst, and The Boston College Center for Work and Family conducted a study of women and men executives at multinational companies. “*Leaders in a Global Economy: A Study of Executive Women and Men*” (USA) found that “women at reporting levels closer to the CEO are more likely to have children and less likely to have decided not to have children than women executives at lower levels, when differences in age are controlled statistically. Moreover, these higher-ranking women are no more likely to have delayed or decided against committed relationships than women in lower status executive jobs.” Specifically:

- 18 % of women versus 9 % of men have delayed marriage or a commitment to a partner, and 3 % of women versus 1 % of men have decided not to marry. Currently, 94 % of men are married or in couple relationships compared with 79 % of the women.
- Executive men and women have lives at home that are very different from one another: 74 % of women surveyed have a spouse/partner who is employed full-time while 75 % of men surveyed have a spouse/partner who is not employed.
- 35 % of women versus 12 % of men have delayed having children, and 12 % of women versus 1 % of men have decided not to have children. Currently, 90 % of men executives have children compared with 65 % of women executives.

The glass ceiling is a pervasive barrier to the advancement of qualified women in management. Among these women, there exists person factors that render the glass ceiling even more impenetrable; race has been long associated with both inability to enter and restriction from the executive suite. African-American women often describe the barriers blocking their career advancement as the “concrete ceiling.” Women of color, African-American and Latinas, are less likely than white women to move into the executive suite (Federal Glass Ceiling Commission 1995a, b). African-American women are the most underrepresented group of women in private sector management despite the growth of this talent pool between 1991 and 2001 (Perspective May 2004). The removal of barriers requires both societal and organizational efforts to ensure that women are not discriminated against because they are women. Strategies are needed that enable women to be viewed as the qualified professionals that they are. Structural barriers must be monitored and removed; biased attitudes must be identified and controlled by individual and organizational policies. The Commission recommended that to make full use of the nation’s capital, business should demonstrate CEO commitment *to workforce diversity*; include diversity in all strategic plans and hold line managers accountable for progress; use affirmative action as a tool; select, promote, and retain qualified individuals; prepare minorities and women for senior positions through *expansion of access to core areas of the business, formal mentoring programs that provide career guidance and support*; educate the corporate ranks *to encourage merit-based practice and behavior*; and initiate work/life and family-friendly policies. And finally, business should adopt high performance workplace practices. Those eight recommendations to business share an emphasis on *organizational context*, addressing the question: What are the

organizational factors affecting women's managerial careers? The underlying perspective appears to come from an understanding that organizations *have not been gender neutral*, that discriminations have been institutionalized and must be unveiled and eradicated.

Appropriate research is necessary to monitor and to understand the glass ceiling. Yet, the best expression of inclusion is the removal of structural and pipeline barriers. At the firm level, leaders should demonstrate commitment to inclusion through specific actions. They should adopt high performance workplace practices. Leaders should build and communicate the business case for diversity. Accountability structures and measures to advance a diverse workforce should be developed, diversity should be included in all strategic plans, line managers should be held accountable for progress, and the corporate ranks should be educated to encourage merit-based practice and behavior. Minorities and women should be prepared for high visibility, high-impact, and senior positions through the expansion of access to core areas of the business, formal mentoring programs that provide career guidance and support. Work/life and family-friendly policies should be initiated. And finally, selection, promotion, and retention practices of qualified individuals should be through objective and unbiased workplace practices (Bryan 1998; Federal Glass Ceiling Commission 1995a, b; Catalyst 2003a, b).

Case Study Two: Indian Women in Banking Industry: Breaking the Glass Ceiling

As an Indian, one would not have missed out on these known names at all, and some of these names would be familiar internationally as well. Chanda Kochhar, CEO and MD of ICICI Bank; Neelam Dhawan, MD, Hewlett-Packard, India; Shobhana Bhartia, chairperson and editorial director of HT Media; Preetha Reddy, MD, Apollo Hospitals; Kiran Mazumdar Shaw, chairperson, Biocon; Naina Lal Kidwai, country head, HSBC; Indra Nooyi, CEO, PepsiCo; Radhika Roy, MD, NDTV; Chitra Ramakrishna, Deputy MD, NSE; Aruna Sundararajan, CEO, Common Services Centers Program, IL&FS Ltd; Aishwarya Rai, Kalpana Chawla, Arundhati Roy, Sonia Gandhi, Gurinder Chadha, and many more have carved a niche for themselves, proving their mettle in various fields. These names and several others signify that they can deliver and no longer they be desisted proving the words said by Margaret Thatcher (First Woman Prime Minister of UK) years ago that "If you want something said, ask a man. If you want something done, ask a woman." According to a survey by international executive research firm, EMA Partners International, around 11% of Indian companies have women CEOs, while in the case of Fortune 500 list from the USA, the women CEOs just account for 3% of the total consideration set.

Interestingly enough, year 2009 seemed to be a silver lining year for India Inc., especially the banking and financial services sector with 13 women heading either banks or insurance companies and many others heading other companies from varied industries. This is quite an unparalleled phenomenon for any emerging economy.

The role played by women in professional fields tend to be consistent with the roles they play at home – effective communication, prioritizing various activities, proper planning, utilization of scarce resources, and so on. Experts comment that businesswomen are more inclined to take measured or calculated risks and resolve issues in a novel way. Typically, women are better communicators and can easily build associations which helps in strengthening business relationships – a major component in marketing or HR function. They are natural networkers and apply creative solutions to business issues. Thus, women are no less than men, and they are equally competent. However, many organizations underrate women’s potential and view them as incompetent in handling top positions.

4.3 Standard HRM Practice

Standard practices in human resources (HR) can include a broad spectrum of specialties within organizations. Some examples of specialties include recruiting, payroll, policy, safety, training and development, and performance management. In smaller organizations, the HR professional may handle all of those specialties, and in larger organizations, each specialty is most likely its own department.

The roles within HR can vary greatly as well as with many departments from the purely administrative to the executive. Another related and perhaps more important question that is often discussed is, “What should HR be doing?” For me, HR’s primary purpose is to ensure that the right people are working in the right places to accomplish the organization’s goal.

In other words, HR is responsible to develop programs that will attract, select, develop, and retain the talent needed to meet the organizational mission. So whether you are an HR department of one or a combination of multiple departments that include hundreds of employees, your primary responsibility is talent management.

Further by establishing consistency and logic in the enforcement of every policy, HR contributes to an environment of higher level ethical thinking across the board. Other managers will start to apply the same logic. As more and more people see that all policies are routinely enforced, they’re more inclined to report violations even when they are concerned or doubtful. They begin to realize that they can trust HR and the organization’s senior managers to act responsibly. Soon, few violations go unreported. Establishing such an environment is the best defense against executives of all levels bending the truth such as occurred in companies like Enron. While every policy should be applied with careful consideration for mitigating circumstances, vigorous application wherever it makes sense stands the company in good stead with all stakeholders and protects employees and managers alike from future problems.

Maintaining good ethics at every level is clearly a key responsibility for the human resources department.

The relationship between ethics and human resource management is emerging as a subject of serious academic enquiry. The papers in this special issue of *Personnel Review* begin to map out the critical issues for research and practice in this area. They are drawn from a conference which brought together human resource academics, practitioners, and business ethicists in order to identify how an ethical focus might inform both academic research and debate and the practice of human resource management (HRM) in organizations.

Debate over the precise extent and significance of the trend towards greater job insecurity is ongoing, but for many employees the world of work has become less secure in recent years. This has arisen partly as a result of changes in the macroeconomic climate and the reemergence of mass unemployment; in part from business restructuring and the stripping out of costs through redundancy, delayering, and outsourcing; and also it derives from the adoption of more contingent contracts of employment and systems of reward. From an ethical perspective, the switch to a less secure, contingent employment relationship is problematic in two regards.

A comprehensive ethical and cultural initiative needs to start with a few key points:

- Everyone needs to know the values are paramount in their organization. This must be a continual process starting at the top and communicated with the same frequency, intensity, and commitment as external marketing campaigns.
- Importantly, and perhaps as a very first step, leaders need to translate values statements into a few clear and specific behavioral standards that reflect how business should be conducted. Is it clear employees are expected never to lie or cover up issues no matter what their job entails? Does everyone understand that bringing problems forward is vital to long-term organizational success and should be welcomed, not punished? If employees truly align their behavior with the values, many ethical problems will be prevented or at least contained.
- The goal shouldn't be to turn employees into workplace ethicists. Particularly in large organizations, ethical problems will surface no matter how much communication and training is provided. Therefore, leaders need to focus on the behaviors – covering up, ignoring problems, and retaliating against complainants – that are preventing ethical concerns from being raised and resolved. Ironically, the most important elements of building an ethical culture relate not to underlying issues themselves but rather to making sure the issues surface so they can be proactively addressed.
- Finally, creating and sustaining an ethical culture is everyone's responsibility, not just the compliance and HR departments. Managers in particular need to understand how to articulate their own personal commitment to ethical conduct.

Instead of looking just at compliance requirements, organizations should evaluate the palpable success markers that play out in the dynamics of the work environment – specifically, how people react and conduct themselves when faced with decisions that rely on the organization's values. These values-based decisions will form the foundation of the culture and the long-term standard of “how we do things here.”

4.3.1 Addressing the Child Labor Issue: Towards Ethical Pinnacle in HRM Practice

The term “child labor” is often defined as work that deprives children of their childhood, their potential, and their dignity, and that is harmful to physical and mental development.

It refers to work that:

- Is mentally, physically, socially, or morally dangerous and harmful to children; and
- Interferes with their schooling by
- Depriving them of the opportunity to attend school
- Obliging them to leave school prematurely or
- Requiring them to attempt to combine school attendance with excessively long and heavy work

Case Study Three: “Gramin Suvidha Kendra”: MCX’s Corporate Social Opportunity Approach to Inclusive Growth

This case study is about the Multi Commodity Exchange of India Ltd. (MCX), an electronic multi-commodity futures exchange based in Mumbai, India, and its corporate social responsibility initiative – Gramin Suvidha Kendra (GSK). Through the GSK initiative, which began in 2006, MCX sought to use its domain strengths to make India’s process of economic growth more inclusive by providing small and marginal farmers with a level playing field and new opportunities in the domain of agricultural marketing, risk management, and finance. The company adopted a proactive approach to CSR and viewed these as “Corporate Social Opportunities” (CSO). The team at MCX felt that adopting such an approach was important for corporate sustainability.

GSK was a Public Private Partnership (PPP) project with India Post, the Indian government’s postal department. Through this platform, MCX provided various services to the farmers, including giving price/market information, addressing technical queries regarding farming, providing scientific warehousing facilities, issuing warehouse receipts, and providing access to finance, quality agri- and non-agri inputs, and bank loans. MCX entered into partnerships with various organizations to bring these services under a single window to benefit the target audience. By 2009, GSK had evolved into a promising model. From being a mere platform to disseminate price information, it had evolved into a revenue generating model. The challenge before Sarita Bahl, Vice President (CSO), MCX, and her team lay in carrying forward the initiative and developing it into a fully self-sufficient model by 2012.

The GSK initiative was started in 2006 by the Multi Commodity Exchange of India Ltd. (MCX), an electronic multi-commodity futures exchange based in Mumbai, India. The initiative aimed at using MCX’s domain strengths to make India’s process of economic growth more inclusive by providing small and marginal farmers with a level playing field and new opportunities in the domain of agricultural marketing,

risk management, and finance. GSK was a Public Private Partnership (PPP) project with India Post, the Indian government's postal department.

Through this platform, MCX provided various services to the farmers including giving price/market information, addressing technical queries regarding farming, providing scientific warehousing facilities, issuing warehouse receipts and providing access to finance, quality agri- and non-agri inputs, and bank loans. MCX had entered into partnerships with various organizations to bring these services under a single window to benefit the target audience. Bahl said she was satisfied with the progress that GSK had made in a relatively small time but pointed out that the team at MCX had had to overcome numerous challenges to bring the project this far...

A survey undertaken by MCX in Jalgaon in November 2007 to study the impact of GSK services found that there was significant crop diversification among the growers. The members interviewed said that they were able to obtain better prices from the market by holding on to their produce for sale at a more price-opportune time...

MCX faced many internal and external challenges in launching and scaling up the GSK initiative. According to Shunmugam, "building a business model around it was challenging to move toward self-sustainability and scalability" as funding remained a constraint to the model. MCX's vision was to make GSK a self-sustainable model and to ensure that each farmer in these villages got the correct market price for his produce, that he used the best farm inputs for the highest possible yield and quality of yield, and that the warehouse receipt financing through banks became the norm.

4.4 Child Labor in India

India accounts for the second highest number where child labor in the world is concerned. Africa accounts for the highest number of children employed and exploited. The fact is that across the length and breadth of the nation, children are in a pathetic condition.

Experts blame the system, poverty, illiteracy, and adult unemployment; yet the fact is that the entire nation is responsible for every crime against a child. Instead of nipping the problem at the bud, child labor in India was allowed to increase with each passing year. And today, young ones below the age of 14 have become an important part of various industries, at the cost of their innocence, childhood, health, and for that matter their lives.

4.4.1 Child Labor in the Agricultural Sector

According to a recent ILO report, about 80 % child laborers in India are employed in the agriculture sector. The children are generally sold to the rich moneylenders to whom borrowed money cannot be returned.

4.4.2 Street Children

Children on the streets work as beggars; they sell flowers and other items, instead of being sent to school. They go hungry for days together. In fact, they are starved so that people feel sorry for them and give them alms.

4.4.3 Children Employed at Glass Factories

According to recent estimates, almost 60,000 children are employed in the glass and bangle industry and are made to work under extreme conditions of excessive heat.

4.4.4 Child Labor in Matchbox Factories

Of the 2,00,000 labor force in the matchbox industry, experts claim that 35 % are children below the age of 14. They are made to work over 12 h a day, beginning work at around 4 am, everyday.

4.4.5 Carpet Industry Child Labor

According to a recent report by the ILO, almost 4,20,000 children are employed in the carpet industry of India.

4.4.6 The Other Industries

According to researchers there are about 50,000 children employed in the brass industry of India and around the same amount in the lock industry.

4.5 Government of India Initiatives Towards Elimination of Child Labor: Action Plan and Present Strategy

The problem of child labor continues to pose a challenge before the nation. The government has been taking various proactive measures to tackle this problem. However, considering the magnitude and extent of the problem and that it is essentially a socioeconomic problem inextricably linked to poverty and illiteracy, it

requires concerted efforts from all sections of the society to make a dent in the problem. Way back in 1979, the government formed the first committee called Gurupadaswamy Committee to study the issue of child labor and to suggest measures to tackle it.

The Committee examined the problem in detail and made some far-reaching recommendations. It observed that as long as poverty continued, it would be difficult to totally eliminate child labor, and, hence, any attempt to abolish it through legal recourse would not be a practical proposition. The Committee felt that in the circumstances, the only alternative left was to ban child labor in hazardous areas and to regulate and ameliorate the conditions of work in other areas. It recommended that a multiple policy approach was required in dealing with the problems of working children.

Based on the recommendations of Gurupadaswamy Committee, the Child Labor (Prohibition and Regulation) Act was enacted in 1986. The Act prohibits employment of children in certain specified *hazardous occupations and processes* and regulates the working conditions in others. In consonance with the above approach, a *National Policy on Child Labor* was formulated in 1987. The Policy seeks to adopt a gradual and sequential approach with a focus on rehabilitation of children working in hazardous occupations and processes in the first instance. The action plan outlined in the Policy for tackling this problem is as follows:

- *Legislative Action Plan* for strict enforcement of Child Labor Act and other labor laws to ensure that children are not employed in hazardous employments, and that the working conditions of children working in nonhazardous areas are regulated in accordance with the provisions of the Child Labor Act. It also entails further identification of additional occupations and processes, which are detrimental to the health and safety of the children.
- *Focusing of General Developmental Programs for Benefiting Child Labor* – As poverty is the root cause of child labor, the action plan emphasizes the need to cover these children and their families also under various poverty alleviation and employment generation schemes of the Government.
- *Project-Based Plan of Action* envisages starting of projects in areas of high concentration of child labor. Pursuant to this, in 1988, the *National Child Labour Project (NCLP)* Scheme was launched in nine districts of high child labor endemicity in the country. The Scheme envisages running of special schools for child labor withdrawn from work. In the special schools, these children are provided formal/nonformal education along with vocational training, a stipend of Rs. 100 per month, supplementary nutrition, and regular health checkups so as to prepare them to join regular mainstream schools. Under the Scheme, funds are given to the District Collectors for running special schools for child labor. Most of these schools are run by the NGOs in the district.

The government has accordingly been taking proactive steps to tackle this problem through strict enforcement of legislative provisions along with simultaneous rehabilitative measures. State governments, which are the appropriate implementing authorities, have been conducting regular inspections and raids to detect cases

of violations. Since poverty is the root cause of this problem, and enforcement alone cannot help solve it, the government has been laying a lot of emphasis on the rehabilitation of these children and on improving the economic conditions of their families.

The coverage of the NCLP Scheme has increased from 12 districts in 1988 to 100 districts in the 9th Plan to 250 districts during the 10th Plan.

4.6 Strategy for the Elimination of Child Labor Under the 10th Plan

An evaluation of the Scheme was carried out by independent agencies in coordination with V. V. Giri National Labour Institute in 2001. Based on the recommendations of the evaluation and experience of implementing the scheme since 1988, the strategy for implementing the scheme during the 10th Plan was devised. It aimed at greater convergence with the other developmental schemes and bringing qualitative changes in the Scheme. Some of the salient points of the 10th Plan Strategy are as follows:

- Focused and reinforced action to eliminate child labor in the hazardous occupations by the end of the Plan period.
- Expansion of National Child Labour Projects to additional 150 districts.
- Linking the child labor elimination efforts with the Scheme of Sarva Shiksha Abhiyan of Ministry of Human Resource Development to ensure that children in the age group of 5–8 years get directly admitted to regular schools and that the older working children are mainstreamed to the formal education system through special schools functioning under the NCLP Scheme.
- Convergence with other schemes of the departments of education, rural development, and health and women and child development for the ultimate attainment of the objective in a time-bound manner.

The Government and the Ministry of Labour and Employment in particular are rather serious in their efforts to fight and succeed in this direction. The number of districts covered under the NCLP Scheme has been increased from 100 to 250, as mentioned above in this note. In addition, 21 districts have been covered under *INDUS*, a similar scheme for rehabilitation of child labor in cooperation with US Department of Labor. Implementation of this Project was recently reviewed during the visit of Mr. Steven Law, Deputy Secretary of State, from the USA. For the districts not covered under these two Schemes, the government is also providing funds directly to the NGOs under the Ministry's *Grants-in-aid Scheme* for running Special Schools for rehabilitation of child labor, thereby providing for a greater role and cooperation of the civil society in combating this menace.

Elimination of child labor is the single largest program in this Ministry's activities. Apart from a major increase in the number of districts covered under the scheme, the priority of the government in this direction is evident in the quantum

jump in *budgetary allocation* during the 10th Plan. The government has allocated Rs. 602 crores for the Scheme during the 10th Plan, as against an expenditure of Rs. 178 crores in the 9th Plan. The resources set aside for combating this evil in the Ministry is around 50 % of its total annual budget.

The implementation of NCLP and INDUS Schemes is being closely monitored through periodical reports, frequent visits, and meetings with the District and State Government officials. The Government's commitment to achieve tangible results in this direction in a time-bound manner is also evident from the fact that in the recent Regional Level Conferences of District Collectors held in Hyderabad, Pune, Mussoorie, and Kolkata district-wise review of the Scheme was conducted at the level of Secretary. These conferences provided an excellent opportunity to have one-to-one interaction with the collectors, who play a pivotal role in the implementation of these Schemes in the district. Besides, these conferences also helped in a big way in early operationalization of Scheme in the newly selected 150 districts.

The government is committed to eliminate child labor in all its forms and is moving in this direction in a targeted manner. The multipronged strategy being followed by the government to achieve this objective also found its echo during the recent discussions held in the Parliament on the Private Member's Bill tabled by Shri Iqbal Ahmed Saradgi. It was unanimously recognized therein that the problem of child labor, being inextricably linked with poverty and illiteracy, cannot be solved by legislation alone, and that a holistic, multipronged, and concerted effort to tackle this problem will bring in the desired results.

4.7 Child Labor in China

China accounts for the third largest number where child labor is concerned. In fact, many think it to be a phenomenon that has just begun to surface. However, the fact is that child labor in China has been there for years. This is so despite that there have been strict official regulations that ban employment of minors. And according to the laws of China, a minor is an individual below the age of 16 years.

Due to poverty, teenagers and younger children have been migrating to the southern and coastal regions of China. This is because these regions have been developing and provide a lot of opportunities to earn.

There are juvenile laborers employed in the workshops and factories. According to a recent People's Daily Report, the use of children is maximum in the following industries:

1. Toy manufacturing
2. Production
3. Textiles
4. Construction
5. Food production
6. Light mechanical work

The world considers the issue of child labor to be a rather serious one in sub-Saharan Africa. However, there are a set of experts in Africa who do not consider it to be serious and prefer to sweep it under their carpet in order to look into more “serious” issues. There are still others who prefer to wear a blindfold and believe that child labor issues are far more serious in other nations, whereas it is as good as nonexistent in their own nation. However, ILO statistics provide a more serious picture. It states that over 40 % of the children of Africa are working. They are mainly working as slaves in private households, apart from other industries. And because they are working in households, African experts would like to believe it is not really a serious issue.

While the picture, as we see, is grim, yet nothing can really be done as there is no consistent or factual empirical evidence where child labor in Africa is concerned.

4.7.1 Child Laborers of Africa Are Classified into the Following Categories

1. Domestic child labor
2. Farm workers
3. Commercial plantation workers
4. Begging
5. Petty sales
6. Family business child workers

Source: <http://www.childlabour.in/>

The ILO has developed an agenda for the community of work. It provides support through integrated Decent Work Country Programmes developed in coordination with its constituents. Putting the Decent Work Agenda into practice is achieved through the implementation of the ILO’s four strategic objectives, with gender equality as a crosscutting objective:

Creating jobs – an economy that generates opportunities for investment, entrepreneurship, skills development, job creation, and sustainable livelihoods.

Guaranteeing rights at work – to obtain recognition and respect for the rights of workers. All workers, and in particular disadvantaged or poor workers, need representation, participation, and laws that work for their interests.

Extending social protection – to promote both inclusion and productivity by ensuring that women and men enjoy working conditions that are safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income, and permit access to adequate healthcare.

Promoting social dialogue – Involving strong and independent workers’ and employers’ organizations is central to increasing productivity, avoiding disputes at work, and building cohesive societies (<http://www.ilo.org/global/about-the-ilo/decent-work-agenda/lang--en/index.htm>).

Maintaining Labor Standards: “The rules of the global economy should be aimed at improving the rights, livelihoods, security, and opportunities of people, families and communities around the world.” – World Commission on the Social Dimension of Globalization, 2004 (ILO: A Fair Globalization: Creating opportunities for all, Report of the World Commission on the Social Dimension of Globalization (Geneva 2004:143). Since 1919, the International Labour Organization has maintained and developed a system of *international labor standards* aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security, and dignity. In today’s globalized economy, international labor standards is an essential component in the international framework for ensuring that the growth of the global economy provides benefits to all.

Case Study Four: Child Labor in MNCs in India

A new system of employing female children as “bonded laborers”¹ has come into practice on hybrid cottonseed farms in south India in recent years. Local seed farmers, who cultivate hybrid cottonseeds for national and multinational seed companies, secure the labor of girls by offering loans to their parents in advance of cultivation, compelling the girls to work at the terms set by the employer for the entire season and, in practice, for several years. These girls work long days, are paid very little, are deprived of an education, and are exposed for long periods to dangerous agricultural chemicals.

The introduction of hybrid cottonseeds in the early 1970s has brought significant changes in the quantity and quality of cotton production in India. It has not only contributed to the rise in productivity and quality of cotton but has also helped to generate substantial amount of additional employment in the agricultural sector. Despite its positive contribution, hybrid cottonseed production gave rise to new forms of labor exploitation which involves the employment of female children as bonded labor and large-scale exploitation of them. An important feature of hybrid cottonseed production is that it is highly labor intensive and female children are employed in most of its operations.

The exploitation of child labor in cottonseed farms is linked to larger market forces. Several large-scale national and multinational seed companies who produce and market the seeds have involved themselves in subtle ways in perpetuating the problem of child labor. The economic relationship behind this abuse is multi-tiered and complex, which masks legal and social responsibility.

Currently, there are about 200 seed companies involved in production and marketing of hybrid cottonseeds in India, including several multinational companies (MNCs) like Unilever, Monsanto, Syngenta, Advanta, Bayer, and Emergent Genetics.

¹In India, traditional forms of bonded labor in agriculture have been historically largely associated with men and boys, with instances of women, especially girls, working as bonded laborers being relatively rare (see Marla 1981:20–22 and Patnaik and Dingwaney 1985:259). In his report, Marla estimates the population of the bonded laborers in the late 1970s in India. According to him, 97.7 % of bonded laborers are men and boys, while 2.3 % of them are adult women. There are no girls working as bonded laborers.

MNCs are operating their seed business activities through their own subsidiary companies in India or joint ventures and collaborations with local Indian companies. The names of Indian subsidiaries or joint venture companies of abovementioned MNCs are Hindustan Lever Limited (for Unilever Plc), Syngenta India (for Syngenta AG), Advanta India (for Advanta BV), Monsanto India and Mahyco (for Monsanto), Proagro (for Bayer), and Mahendra Hybrid Seeds (for Emergent Genetics).² In March 2002, Hindustan Lever Limited (HLL) transferred its seed business to a subsidiary company called “Paras Extra Growth Seeds” and formed a joint venture partnership with Emergent Genetics. HLL sold 74% of its share in Paras Extra Growth Seeds to Emergent Genetics.

*The role of MNCs in cottonseed business has increased significantly in recent years due to various trade liberalization policies introduced by the government after 1991. The recent approval of government of India in April 2002 for introducing BT (*Bacillus thuringiensis*) cotton in Indian market is expected to bring far reaching changes in terms of greater control of MNCs, which have patent rights over genetically modified technology, over Indian seed industry in near future.*

The growing concern about child labor problem in the state put the entire cottonseed industry, which employs children in production of seeds in a big way under severe criticism. The role of companies in perpetuating the child labor problem is being questioned. The MNCs, which claims that they are committed to socially responsible business practices, have to face severe criticism both from national and international agencies.

Response from MNCs

Hindustan Lever

Responding to the issue of use of child labor in production of its cottonseeds, HLL denies any direct contact with seed farmers and also the use of forced child labor as such in production of seeds. As a response to a news report “Even Multinationals Employ Child Labour for Profit” published in “The Hindu Business Line, 21–6–2001,” the General Manager in charge of corporate communications, HLL, in a press statement issued on June 25, 2001, states that “HLL has third-party seed organisers who get seeds produced from numerous farmers on sale/purchase basis and supply them to HLL. In no case, HLL deals with any farmer, either for production or for payments. Though HLL does not control or influence seed organisers’ selection/dealing with farmers, the seed organiser typically supplies parental seeds to farmers at a cost with a buy-back arrangement of the resultant seed production. To carry out actual production, the farmer and his entire family work in the fields and employ additional labour whenever required. HLL or the seed organiser has no direct or indirect role in the farmer’s practice of either taking help from his family members or employing labour”.³

²A brief profile of MNCs involved in cottonseed business in India is presented in Sect. 4.3.

³The Hindu Businessline, 25–6–2001.

In a communication to the NOVIB, a developmental organization, a representative of Unilever makes similar observation stating that “HLL has no direct contacts with the farmers themselves. In this situation I can affirm that HLL does not make use of child labour in the context of her cottonseed activities. Furthermore I can affirm that the suppliers of HLL, in this case the seed companies, do not make use of child labour in their activities. HLL is convinced that her suppliers act in accordance with her wishes because monitoring takes place by field visits, oral questions and frequent confirmation of these requirements. With regard to the actual cultivation of cottonseed the situation is less clear, we do not believe that forced labour by girls is used in the cultivation of cottonseed which we purchase. In the agrarian sector in India, just like in other developing countries, it happens a lot that children are working on the farms of their families.

HLL has recently transferred its seed business to its subsidiary ‘Paras Extra Growth Seed Ltd’ and formed a joint venture partnership with Emergent Genetics. Participating in a consultative meeting of seed companies, NGOs and government departments against child labour in Hyderabad on August 3rd 2002, Mr. Mohan Rao person in charge of Human Resource Development, Paras Extra Growth Seeds states that “we acknowledge that there is a problem of child labour in hybrid cottonseed production. The problem is real and we are committed to address this problem. It is an industry problem also. Every one in seed industry has to pay serious attention to this issue.”

Interacting with the author, the local representatives of Mahyco, Advanta, and Proagro have expressed almost similar opinions about the child labor issue.

Mahyco

According to in charge of production for Mahyco company in Kurnool “As a company we do not employ any child labour nor we encourage our suppliers. We are not responsible for the practices of local farmers with whom we do not directly make any contracts. We agree that child labour is prevalent in production of seeds and the entire seed industry has to pay serious attention to this issue. We have to look for new technologies which reduces the requirement of labour in production process. Our company through its own research has released the new cotton hybrids using CMS (Cytoplasmic genetic Male Sterility) technology,⁴ which reduces the requirement of labour in production of seeds by half.”⁵

Advanta

Advanta which has adopted seed village approach for production of its seeds and is directly involved in making contacts with seed producers in some areas also avoids owning any responsibility for child labor situation on the technical ground that it does not employ children directly. A local representative of the company states that “Our company does not employ any child labour and we cannot enforce any

⁴CMS technology makes emasculation obsolete and halves the labor required for pollination. Pollination is one of the two main tasks performed by child labor, the other being emasculation.

⁵Interview with Mr. Bapairaju, production in charge of Mahyco in Kurnool area, 21–1–2002.

regulations on the seed farmers since they are not employed by us. Most of the farmers who supply seed for us are small farmers. They primarily depend on their own family labour including their children for cultivation of seeds and employment of outside child labour is less.”⁶

Though seed farmers are not employees of Advanta, it can exert substantial control over them. The legal agreement between Advanta and its seed farmers clearly indicates Advanta has substantial control over the production process and practices of the farmers.

Syngenta

The issue of child labor has brought the Syngenta under severe criticism from investment companies in the West who have put pressure on the company to address the issue.⁷ Realizing that the issue of child labor is exposing its company to a significant reputational risk in addition to attracting negative media attention, the top management of the company has decided to take a proactive role in addressing the issue. Speaking at a consultative meeting of seed companies, NGOs, and government departments against child labor in Hyderabad on August 3, 2002, Dr. Shanthu Shataram, head of stakeholders relations, Syngenta, states that “We at Syngenta are very much concerned about the child labour problem in cottonseed production. We do not want to escape from our responsibility. Though we have not created the child labour problem in the process we have become part of the problem. Now we want to become part of the solution by taking necessary measures to eliminate the problem.”

Syngenta has initiated some measures during last year to discourage the use of child labor in production process. For the first time during the current crop season company has put a special clause in written agreements which it makes with seed organizers stating that “children should not be used in cultivation of seeds.” It has also requested its seed organizers to decentralize the production by selecting more number of small and marginal farmers for production of their seeds.

With regard to the farming practices of its seed producers (small farmers mostly depending upon own family labor, nonemployment of child labor), companies’ observations are not true. As we have already explained in section one, most of the farmers involved in production of cottonseeds are rich and depend mostly on outside labor. Outside labor accounts for about 90% of the total workforce in cottonseed production. Seed production is highly capital intensive, and those farmers who have enough capital can only venture into this activity. It is also labor intensive and even if it is a small-scale production of one acre, it requires large number of laborers which cannot be managed by family labor alone.

⁶Interview with a company official who requested anonymity, Kurnool 22–2–2002.

⁷Dresdner RCM Global Investors, an international asset management firm based in the UK, had a meeting with top management of Syngenta in January 2002 to discuss the problem of child labor in production of cottonseeds in India. It has requested the company to take necessary steps to eliminate the child labor in production of its seeds.

To sum up, the activities of MNCs in the area of cottonseed business in India are not certainly in tune with what they claim about their commitment to socially responsible corporate behavior. Though they are not directly involved in employing children, they have substantial control over entire production process and seed farmers who actually employ children for producing seed for these companies.

(Source: Child Labour and Trans-National Seed Companies in Hybrid Cottonseed Production in Andhra Pradesh: Davuluri Venkateswarlu; Director, Global Research and Consultancy Services, Hyderabad; e.mail davuluri_v@yahoo.com)

Questions for Discussion

1. Explain the concept of corporate glass ceiling. What do you think are the various factors that prevent women from rising through the ranks in corporates around the world?
2. “For every Fiorina who claims the glass ceiling has been shattered, there are hundreds of thousands of working women who know it remains firmly in place.” Critically analyze the statement and justify your answer.
3. Though the debate on glass ceiling continues, some obstacles did prevent women from reaching top management positions. How do you think these obstacles can be overcome by women, particularly in developing countries like India? Explain.

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Chapter 5

Ethics in Business Practice: Marketing Management

The function and practice of marketing has been criticized because it is claimed that it deliberately creates partial truths about products and services and exploits the fears and weaknesses of fellow human beings.

Learning Objectives

Ethics are a collection of principles of right conduct that shape the decisions people or organizations make. Practicing ethics in marketing means deliberately applying standards of fairness, or moral rights and wrongs, to marketing decision making, behavior, and practice in the organization.

In a market economy, a business may be expected to act in what it believes to be its own best interest. The purpose of marketing is to create a competitive advantage. An organization achieves an advantage when it does a better job than its competitors at satisfying the product and service requirements of its target markets. Those organizations that develop a competitive advantage are able to satisfy the needs of both customers and the organization.

As our economic system has become more successful at providing for needs and wants, there has been greater focus on organizations' adhering to ethical values rather than simply providing products. This focus has come about for two reasons. First, when an organization behaves ethically, customers develop more positive attitudes about the firm, its products, and its services. When marketing practices depart from standards that society considers acceptable, the market process becomes less efficient – sometimes it is even interrupted. Not employing ethical marketing practices may lead to dissatisfied customers, bad publicity, a lack of trust, lost business, or, sometimes, legal action.

The historical background for marketing ethics is derived from early concerns during the turn of the twentieth century concerning antitrust and consumer protection, especially adulterated food products. From the beginning of advertising, there have always been concerns about misrepresentations and purposeful deception of consumers.

Frank Chapman Sharp started teaching a course in business ethics at the University of Wisconsin in 1913, and Sharp and Fox (1937) published a textbook on business ethics. The book was based on the concept of “fair service,” and the authors stated “it will be possible to reduce our study of fair service to the principles of fair salesmanship” (Sharp and Fox 1937). The book could have been titled “Marketing Ethics” and had chapters on commercial coercion, let the buyer beware, the limits of persuasion, fair pricing, and the ethics of bargaining. During the 1960s, American society turned to causes. An antibusiness attitude developed as many critics attacked the vested interests that controlled the economic and political sides of society – the so-called military-industrial complex. The 1960s saw the decay of inner cities and the growth of ecological problems, such as pollution and the disposal of toxic and nuclear wastes. This period also witnessed the rise of consumerism – activities undertaken by independent individuals, groups, and organizations to protect their rights as consumers. In 1962, President John F. Kennedy delivered a “Special Message on Protecting the Consumer Interest,” in which he outlined four basic consumer rights: the right to safety, the right to be informed, the right to choose, and the right to be heard. These came to be known as the Consumers’ Bill of Rights (Ferrell et al. 2005).

During this period of time, Robert Bartels (1967) contributed the first comprehensive model for ethics in marketing. This first academic conceptualization of the variables that influence marketing ethics decision making tried to determine the logical basis for marketers to determine what is right or wrong. It presented a schematic plan for analyzing the variables inherent in the ethics of decision making and provided a framework for social and personal ethics in marketing decisions. The model did a good job in delineating variables that influence ethical decision making, including participants, cultural influencers, role expectations, and the complexity of ethical decision making. During this same period of time, Richard Farmer (1967) published an article, “Would You Want Your Daughter to Marry a Marketing Man?” that maintained that much of marketing is unethical and irrelevant. This article was received so well that in 1977, Farmer published an article entitled, “Would You Want Your Son to Marry a Marketing Lady?” and in 1987 published another article entitled, “Would You Want Your Granddaughter to Marry a Taiwanese Marketing Man?” The titles of these articles indicate that possibly marketing ethics was not considered a serious academic research area. The 1967 Bartels article provided a foundation for empirical research that followed in the 1970s.

In the 1970s, significant research was conducted to describe the beliefs of managers about marketing ethics. Carroll (1975) found that young managers would go along with their supervisors to show loyalty in dealing with matters related to judgments on morality. A follow-up study by Bowman (1976) supported these findings. Ferrell and Weaver (1978) provided insights into organizational relationships that influence marketing managers’ ethical beliefs and behavior. The findings indicated that respondents perceived that the ethical standards of their peers and top management were lower than their own standards. Empirical research in the 1970s set the stage for frameworks that describe ethical decision making within the context of a marketing organization.

Ferrell and Gresham’s (1985) “A Contingency Framework for Understanding Ethical Decision Making in Marketing” emphasized the interaction of the individual

and organization, including organization culture, coworkers, and opportunity to explain how ethical decisions are made. Most of the propositions in this model have been tested to provide a grounded understanding of ethical decision making. Hunt and Vitell's (1986) "A General Theory of Marketing Ethics" is widely accepted and also provides an empirically grounded model to illustrate how ethical decision making occurs in an organization. Research followed in both marketing and management literature that helped test the Ferrell and Gresham and Hunt and Vitell models (Hunt and Vitell 2005).

In the 1980s, business academics and practitioners acknowledged business ethics as an important field of study. Industry developments, such as the Defense Industry Initiative on Business Ethics and Conduct, established a method for discussing best practices and working tactics to link organizational practice and policy to successful ethical compliance. In the 1990s, the government also provided support and rewards for ethics programs through the Federal Sentencing Guidelines for Organizations, approved by Congress in 1991. The Guidelines broke new ground by codifying into law incentives to reward organizations for taking action to prevent misconduct. A special task force provided a report for updating and refining the guidelines in 2003 (US Sentencing Commission 2003). In 2005, a federal amendment to the Federal Sentencing Guidelines added oversight of ethics and compliance programs to the responsibilities of board of director positions. The amendment places more responsibility on board members to monitor and audit ethics programs, including marketing ethics.

By its very nature, marketing ethics is controversial, and there is no universally accepted approach for resolving questions. Ethical issues address a problem, situation, or opportunity that requires an individual, group, or organization to choose among several actions that must be evaluated as right or wrong (Ferrell et al. 2005). The organization and stakeholders define marketing ethical issues that must be identified and resolved to build trust and effective relationships with stakeholders. Because marketing ethics sometimes deals with subjective moral choices, this requires decisions about the moral standards to apply and the definition of ethics issues (Murphy et al. 2005). However, many groups in society, including government, are defining ethical and legal issues and proactive approaches to deal with these issues. For example, millions of blogs or personal web logs exist on the Internet without any formal code of ethics or regulation. Many firms, such as Audi, have their own blogs with many stakeholders requesting the formation of an ethics committee to create unified standards. Organizations are being asked to prevent and control misconduct by implementing ethical compliance programs. Ethics brings many rewards to organizations that nurture it, but managing ethics requires activity and attention on several levels – complying with the law, setting ethical standards, and dealing with the complex decisions related to trade-offs between the bottom line and ethical conduct. For example, the Securities and Exchange Commission is looking into retailers such as Saks, Inc., and other major department stores investigating collections or "charge backs" to manufacturers. Manufacturers often guarantee a certain profit margin or compensate retailers for items, which did not sell well. Saks may have improperly collected over \$21 million from its vendors (D'Innocenzio 2005).

High ethical standards require both organizations and individuals to conform to sound moral principles. Fair trade has emerged to link ethically minded consumers with marketers concerned with disadvantaged producers in developing nations. Starbucks works to treat coffee farmers fairly in their business relationships by paying premium prices, long-term contracts, affordable credit, direct purchasing, and investing in social projects in coffee communities (see <http://www.starbucks.com/aboutus/StarbucksAndFairTrade.pdf>; accessed July 5, 2005).

However, general special factors must be considered when applying ethics to marketing. First, to survive, marketers must contribute to profits or other organizational objectives. Second, marketers must balance their desire for success against the needs and desires of society. Maintaining this balance often requires compromises or trade-offs. To address these unique aspects, society has developed rules – both legal and implicit – to guide marketers in their efforts to reach their objectives in ways that do not harm individuals or society as a whole.

External stakeholder interests, concerns, or dilemmas help trigger ethical issue intensity. For example, the National Do Not Call Registry has tremendous impact on telemarketers' business practices. Organizational culture (internal stakeholders) and individual moral philosophies and values influence the recognition of ethical issues and marketing ethics decisions. New Belgium Brewing Company, the third largest craft beer brewer in the USA, uses only wind energy and cogeneration as well as a vigorous recycling initiative. In addition, the company practices open-book management. The decisions or outcomes are evaluated by both internal and external stakeholders.

There is much overlap between marketing ethics and business ethics because the basic frameworks that describe ethical decision making in an organization include decisions that encompass marketing. In other words, within the context of an organization, there is an ethical component to business decisions, regardless of whether it is marketing or some other functional area component. External stakeholder interests, concerns, or dilemmas help trigger ethical issue intensity.

For example, PETA has encouraged KFC and other fast-food restaurants to make the ethical treatment of animals a priority. Organizational culture (internal stakeholders) and individual moral philosophies and values influence the recognition of ethical issues and marketing ethics decisions. The decisions or outcomes are evaluated by both internal and external stakeholders. While it is impossible to describe precisely how or why an individual or a work group may make a specific decision, we can generalize about average or typical behavior patterns within organizations.

First, as previously discussed, marketing can identify the importance of stakeholders, stakeholder issues, and gather information to respond to significant individuals, groups, and communities. Next, in the decision-making process, marketers should identify the importance or relevance of a perceived issue – i.e., the intensity of the issue (Jones 1991). The fast-food industry is being pressured by government agencies, consumers, and special interest groups to offer healthier menu options, particularly for children.

The intensity of a particular issue is likely to vary over time and among individuals and is influenced by the organizational culture, values, and norms; the special

characteristics of the situation; and the personal pressures weighing on the decision. McDonald's restaurants were the targets of negative publicity associated with the release of the movie *Super Size Me*. In response, the company introduced more salads and healthful portions and alternatives. Individual factors are obviously important in the evaluation and resolution of ethical issues, and familiarity with principal, theoretical frameworks from the field of moral philosophy is helpful in determining ethical decision making in marketing (Murphy et al. 2005). Personal moral development and philosophy, organizational culture, and coworkers determine why different people perceive issues with varying intensity (Robin et al. 1996).

Stakeholder orientation has the potential to redefine the strategic concept of market orientation by including the interests of all stakeholders in marketing decisions. Marketing can be viewed more as a network of relationships providing skills and knowledge to all stakeholders (Vargo and Lusch 2004). From this perspective marketing ethics would be an important part of the strategic planning process (Greenley et al. 2004).

The role of normative theory (Dunfee et al. 1999) and cognitive moral development (Goolsby and Hunt 1992) continues to be a part of the pluralistic approach used to discover and evaluate marketing ethics. Both descriptive and normative researchers agree that marketers do develop guidelines and rules for ethical conduct based on accepted norms and moral philosophies. Integrative social contract theory (ISCT) (Dunfee et al. 1999), based on norms as the foundation of rules within communities, provides a direction for future research. Stakeholder theory can be linked with ISCT to examine multiple conflicting norms and discovery of norms that should have priority in marketing decisions.

Case Study Five: Philip Morris: Unethical Marketing Practices

The caselet discusses the deceptive advertising campaigns for cigarette products. It focuses on the advertising strategy followed by Philip Morris, a leading cigarette manufacturing company in the world. It shows how the company resorted to various business strategies to tackle the restrictions imposed on tobacco advertising.

Continuing with their unethical practices, they have grown into enormous multinational conglomerates. Considering the health hazards that use of tobacco causes to society and also the growing concern among the public, the US government imposed certain restrictions on the advertising of tobacco-related products in order to prevent children and teenagers from falling a prey to the perils of smoking.

The government's intervention forced the tobacco companies to try out new techniques and strategies to sell their products. The imposition of restrictions on tobacco advertising did little to help the government prevent these companies from selling their products to young people.

Fair and Handsome!

In 2007, leading Bollywood actor, Shahrukh Khan, was roped in by Emami Ltd (Emami) to endorse its fairness cream for men, "Fair and Handsome." The ads renewed the smoldering debate on the ethics of skin-lightening products. For most Indians, as for South Asians as a whole, a fair complexion has been a much desired

asset, and their quest for a lighter skin had prompted many fast-moving consumer goods (FMCG) behemoths to venture into the business of manufacturing and marketing skin-lightening products, such as fairness creams, lotions, cold creams, and soaps.

5.1 Questions: Ethics in Marketing

1. Define the nature and scope of marketing ethics from both a descriptive and normative perspective.
2. What can be found in examining the history of marketing ethics that could be used in understanding marketing ethics today?
3. How does the contingency framework for understanding ethics in a marketing organization assist in designing an effective program to maintain and improve ethics in marketing?
4. What is the interrelationship between contract law and ethics in building and sustaining marketing exchanges?
5. Discuss the relationship between corporate ethical values and organizational performance in marketing.

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Chapter 6

Ethics in Business Practice: Accounting

Ethics in its broader sense, deals with human conduct in relation to what is morally good and bad, right and wrong. It is the application of values to decision making. These values include honesty, fairness, responsibility, respect and compassion.

– Rushworth Kidder, President, Institute for Global Ethic

Learning Objectives

The biggest question that the accounting profession faces is whether it is possible to teach ethics or not. It has to be inculcated at some point of time in one's life because there is nobody in this world who comes with a built-in ethical mind and soul. So, it is the family, society, schools, colleges, and professional organizations that carry on the continuous process of embedding ethics in a person. The same is applicable in the case of all accounting professionals. The codes of conduct that the professional organization expects their members build a sense of ethics in a professional.

The term accounting ethics was developed by Luca Pacioli and was further improved upon by the various governments as well as organizations. In the present business scenario, when there has been so much of accounting misdeeds and the corporate collapses, the world of accounting is once again trying to focus on the ethical questions behind the accounting profession. The corporate collapses have spread negative vibes among the people concerning the profession of accounting. Thus, in order to improve the image of accounting as a profession and also to prevent fraudulent accounting from taking place in the organizations, the accounting firms as well as the governments have started fomenting ethics among the accountants and have introduced various regulations within the accounting profession.

Everybody is talking about business ethics today, and more so in a corporate world, it's not a sudden jerk to you or either me because we have known that it has been prevalent, but perhaps nobody got its importance up to now. Business ethical

behavior helps you develop good business relations with your business partners. Talking more about *business and accounting ethics*, these are the strict rules, which people in the accounting and business-handling department of a company adheres to. The ethical world has various diverse rules and regulations which are set apart by the people working in an organization at a managerial level.

The business and accounting ethics helps you to understand the way business interactions need to be done; they especially help when you are in one-on-one dealings with your clients. Some businesses hardly adhere to *business and accounting ethics*; perhaps this might be the reason why many organizations nearly fail to get good reputation because of the bad debts and inability to serve their customers well. The corporate world is not just about making money; it's a deeper field that only a true entrepreneur can know given the amount of ethical values he possess. Accounting ethics helps you manage your regular business accounts with no misinterpretation of money account in an organization. Business is all about making money, but the bottom line is that you should be capable of handling your clients and the investors who are putting in money in your company. Capitalism is the prime most important element, which plays a significant role in running your business successfully.

The *business and accounting ethics* are very much part of your business whether we may agree to the fact or not. The businesses globally who have good market reputation are seen to have hardly getting in to business ethics that is the reason why many companies have been charged millions for breaking the business ethical laws. Companies usually do adhere to ethics especially when it comes to customer relationship and not breaking the business laws. Business ethics applies to each and every area of business whether it means breaking the agreement with your partners, showing misinterpreted advertisements on the televisions, or child exploitation, such companies get fined time and again for their unethical behavior.

The general ethical standards of society apply to people in professions such as medicine and accounting just as much as to anyone else. However, society places even higher expectations on professionals. People need to have confidence in the quality of the complex services provided by professionals. Because of these high expectations, professions have adopted codes of ethics, also known as codes of professional conduct. These ethical codes call for their members to maintain a level of self-discipline that goes beyond the requirements of laws and regulations.

Case Study Six: The Lucent Accounting Scandal

The case discusses the accounting frauds committed at the US-based telecommunications giant, Lucent Technologies Inc. (Lucent) during early 2000. It provides an insight into the ways by which the financial statements were manipulated at Lucent. It examines the loopholes in the financial management of the company and the price it had to pay for circumventing the provisions of law. The case examines the allegations against Lucent and its officers with reference to the Securities Exchange Act, 1934. Finally, the case throws light on the damage control measures taken up by the new CEO to improve the company's performance and restore investor confidence.

On January 06, 2000, the headlines of several financial dailies in the USA read, "Lucent declares that revenues would be lower than expectations." "Class action suit against Lucent for making misleading financial statements." "Why Lucent fell." "Whither Lucent," and so on.

For the first time since 1996, the year when the US-based Lucent Technologies Inc. (Lucent) was hived off as a separate entity, the company acquired the dubious distinction of making news for all the wrong reasons. Things got worse as time passed and snowballed into a series of class action litigation, investigation into the accounting practices of Lucent by the Securities Exchange Commission (SEC), \$25 million fine, and loss of reputation. It was a painful transition for Lucent from being a favorite among investors to a company steeped in scandal and litigations.

If the announcement in January 2000 regarding revenues falling short of expectations was bad for the company, the announcement in late 2000 that there was an accounting irregularity of \$125 million revenues in its fourth fiscal quarter ended September 30, 2000, was much worse.

In 1996, as a part of its restructuring program, AT&T spun off its systems and technology units along with Bell Laboratories to form a new company named "Lucent Technologies Inc." Lucent had its headquarters in Murray Hill, New Jersey, USA.

Lucent was a global leader in telecommunications equipment and manufactured products used in building communications network infrastructure. The company also made communications and network management software and provided a wide range of services. Its copper line transmissions and switching, wireless, and optical gear were used in core telephony and data networks worldwide. It provided wireline and wireless products to leading telephone companies and other communications service providers. Many of Lucent's products were developed by the research and development unit of Bell Laboratories.

Until January 2000, Lucent had been a choice investment bet for investors. Historically, Lucent posted better first fiscal quarter results due to the strong demand for its products by its customers.

However, the Lucent's announcement on January 06, 2000, that its revenues for the first quarter in the fiscal 2000 would be 20 percent less compared to the first quarter in fiscal 1999 came as a rude shock to investors.

However, financial analysts, who had been closely observing Lucent's balance sheet, were not surprised by the company's poor financial performance.

They felt that though Lucent was lagging behind its competitors in technological innovations, the technological obsolescence of Lucent's products and burgeoning competition had little to do with the fall in the company's revenues.

Though Lucent's difficulties began in January 2000, the company was in deep trouble by May 2004. The SEC charged Lucent for misrepresentation of accounts and the consequent misguiding of investors. For this, Lucent had to pay a fine of \$25 million to the SEC. The series of events which led the company into trouble were:

The January 2000 declaration by Lucent that its financial results for the first quarter of fiscal 2000 would be much lower than its earlier forecast created an uproar among investors. During late 1999, Lucent had forecast higher revenues for the company.

But a contradictory announcement after a few weeks was beyond the comprehension of many investors. They alleged that Lucent intentionally misled investors regarding its financial position. Relying on the initial forecast, the public had invested enthusiastically in the company's stocks during late 1999. As a result, Lucent's share price rose to an all-time high of \$84.00 on December 09, 1999.

Charges of Accounting Fraud

The speculation regarding SEC's probe into Lucent's accounting practices came to an end when in late 2000, SEC began a formal investigation of the same.

After Lucent failed to cooperate with SEC's probe into whether it had improperly recognized revenues, SEC filed charges against Lucent and ten of its top executives. These executives were held responsible for Lucent's violation of federal securities laws. Apart from voluntary announcements of "wrong revenue recognition" by the company, SEC identified several violations of Generally Accepted Accounting Principles (GAAP) by Lucent. The charges were made for a \$1.5 billion accounting fraud. The SEC alleged that Lucent had fraudulently and improperly recognized approximately \$1.148 billion of revenues and \$470 million in pretax income in the fiscal year 2000 (October 01, 1999, to September 30, 2000) in violation of GAAP (Refer Exhibit II for the financial statements of Lucent in 1999 and 2000).

Lucent and three individual defendants – William Plunkett, Deborah Harris, and Vanessa Petrini – agreed to settle matters without admitting or denying the SEC allegations. In March 2004, Lucent agreed to pay a \$25 million fine, the largest fine ever levied by SEC against a company for refusing to cooperate.

SEC claimed that Lucent had failed to cooperate in its regulatory investigations. In addition, SEC claimed that Lucent's officials made statements that misled the public about its investigation. Apart from paying the fine, Lucent consented to the SEC judgment that charged it with violations of federal securities laws, poor internal control provisions, and reporting and improper maintenance of books and records. Plunkett, Harris, and Petrini too consented to a similar judgment and also to knowingly circumventing internal controls of the SEC and aiding and abetting violations of provisions of reporting, books and records, and internal controls laid out in the federal securities laws.

6.1 Codes of Ethics

By joining their professional organizations, people who work in the field of accounting agree to uphold the high ethical standards of their profession. Each of the major professional associations for accountants has a code of ethics. The Code of Professional Conduct of the American Institute of CPAs (AICPA), the national professional association for CPAs, sets forth ethical principles and rules of conduct for its members. The principles are positively stated and provide general guidelines that CPAs (or any professionals, for that matter) should strive to follow. The rules of conduct are much more explicit as to specific actions that should or should not be

taken. The Institute of Management Accountants (IMA) Standards of Ethical Conduct applies to practitioners of management accounting and financial management, and the Institute of Internal Auditors (IIA) Code of Ethics applies to its members and to certified internal auditors (CIAs).

6.2 Ethical Responsibilities

A distinguishing mark of professions such as medicine and accounting is acceptance of their responsibilities to the public. The AICPA Code of Professional Conduct describes the accounting profession's public as consisting of "clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of CPAs to maintain the orderly functioning of commerce." Many, but not all, CPAs work in firms that provide accounting, auditing, and other services to the general public; these CPAs are said to be *in public practice*. Regardless of where CPAs work, the AICPA Code applies to their professional conduct, although there are some special provisions for those in public practice. Internal auditors, management accountants, and financial managers most commonly are employees of the organizations to which they provide these services; but, as professionals, they, too, must also be mindful of their obligations to the public.

The responsibilities placed on accounting professionals by the three ethics codes and the related professional standards have many similarities. All three require professional competence, confidentiality, integrity, and objectivity. Accounting professionals should only undertake tasks that they can complete with professional competence, and they must carry out their responsibilities with sufficient care and diligence, usually referred to as *due professional care* or *due care*. The codes of ethics of the AICPA, IMA, and IIA all require that confidential information known to accounting professionals not be disclosed to outsiders. The most significant exception to the confidentiality rules is that accounting professionals' work papers are subject to subpoena by a court; nothing analogous to attorney-client privilege exists.

6.3 Independence

Maintaining integrity and objectivity calls for avoiding both actual and apparent conflicts of interest. This notion is termed *independence*. Being independent in fact and in appearance means that one not only is unbiased, impartial, and objective but also is *perceived* to be that way by others. While applicable to all accounting professionals, independence is especially important for CPAs in public practice. The AICPA's rules pertaining to independence for CPAs who perform audits are detailed and technical. For instance, a CPA lacks independence and thus may not audit a company if he or she (or the spouse or dependents) owns stock in that company and/or has certain other financial or employment relationships with the client.

6.4 Ethics Enforcement

To a large extent, the accounting profession is self-regulated through various professional associations rather than being regulated by the government. The AICPA, the IMA, and the IIA have internal means to enforce the codes of ethics. Furthermore, the professional organizations for CPAs in each state, known as *state societies of CPAs*, have mechanisms for enforcing their codes of ethics, which are usually very similar to the AICPA Code. Violations of ethical standards can lead to a person's being publicly expelled from the professional organization. Because of the extreme importance of a professional accountant's reputation, expulsion is a strong disciplinary measure. However, ethical violations can lead to even more adverse consequences for CPAs because of state and federal laws.

The state government issues a CPA's license to practice, usually through an organization known as the *state board of accountancy*. Since state laws governing the practice of accountancy typically include important parts of the AICPA Code, the Code thus gains legal enforceability. Consequently, ethical violations can result in the state's revoking a CPA's license to practice on a temporary or even permanent basis. Because a licensed CPA is also likely to belong to the AICPA and the state society of CPAs, investigations of ethics violations may be carried out jointly by the AICPA, the state society, and the state board of accountancy.

CPAs in public practice who audit the financial statements of public corporations are subject to federal securities laws and regulations, including the Securities Exchange Act of 1934. The Securities and Exchange Commission (SEC), which administers these laws, has broad powers to regulate corporations that sell their stock to the public. One important SEC requirement is that these corporations' financial statements be audited by an independent CPA. The SEC has the authority to establish and enforce auditing standards and procedures, including what constitute independence for a CPA. The SEC has largely delegated standard setting to the private sector but retains oversight and enforcement responsibilities. In 1998 the SEC and the AICPA jointly announced the creation of the Independence Standards Board (ISB), a private sector body whose mission is to improve auditor independence standards. In announcing the formation of the ISB, the SEC reaffirmed the crucial importance of the CPA's independence: “[M]aintaining the independence of auditors of financial statements ... is crucial to the credibility of financial reporting and, in turn, to the capital formation process” (SEC Release FRR-50, 1998).

6.5 Essence of Accounting Ethics

Accounting ethics in the field of accounting refers to the guidelines (consisting of judgments and moral values) that a professional needs to follow while practicing accounting. Just like the professionals in the field of medicine or law, an accounting professional also needs to strictly adhere to the ethics that have become a norm in accounting. The people who receive the services of an accounting professional rely

not only on his skill and ability but also on his professional integrity. People using the service of accounting professionals rely on their professional competency to take decisions and in the process also rely on the ethics followed by them.

It is due to the above reasons that the accounting professionals developed a code of conduct that all accounting professionals need to follow. The essence of the ethics lies in its use. The code of conduct or ethics entails an accounting professional to adhere to high degrees of self-discipline which even goes beyond the legal precincts. Whenever an accounting professional becomes a member of organizations like IMA, IIA, and CIA, they are directed to follow the code of conduct and ethics.

It is the responsibility of the accounting professionals to stick to the code of ethics, i.e., this is the role of ethics in accounting, so that nobody loses confidence on this noble profession. The essence of accounting ethics is in the maintenance of professional objectivity and integrity.

6.6 Role of Ethics in Accounting

The role of ethics in accounting is a guideline for the accountants to follow certain rules for conducting the job of accounting in a fair way. This is just to facilitate the public confidence in their accounting. There is a set of guidelines that has been set by the AICPA for the field of public accounts. The IIA (Institute of Internal Auditors) and also the IMA (Institute of Management Accounts) have issued their own code of ethics to inculcate the set ethics in the field of accounting. It is the responsibility of all professional accounting organizations to direct all their members to follow the standard set of ethical guidelines.

The biggest question that the accounting profession faces is whether it is possible to teach ethics or not. Well, it has to be inculcated at some point of time in one's life because there is nobody in this world who comes with built-in ethical mind and soul. So, it is the family, society, schools, colleges, and professional organizations that carry on the continuous process of embedding ethics in a person. The same is applicable in the case of all accounting professionals. The codes of conduct that the professional organization expects their members build a sense of ethics in a professional.

Source: <http://www.bookkeeping-financial-accounting-resources.com/role-of-ethics-in-accounting.html>

Ethics in accounting and ethical education have been the focus of increasing interest in the last decade. However, some important shortcomings persist. Generally, rules, principles, values, and virtues are presented in a fragmented fashion, and only a few authors consider the role of the accountant's character in presenting relevant and truthful information in financial reporting and the importance of practical reasoning in accounting.

In his article "Ethical Education in Accounting: Integrating Rules, Values and Virtues," Professor Domènec Melé of IESE Business School considers that, after the recent accounting scandals, it seems absolutely essential to pay increasing

attention to ethics in accounting and to improve ethical education for accountants. Moreover, in contrast with the relevant current trends in accounting ethics and ethical education in accounting, Melé presents an approach in which rules, values, and virtues are interconnected.

Accountants can perform their work in many different areas, including auditing, managerial accounting, tax accounting, financial planning, consulting, and, of course, simply preparing accounts. In each of these spheres, ethical issues appear and accountants perceive that opportunities exist in their work to engage in unethical behavior.

To assist them codes of conduct give guidelines for proper behavior in the profession. These codes contain a set of principles and rules specifying what the society expects to be considered in decision making. In practice however, the rules are often applied in a mechanical way. Moreover, in today's legalistic society, the question of "What is the right thing to do?" is often confused with "What is legal?". Therefore, ethics in accounting cannot be reduced to simply what codes of conduct state. Accountants have to make practical judgments about concrete situations and, above all, have to behave correctly. Both conditions require not only knowing rules and bearing values in mind but also having a good character. Values (created in the mind) correspond with human virtues (part of one's character), that is to say, virtues of the person as an individual. The author understands values as "intrinsic moral values" or "moral goods," which are rooted in human nature. On this basis he states that rules, values, and virtues are interrelated.

Because character has an influence on practical reasoning, the author believes that the main goal for ethical education in accounting – and, of course, in any other professional field – should be to impact on the ethical behavior of those receiving this education and not only to provide a set of theories and tools to solve ethical dilemmas.

Ethical behavior primarily depends on moral sensitivity (how the subject comprehends the ethical dimension of a situation), moral judgment (the capacity to judge which alternatives are ethically acceptable and which are not and to determine the uprightness of the intention), moral motivation (willingness to take the moral course of action, placing moral values above other values and taking personal responsibility for moral outcomes), and moral virtues (permanent attitudes and interior strength for moral behavior).

Consequently, ethical education in accounting has to be oriented towards motivating moral behavior and acquiring virtues. However, virtues are not a matter of knowledge, but of personal moral development. What ethical education can do is show virtues, exhort and motivate the student to acquire them, and explain how to do so. This includes the presentation and discussion of rules (generally from codes of conduct), principles, and values that are necessary for acquiring virtues.

From a practical perspective, Melé's proposal requires, first of all, changing the *status quo* of teaching that exclusively presents rules and enlightened ethical theories. The comprehensive ethical approach interrelating rules, values, and virtues, imposed for case studies, for example, includes not only dilemmas but also descriptions of specific people involved in a particular situation, significant facts of their life, traits of their character, as well as other relevant information concerning factors with an influence on moral behavior.

Source: <http://insight.iese.edu/doc.aspx?id=468&ar=1>

The increased focus on ethics has extended to the accounting profession. Two business organizations for accounting professionals, the American Institute of Certified Public Accountants (AICPA) and the Institute of Management Accountants (IMA), have published ethics codes for their members. The AICPA's Code of Professional Conduct includes Principles of Professional Conduct, General Accounting Standards Principles, and a section on Independence, Integrity, and Objectivity. These are recognized as three crucial characteristics for accounting professionals to be successful and ethically responsible. Independence refers to an accountant's financial relationship with a client and prohibits certain relationships that may lead to bias or present a conflict of interest in the accountant's financial reporting. Integrity refers to an accountant's obligation to be honest in his or her reports and communications with clients. Objectivity is related to independence and refers to an accountant's responsibility to remain free of conflicts of interest in dealings with his or her clients. The Ethics Center on the IMA's website includes IMA's Leadership Strategies and Ethics as well as IMA's Statement of Ethical Professional Practice, which, like the AICPA, identifies the necessity of integrity and objectivity as necessary characteristics in ethical accounting practice.

If members of either organization are found in violation of these codes, they will be subject to disciplinary action by their organizations, including disbarment from the organization, suspension, and in severe cases, the loss of the license to practice. Accounting professionals are also held to the standards of federal and state legislation regarding accounting principles and practice and are subject to disciplinary action by government organizations.

The microscope on an organization's ethical standards often highlights its financial decisions, and these are a direct result of financial reporting and judgments of accounting professionals. As the focus on ethics in business and the global economy becomes clearer, the ethical codes in accounting become even more significant and necessary to uphold.

Why Are Ethics Important in Accounting?

Proper ethics and ethical behavior are extremely important in accounting for a variety of reasons. To begin with, accountants are often privy to sensitive information regarding their clients, such as Social Security or bank account numbers. This gives accountants a good deal of power in regard to their clients, and it is important that the trust between an accountant and their clients not be abused. In the same way it is important that the industry itself does not become stigmatized as an unethical one, something that could potentially harm business for all accounting firms.

What Can Result from Poor Ethics in Accounting?

Many negative consequences can result from poor ethics in accounting practices. The first result is generally a lag in business. Accounting firms rely heavily on word of mouth for promotion, and it's all too easy for a few bad stories about unethical behavior to sway prospective clients away from a particular firm. There can also be

serious legal repercussions for those who are found to be violating legal codes and standards for their jurisdiction.

The people who use the financial statements, the shareholders and the stockholders, are just a few among the many who use the statements that are prepared by the accountants and then later on verified by the auditors. Thus, it becomes imperative for the accountants to present a true as well a fair opinion on the current financial standings of the company. Although it might not be beneficial for the company as such, still the accountant has to keep in mind the larger interest of the public who solely rely on the reports prepared by the accountants.

The term ethics is a very wide term that means maintaining the morals and principles in the business operations, functioning of the governments, as well as even in the very basics of operations that an individual performs. In the field of accounting, the term accounting ethics means maintaining a high degree of morality in the profession of accounting. As the field of accounting primarily deals with the finances of an organization or governments, therefore the need to have the ethical coaching as part of the curriculum of the accounting courses is mandatory. Even the institutes that train the various accountants and auditors encourage or rather emphasize upon the maintenance of the ethics in the operations concerning the accounting and other finance-related matters.

6.7 Indian Accounting Standards

Accounting is the art of recording transactions in the best manner possible, so as to enable the reader to arrive at judgments/come to conclusions, and in this regard it is utmost necessary that there are set guidelines. These guidelines are generally called accounting policies. The intricacies of accounting policies permitted companies to alter their accounting principles for their benefit. This made it impossible to make comparisons. In order to avoid the above and to have a harmonized accounting principle, standards are needed to be set by recognized accounting bodies. This paved the way for accounting standards to come into existence.

Accounting standards in India are issued by the Institute of Chartered Accountants of India (ICAI). At present there are 30 accounting standards issued by ICAI.

6.7.1 Objective of Accounting Standards

The objective of accounting standards is to standardize the diverse accounting policies and practices with a view to eliminate to the extent possible the noncomparability of financial statements and the reliability to the financial statements.

The Institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices, constituted an Accounting Standard Board (ASB) on April 21, 1977.

Case Study Seven: The WorldCom Accounting Scandal

The case discusses the accounting frauds committed by the leading US telecommunications giant WorldCom during the 1990s that led to its eventual bankruptcy. The case provides a detailed description of the growth of WorldCom over the years through its policy of mergers and acquisitions. The case explains the nature of the US telecommunications market, highlighting the circumstances that put immense pressure on companies to project a healthy financial position at all times. The case provides an insight into the ways by which WorldCom manipulated its financial statements. The case also describes the events that led the company to file for reorganization under Chapter 11 of the US Bankruptcy Court in 2002.

In the early 1990s, the US economy went through a phase of consolidation, in which many major companies acquired or merged with weaker companies to strengthen their own position in the market (as seen earlier, WorldCom happened to be one of the key acquirers in this phase).

The share prices of companies play a vital role during mergers and acquisitions. Therefore, companies try to “maintain” the prices of their shares (i.e., keep them sufficiently high). If they fail to do so, they can easily become targets for takeover/acquisition.

Moreover, if a company wishes to raise capital from the market, its performance on the stock exchange is considered to be very important. The companies are generally valued on the basis of cash flows they could generate in the future. As the financial performance of a company is one of the most important (and direct) factors affecting its share price, companies were under constant pressure to show positive revenue streams.

During the 1990s, Ebbers borrowed more than \$ 1 billion for personal purposes from various banks. He pledged his WorldCom stock as collateral.

When the prices of the WorldCom stock began declining in the early twenty-first century, Ebbers’ lenders began pressurizing him to sell the stock and raise cash to support his loans. Reportedly, Ebbers decided to sell some of his shares in the company to meet these personal liabilities. However, fearing that the sale would result in a further drop in WorldCom’s share prices, the company board decided to authorize loans to Ebbers so that he could pay off his debts. The company gave him loans to the extent of \$ 408 million between 2000 and 2002. The company justified this by stating that it had to stop Ebbers from selling his stock in order to prevent a fall in the share prices of WorldCom.

Case Study Eight: Royal Ahold NV, the US Foodservice Accounting Fraud

Before the acquisition of US Foodservice (USF) in April 2000, Ahold was mainly involved in retail activities in the USA. After Ahold decided to acquire USF at US\$ 26 per share in February 2000, two teams were sent to the USF to conduct due diligence.

The first team carried out financial due diligence and found that in a report dated August 1999 by KPMG, the auditors of USF, it was stated that promotional allowances had not been accounted properly. The report mentioned that there could be an

error in reporting income and recommended that USF should adopt a more formal system to account for promotional allowances.

In the last quarter of 2002, USF started ordering large quantities of products from its suppliers in its efforts to meet its revenue targets. The company had realized that it would not be able to meet the annual target of over 15 % growth over 2001 sales. USF booked the rebates it was supposed to receive from the suppliers immediately but did not make payments to them for the products ordered. In order to meet the targets, in October 2002, top executives in USF asked all its regional managers to order large quantities of food supplies and other products from the manufacturers...

Immediately after the accounting irregularities in USF were reported by Deloitte, on February 12, 2003, the company authorized an investigation by law firm White & Case LLP and by forensic accounting advisors from Protiviti Inc. In March 2003, Morvillo, Abramovitz, Grand, Iason, and Silberberg PC (Morvillo) and PricewaterhouseCoopers (PWC) conducted additional investigations of the accounts of USF. SEC also conducted a probe on the accounting irregularities at Ahold. In the investigation conducted by SEC, it was found that since 1998, USF had been overstating operating income by recording higher promotional allowances.

According to SEC, "USF artificially inflated its operating income by recording promotional allowances that were not earned in the period recorded, and in many cases were entirely fictitious." SEC instigated public administrative proceedings against two of the auditors of KPMG, who had audited and reviewed financial statements of USF in the year 1999 and for the first two quarters of the year 2000.

After investigations of over a year by SEC, four of the former executives in the USF, Kaiser, Lee, Resnick, and William Carter, former vice-president, were indicted. The SEC accused these executives of pocketing huge bonuses for fraudulently meeting certain revenue targets. As their compensation was tied to meeting the revenue target of USF, they received huge bonuses as they claimed to have met revenue targets for 2001 and 2002. Miller, Hoeven, and Meurs resigned in the wake of the scandal.

Apart from inflating the profits of USF, Lee was also accused of insider trading before the takeover of USF. SEC alleged that Lee provided nonpublic information about Ahold's plans to acquire USF. Using this information, one of Lee's associates made profit of more than US\$ 300,000 by trading in USF's stock.

After Hoeven resigned, Anders Moberg (Moberg) from IKEA was appointed as the CEO in May 2003. In April 2004, Ahold announced that a debt of €920 million would be paid back and the financial controls in the firm were being tightened in order to prevent any more accounting frauds. Brian Hotarek, CFO for US retail operations, was appointed as the chief business controlling officer, and his role was to review and analyze actual performance and future plans of the company. A new division, "Business Control for Retail," was made responsible for Ahold's capital budgeting and real estate strategies.

Larry Benjamin, who was the CEO of NutraSweet company in Chicago, was brought in as new CEO of USF. A new leadership team with six individuals reporting to the CEO was established. The field operations of USF were organized into seven units, which included four units divided geographically, and the chain operations unit, national accounts sales unit, and specialty operations unit.

6.8 Accounting Standards Prevalent All Across the World

Accounting standards are being established both at national and international levels. But the variety of accounting standards and principles among the nations of the world has been a sustainable problem for globalizing the business environment.

There are several standard-setting bodies and organizations that are now actively involved in the process of harmonization of accounting practices. The most remarkable phenomenon in the sphere of promoting global harmonization process in accounting is the emergence of international accounting standards.

The International Accounting Committee (IASC), now International Accounting Standards Board (IASB), was formed on June 29, 1973, by the recognized professional accounting bodies in Canada, Australia, France, Japan, Germany, Mexico, the Netherlands, the UK, and the USA, with its secretariat and headquarters in London.

National standard-setting bodies like Financial Accounting Standards Boards (FASB) of USA, Accounting Standards Boards (ASB) of UK, and Indian Accounting Standards (IAS) in India generally frame accounting standards in the line of IASC after due consideration of the local laws and conditions.

In India the Accounting Standards Board (ASB) was constituted by the Institute of Chartered Accountants of India (ICAI) on April 21, 1977, with the function of formulating accounting standards.

Different companies observe it from published annual accounts of various Indian companies that there are divergent accounting practices for the same transaction. This in effect is defeating the comparability of financial statements.

The reasons for the different accounting practices may be:

- (a) Too many alternative accounting treatments in the accounting standards
- (b) Lack of harmony among government, standards setting body, and regulatory agencies

Adoption of different accounting standards causes difficulties in making relative evaluation of performance of companies. This phenomenon hinders the valuation and consequently the decision-making process.

To overcome these problems, harmonization of accounting standards has already been started. Accounting harmonization is not an end by itself, but it is a means to an end. The ultimate objective of harmonizing accounting practices among countries is to foster international comparability of accounts.

But still the harmonization process has a long way to go. Many standard-setting bodies and regulators of different nations are ardent protectors of their local standards; they are in no mood to allow their job being taken over by a foreign entity.

Thus, winning the consent of these bodies is vital for international accounting standards to don the mantle of common accounting code, i.e., harmonization of common accounting standards, which will make implementing countries more competitive internationally.

Accounting standards vary from one country to another. There are various factors that are responsible for this. Some of the important factors are:

1. Legal structure
2. Sources of corporate finance
3. Maturity of accounting profession
4. Degree of conformity of financial accounts
5. Government participation in accounting
6. Degree of exposure to international market

Diversity in accounting standards not only means additional cost of financial reporting but can cause difficulties to multinational groups in the manner in which they undertake transactions. It is quite possible for a transaction to give rise to a profit under the accounting standards of one country, whereas it may require a deferral under the standards of another.

When a multinational company (MNC) has to report under the standards of both the countries, it might lead to some extremely odd results. For instance, Daimler Benz, who was the first German to secure stock market listing in the USA, reported a net profit of DM 158 million for the 6 months to June 1998 based on German GAAP. The US GAAP reconciliation statement revealed that the company had incurred a loss of DM 949 million.

Similarly, British Telecom Inc. reported a net profit of £1767 for the year ended March 31, 1994, under the UK GAAP but under the US GAAP reconciliation, the net profit reduced to £1476.

Although there are different solutions that have been suggested to resolve the problems associated with filling financial statements across national boundaries like reciprocity and reconciliation, they are not free from limitations. International accounting standards serve the purpose of reducing diversity in accounting practices but invite qualitative differences of financial accounting and reporting systems.

Again these qualitative differences may be removed if a single set of internationally accepted standards can be used for all cross-border-listed financial statements. These differences may be reduced if the recognized professional accounting bodies of the world arrange a happy marriage between the national and international accounting standards.

Issues in Adopting Global Accounting Standards: There seems to be a reluctance to adopt the International Accounting Standards Committee (IASC) norms in the USA.

This is definitely a problem. The USA is the largest market and it is important for IASC standards to be harmonized with those prevailing there. The US lobby is strong, and they have formed the G4 nations, with the UK, Canada, and Australia (with New Zealand) as the other members. IASC merely enjoys observer status in the meetings of the G4 and cannot vote. Even when the standards are only slightly different, the US accounting body treats them as a big difference, the idea being to show that their standards are the best. We have to work towards bringing about greater acceptance of the IASC standards.

G4 has evolved as a standard-setting body and has recently issued its first standard on pooling of interest method. (Mergers can either be in the nature of purchase

or in the form of pooling of interest like HLL-BBLIL.) It is also expected to publish new or revised papers on reporting financial performance, business combinations, joint ventures, leases, and contributions. So far, the FASB (the US standard-setting body) was the world's standard setter because of mandatory compliance with US GAAP for listing on the New York Stock Exchange (NYSE). The US congress had to, however, step in and overrule the FASB standard on stock option.

6.9 Questions

1. What are the main objectives in setting up accounting ethics?
2. How to make transparent and accountable standards for accounting system?
3. Ethical code depends on a theory of universality. Discuss critically.

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Part III
Business, Society and Governance

Chapter 7

The Role of Business in Society: Corporate Governance, Social Responsibility, and Social Impact Management

Good corporate governance is about 'intellectual honesty' and not just sticking to rules and regulations, capital flowed towards companies that practiced this type of good governance.

– Mervyn King

Learning Objectives

Today the management, monitoring, and governance of a business are increasingly seen as separate functions to be done by separate bodies, even if some of the membership of those bodies overlaps. This is the corporate equivalent of the separation of powers. Management is the executive function, responsible for delivering the goods. Monitoring is the judicial function, responsible for seeing that the goods are delivered according to the laws of the land that standards are met and ethical principles observed. Governance is the legislative function, responsible for overseeing management and monitoring and, most important, for the corporation's future, for strategy, policy, and direction.

7.1 Case Study One: The Fall of Lehman

The case discusses the rise and fall of Lehman Brothers Inc. (Lehman Brothers) from a small dry goods store to one of the leading investment banks in the USA. It examines in detail the reasons that led to the subprime crisis since the year 2007 in the USA and how it led to the collapse of 158-year-old Lehman Brothers. The case highlights the role of several stakeholders in the mortgage business that contributed to the crisis. It examines the various factors that contributed to the fall of Lehman Brothers including leadership issues, excessive leverage failure of risk measures employed like “value at risk,” and poor regulation of the investment banking industry. It also explains the role of certain OTC derivative instruments that led to the collapse of the company.

On September 15, 2008, US-based Lehman Brothers (Lehman), one of the top five investment banks in the USA, filed for Chapter 11 bankruptcy sending shock waves through the financial sector the world over. As per the details filed by Lehman in its bankruptcy filings, it held assets worth US\$ 639 billion whereas its total liabilities stood at US\$ 613 billion. With this, Lehman earned the dubious distinction of having filed the biggest bankruptcy ever in the world.

The bank reported a loss of US\$ 2.8 billion in the second quarter of 2008 ending May 2008, its first loss since it went public in the year 1994. However, on September 10, 2008, Lehman again reported a net loss of US\$ 3.9 billion (after provisioning for US\$ 5.6 billion in write-downs) for the third quarter ending August 2008 for the financial highlights of Lehman Brothers between 2003 and 2007. To turn around its operations, the bank announced a restructuring plan that intended to sell a majority stake in its investment management business (refer to Exhibit II for the business segments of Lehman Brothers). The plan also included spinning off a majority of its remaining commercial real estate holdings that had gone bad into a new public limited company. The Korea Development Bank (KDB) which had earlier evinced an interest in purchasing a 25 % equity stake in Lehman announced that it had withdrawn this offer. KDB backed off stating that the price Lehman quoted was too high, and hence it was not interested in purchasing the stake because of bad market conditions. Lehman's shares plunged by almost 45 % from US\$ 14.15 to US\$ 7.79 after KDB's announcement. Lehman could not manage to restore confidence in the markets and raise capital by selling a part of its equity stake and eventually had to file for Chapter 11 bankruptcy.

While many analysts attributed different reasons for the collapse of Lehman, most of them agreed that the then ongoing subprime crisis was a root cause. Analysts claimed that the move by JP Morgan Chase (JP Morgan)⁷ to freeze Lehman's assets days before the bank filed for bankruptcy was one of the factors responsible for Lehman's collapse. They claimed that the bankruptcy could have been avoided if JP Morgan had not frozen Lehman's assets, which had led to a liquidity crisis.

7.2 The Subprime Crisis

In order to overcome the crisis caused by the dot com burst and 9/11 attacks, the US government adopted a policy of credit-driven consumption led growth for its economy. To stimulate consumption, American policy makers started slashing interest rates to ease the liquidity in the system from late 2001.

Industry experts blamed the subprime crisis and the resultant collapse of Lehman Brothers on the global macroeconomic imbalance that the USA had created. The US economy had a savings rate close to zero in 2007. Experts opined that with the huge fiscal deficit and balance of payment deficit the USA had, the US dollar (dollar) would have depreciated unless it was a global currency. The Fed's decision to let Lehman file for bankruptcy rather than providing a bailout solution attracted mixed reactions from several analysts. Many analysts criticized US Treasury

Secretary Henry M. Paulson's (Paulson) decision for not bailing out Lehman, whereas another Wall Street investment bank Bear Stearns had been bailed out in March 2008.

7.3 Introduction

Business is expected to create wealth and employment, while society is expected to provide a conducive environment for the business to flourish. The value and ethical standards that a company adopts are the long-term assets of the organization.

There are a number of tasks that a business has to fulfill to the society. These include the financial task, political task, environment task, adaptive task, economic task, and social tasks. Financial tasks include laying down policies and guidelines for the proper functioning of the financial systems. The environmental tasks include the responsibility of an organization towards the environment. With the perceptions of the consumers changing towards products that are harmful to the environment, companies have to show their concern for the environment by producing environmentally friendly products. The maintenance tasks include the involvement of organizations with nonprofit organizations in providing service to the society.

Social task includes providing equal opportunity for all the members of the society by organizations and taking into consideration the basic human rights of an employee. The way an organization responds to its responsibility to the society has been discussed with special reference to the enlightenment matrix. The organizations responsibility towards employees are improving working conditions, maintaining open and honest communications, welcoming suggestions/complaints, providing equal opportunity, etc. Management plays a key role in balancing the multiple claims of stakeholders. Therefore the responsibility of management involves maintaining healthy relationships among the stakeholders. The organizations responsibilities towards consumers include offering quality goods, providing prompt services, and treating customers fairly. Good relations with suppliers will determine the profitability of the company. The company must treat its suppliers with respect. Suppliers/creditors must be paid promptly. Companies must also follow ethical competitive practices. Finally, the responsibilities of the organization are respecting human rights, improving workplace safety and economic well-being, etc.

The Enron scandal in 2001 eventually led to the bankruptcy of the Enron Corporation, and the dissolution of Arthur Andersen, one of the five largest audit and accountancy firms in the world. In addition to being the largest bankruptcy reorganization in American history at that time, Enron undoubtedly was the biggest audit failure. As a consequence of the Enron scandal in 2001, new regulations and legislation were enacted to expand the reliability of financial reporting for public companies. The *Sarbanes-Oxley Act* was introduced in 2002 to increase the accountability of auditing firms to remain objective and independent of their clients.

7.4 Sarbanes-Oxley Act

The Sarbanes-Oxley Act of 2002 (often shortened to SOX and named for its sponsors Senator Paul Sarbanes and Representative Michael G. Oxley) is a law that was passed in response to the financial scandals such as Enron and WorldCom. The law establishes new, stricter standards for all US publicly traded companies. It does not apply to private companies. The Act is administered by the Securities and Exchange Commission (SEC), which deals with compliance, rules, and requirements. The Act also created a new agency, the Public Company Accounting Oversight Board, or PCAOB, which is in charge of overseeing, regulating, inspecting, and disciplining accounting firms in their roles as auditors of public companies.

7.5 The Intent of the Sarbanes-Oxley Act

To protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws and for other purposes.

Key Sections

1. Section 201 outlines prohibited auditor activities.
2. Section 302 describes the CEO's and CFO's new responsibilities regarding corporate reports.
3. Section 404 addresses the management assessment of internal controls.
4. Section 409 outlines real time disclosure.
5. Section 802 describes criminal penalties for altering documents.
6. Section 806 describes whistleblower protection.
7. Section 807 describes criminal penalties for fraud.

The Sarbanes-Oxley Act created new standards for corporate accountability as well as new penalties for acts of wrongdoing. It changes how corporate boards and executives must interact with each other and with corporate auditors. It removes the defense of "I wasn't aware of financial issues" from CEOs and CFOs, holding them accountable for the accuracy of financial statements. The Act specifies new financial reporting responsibilities, including adherence to new internal controls and procedures designed to ensure the validity of their financial records.

The Act requires all financial reports to include an internal control report. This is designed to show that not only are the company's financial data accurate, but the company has confidence in them because adequate controls are in place to safeguard financial data. Year-end financial reports must contain an assessment of the effectiveness of the internal controls. The issuer's auditing firm is required to attest to that assessment. The auditing firm does this after reviewing controls, policies, and procedures during a Section 4040 audit, conducted along with a traditional financial audit.

The US Sarbanes-Oxley Act was passed in the wake of a myriad of corporate scandals. What these scandals had in common was skewed reporting of selected financial transactions. For instance, companies such as Enron, WorldCom, and Tyco

covered up or misrepresented a variety of questionable transactions, resulting in huge losses to stakeholders and a crisis in investor confidence. How did Congress think the Act would address the problem? Sarbanes-Oxley aims to enhance corporate governance and strengthen corporate accountability. It does that by:

1. Formalizing and strengthening internal checks and balances within corporations.
2. Instituting various new levels of control and sign-off designed to ensure that financial reporting exercises full disclosure.
3. Corporate governance is transacted with full transparency.

SOX applies to all public companies in the USA and international companies that have registered equity or debt securities with the Securities and Exchange Commission and the accounting firms that provide auditing services to them.

Source: <http://www.sox-online.com/basics.html>

7.6 Cadbury Committee Report (1992)

The “Cadbury Committee” was set up in May 1991 with a view to overcome the huge problems of scams and failures occurring in the corporate sector worldwide in the late 1980s and the early 1990s. It was formed by the Financial Reporting Council, the London Stock of Exchange, and the accountancy profession, with the main aim of addressing the financial aspects of corporate governance. Other objectives include (1) uplift the low level of confidence both in financial reporting and in the ability of auditors to provide the safeguards which the users of company’s reports sought and expected; (2) review the structure, rights, and roles of board of directors, shareholders, and auditors by making them more effective and accountable; (3) address various aspects of accountancy profession and make appropriate recommendations, wherever necessary; and (4) raise the standard of corporate governance. Keeping this in view, the Committee published its final report on December 1, 1992. The report was mainly divided into three parts:

Reviewing the structure and responsibilities of boards of directors and recommending a Code of Best Practice, the boards of all listed companies should comply with the Code of Best Practice. All listed companies should make a statement about their compliance with the Code in their report and accounts as well as give reasons for any areas of noncompliance. The Code of Best Practice is segregated into four sections and their respective recommendations are:

Board of Directors: The board should meet regularly, retain full and effective control over the company, and monitor the executive management. There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member. Besides, all directors should have access to the advice and services of the company secretary, who is responsible to the board for

ensuring that board procedures are followed and that applicable rules and regulations are complied with.

Nonexecutive Directors: The nonexecutive directors should bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. The majority of nonexecutive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding.

Executive Directors: There should be full and clear disclosure of directors' total emoluments and those of the chairman and highest-paid directors, including pension contributions and stock options, in the company's annual report, including separate figures for salary and performance-related pay.

Financial Reporting and Controls: It is the duty of the board to present a balanced and understandable assessment of their company's position, in reporting of financial statements, for providing true and fair picture of financial reporting. The directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. The board should ensure that an objective and professional relationship is maintained with the auditors.

7.6.1 Considering the Role of Auditors and Addressing a Number of Recommendations to the Accountancy Profession

The annual audit is one of the cornerstones of corporate governance. It provides an external and objective check on the way in which the financial statements have been prepared and presented by the directors of the company. The Cadbury Committee recommended that a professional and objective relationship between the board of directors and auditors should be maintained, so as to provide to all a true and fair view of company's financial statements.

Auditors' role is to design audit in such a manner so that it provides a reasonable assurance that the financial statements are free of material misstatements. Further, there is a need to develop more effective accounting standards, which provide important reference points against which auditors exercise their professional judgment. Secondly, every listed company should form an audit committee which gives the auditors direct access to the nonexecutive members of the board. The Committee further recommended for a regular rotation of audit partners to prevent unhealthy relationship between auditors and the management.

It is also recommended for disclosure of payments to the auditors for non-audit services to the company. The accountancy profession, in conjunction with representatives of preparers of accounts, should take the lead in (1) developing a set of criteria for assessing effectiveness, (2) developing guidance for companies on the form in which directors should report, and (3) developing guidance for auditors on

relevant audit procedures and the form in which auditors should report. However, it should continue to improve its standards and procedures.

7.6.2 Dealing with the Rights and Responsibilities of Shareholders

The shareholders, as owners of the company, elect the directors to run the business on their behalf and hold them accountable for its progress. They appoint the auditors to provide an external check on the directors' financial statements. The Committee's report places particular emphasis on the need for fair and accurate reporting of a company's progress to its shareholders, which is the responsibility of the board. It is encouraged that the institutional investors/shareholders to make greater use of their voting rights and take positive interest in the board functioning. Both shareholders and boards of directors should consider how the effectiveness of general meetings could be increased as well as how to strengthen the accountability of boards of directors to shareholders.

Source: http://business.gov.in/corporate_governance/cadbury_report.php

7.7 OECD Guidelines

One of the most influential guidelines has been the 1999 OECD Principles of Corporate Governance. This was revised in 2004. The OECD guidelines are often referenced by countries developing local codes or guidelines. Building on the work of the OECD, other international organizations, private sector associations, and more than 20 national corporate governance codes, the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) has produced their Guidance on Good Practices in Corporate Governance Disclosure. This internationally agreed [25] benchmark consists of more than 50 distinct disclosure items across five broad categories:

1. Auditing
2. Board and management structure and process
3. Corporate responsibility and compliance
4. Financial transparency and information disclosure
5. Ownership structure and exercise of control rights

The investor-led organization International Corporate Governance Network (ICGN) was set up by individuals centered around the ten largest pension funds in the world 1995. The aim is to promote global corporate governance standards. The network is led by investors that manage 18 trillion dollars and members are located in 50 different countries. ICGN has developed a suite of global guidelines ranging

from shareholder rights to business ethics. The World Business Council for Sustainable Development (WBCSD) has done work on corporate governance, particularly on accountability and reporting, and in 2004 released Issue Management Tool: Strategic challenges for business in the use of corporate responsibility codes, standards, and frameworks. This document offers general information and a perspective from a business association/think tank on a few key codes, standards, and frameworks relevant to the sustainability agenda.

In 2009, the International Finance Corporation and the UN Global Compact released a report, Corporate Governance: the Foundation for Corporate Citizenship and Sustainable Business, linking the environmental, social, and governance responsibilities of a company to its financial performance and long-term sustainability.

Most codes are largely voluntary. An issue raised in the USA since the 2005 Disney decision is the degree to which companies manage their governance responsibilities, in other words, do they merely try to supersede the legal threshold or should they create governance guidelines that ascend to the level of best practice. For example, the guidelines issued by associations of directors, corporate managers, and individual companies tend to be wholly voluntary, but such documents may have a wider effect by prompting other companies to adopt similar practices.

7.8 Corporate Governance in India

The Securities and Exchange Board of India (SEBI) had constituted a Committee on Corporate Governance and circulated the recommendations to all stock exchanges for implementation by listed entities as part of the listing agreement vide SEBI's circular SMDRP/Policy/CIR-10/2000 dated February 21, 2000. Full text of recommendations of the Committee which form part of the above circular can be had by access to SEBI's website, www.sebi.gov.in/circulars/2000. A summary of the important recommendations of the SEBI Committee as applicable to banks is furnished here under:

- 1.1. All pecuniary relationship or transactions of the nonexecutive directors should be disclosed in the annual report.
- 1.2. The Committee is of the view that nonexecutive directors help bring an independent judgment to bear on board's deliberations, especially on issues of strategy, performance, management of conflicts, and standards of conduct. The Committee therefore lays emphasis on the caliber of the nonexecutive directors, especially of the independent directors.
- 1.3. The Committee is of the view that it is important that an adequate compensation package be given to the nonexecutive independent directors so that these positions become sufficiently financially attractive to attract talent and that the nonexecutive directors are sufficiently compensated for undertaking this work.

- 1.4. The Committee recommends that the board of a company have an optimum combination of executive and nonexecutive directors with not less than 50 % of the board comprising the nonexecutive directors. The number of independent directors depends on the nature of the chairman of the board. In case a company has a nonexecutive chairman, at least half of board should be independent (mandatory recommendation).
- 2.1. The Committee recommends that when a nominee of the institutions is appointed as a director of the company, he should have the same responsibility, be subject to the same discipline, and be accountable to the shareholders in the same manner as any other director of the company. In particular, if he reports to any department of the institutions on the affairs of the company, the institution should ensure that there exist Chinese walls between such department and other department which may be dealing in the shares of the company in the stock market.
- 3.1. The Committee recommends that a nonexecutive chairman should be entitled to maintain a chairman's office at the company's expense and also allowed reimbursement of expenses incurred in performance of his duties. This will enable him to discharge the responsibilities effectively.
- 1.1. The Committee recommends that a qualified and independent audit committee should be set up by the board of a company (mandatory recommendation).
- 1.2. The Committee recommends that:
 - The audit committee should have a minimum of three members, all being nonexecutive directors, with the majority being independent and with at least one director having financial and accounting knowledge.
 - The chairman of the committee should be an independent director.
 - The chairman should be present at the Annual General Meeting to answer shareholder queries.
 - The audit committee should invite such of the executives as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the Committee but on occasions, it may also meet without the presence of any executives of the company. The finance director and head of internal audit, and, when required, a representative of the external auditor should be present as invitees for the meetings of the audit committee.
 - The company secretary should act as the secretary to the committee.
- 4.3. The Committee recommends that the audit committee should meet at least thrice a year. One meeting must be held before finalization of annual accounts and one necessarily every 6 months (mandatory recommendation).
- 4.4. The quorum should be either two members or one-third of the members of the audit committee, whichever is higher, and there should be a minimum of two independent directors (mandatory recommendation).
- 4.5. Being a committee of the board, the audit committee derives its powers from the authorization of the board. The Committee recommends that such powers should include powers:
 1. To investigate any activity within its terms of reference
 2. To seek information from any employee

3. To obtain outside legal or other professional advice
4. To secure attendance of outsiders with relevant expertise, if it considers necessary
 - Discussion with external auditors, before the audit commences, of the nature, and scope of audit. Also postaudit discussion to ascertain any area of concern
 - Reviewing the company's financial and risk management policies
 - Looking into the reasons for substantial defaults in the payments to the depositors, debenture holders, shareholders (in case of nonpayment of declare dividends), and creditors

This is a mandatory recommendation.

- 5.1. The Committee recommends that the board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration packages for executive directors including pension rights and any compensation payment.
- 6.1. The Committee therefore recommends that board meetings should be held at least four times in a year, with a maximum time gap of 4 months between any two meetings. The minimum information should be available to the board (mandatory recommendation).
- 6.2. The committee recommends that a director should not be a member in more than ten committees or act as chairman of more than five committees across all companies in which he is a director. Furthermore, it is a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place (mandatory recommendation).
- 7.1. The recommendations contained in this section pertain to accounting standards on consolidation, segment reporting, disclosure, and treatment of related party transactions and deferred taxation. The Committee recommended that the Institute of Chartered Accountants of India issue accounting standards on these areas expeditiously.
- 8.1. As a part of the disclosure related to Management, the Committee recommends that as part of the directors' report or as an addition thereto, a Management Discussion and Analysis report should form part of the annual report to the shareholders (mandatory recommendation).
- 8.2. The committee recommends that disclosures be made by management to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (e.g., dealing in company shares, commercial dealings with bodies which have shareholding of management and their relatives) (mandatory recommendation).
- 9.1. The Committee recommends that in case of the appointment of a new director or reappointment of a director, the shareholders must be provided with the following information:

4.6. As the audit committee acts as the bridge between the board, the statutory auditors, and internal auditors, the Committee recommends that its role should include the following:

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient, and credible
- Recommending the appointment and removal of the external auditor, fixation of audit fee, and also approval for payment for any other service
- Reviewing with management the annual financial statements before submission to the board, focusing primarily on:
 - Any changes in accounting policies and practices
 - Major accounting entries based on exercise of judgment by management
 - Qualifications in draft audit report
 - Significant adjustment arising out of audit
 - The going concern assumption
 - Compliance with accounting standards
 - Compliance with stock exchange and legal requirement concerning financial institutions
 - Any related party transactions, i.e., transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives that may have potential conflict with the interests of company at large
- Reviewing with the management, external and internal auditors, and the adequacy of internal control systems
- Reviewing the adequacy of the internal audit function, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage, and frequency of internal audit
- Discussion with the internal auditors of any significant findings and follow-up thereon
- Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board
- A brief resume of the director
- Nature of his expertise in specific financial areas
- Names of the companies in which the person also holds the directorship and the membership of committees of the board

This is a mandatory recommendation.

9.2. The Committee recommends that information like quarterly results and presentation made by companies to analysts may be put on company's website; or may be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own website (mandatory recommendation).

- 9.3. The Committee recommends that the half-yearly declaration of financial performance including summary of the significant events in last 6 months should be sent to each household of shareholders.
- 9.4. The Committee recommends that a board committee under the chairmanship of a nonexecutive director should be formed to specifically look into the redressing of shareholder complaints like transfer of shares, nonreceipt of balance sheet, and nonreceipt of declared dividends. The Committee believes that the formation of such a committee will help focus the attention of the company on shareholders' grievances and sensitize the management to redressal of their grievances (mandatory recommendation).
- 9.5. The Committee further recommends that to expedite the process of share transfers, the board of the company should delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority should attend to share transfer formalities at least once in a fortnight (mandatory recommendation).
10. The Committee recommends that there should be a separate section on corporate governance in the annual reports of companies, with a detailed compliance report on corporate governance. Noncompliance of any mandatory recommendation with reasons thereof and the extent to which the nonmandatory recommendations have been adopted should be specifically highlighted. This will enable the shareholders and the securities market to assess for themselves the standards of corporate governance followed by a company (mandatory recommendation).

The organizational framework for corporate governance initiatives in India consists of the Ministry of Corporate Affairs (MCA) and the Securities and Exchange Board of India (SEBI). The first formal regulatory framework for listed companies specifically for corporate governance was established by the SEBI in February 2000, following the recommendations of Kumar Mangalam Birla Committee Report. It was enshrined as Clause 49 of the listing agreement.

Thereafter SEBI had set up another committee under the chairmanship of Mr. N. R. Narayana Murthy, to review Clause 49, and suggest measures to improve corporate governance standards. Some of the major recommendations of the committee primarily related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct, and financial disclosures.

The Ministry of Corporate Affairs had also appointed a Naresh Chandra Committee on Corporate Audit and Governance in 2002 in order to examine various corporate governance issues. It made recommendations in two key aspects of corporate governance: financial and nonfinancial disclosures and independent auditing and board oversight of management.

It had also set up a National Foundation for Corporate Governance (NFCG) in association with the CII, ICAI, and ICSI as a not-for-profit trust to provide a platform to deliberate on issues relating to good corporate governance, to sensitize corporate leaders on the importance of good corporate governance practices, as well as to facilitate exchange of experiences and ideas among corporate

leaders, policy makers, regulators, law enforcing agencies, and nongovernment organizations.

Good governance in capital market has always been high on the agenda of SEBI. Corporate governance is looked upon as a distinctive brand and benchmark in the profile of corporate excellence. This is evident from the continuous update of guidelines, rules, and regulations by SEBI for ensuring transparency and accountability. In the process, SEBI had constituted a Committee on Corporate Governance under the chairmanship of Shri Kumar Mangalam Birla. The Committee in its report observed that “the strong Corporate Governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure.”

Based on the recommendations of the Committee, the SEBI had specified principles of corporate governance and introduced a new Clause 49 in the listing agreement of the stock exchanges in the year 2000. These principles of corporate governance were made applicable in a phased manner, and all the listed companies with the paid up capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company were covered as of March 31, 2003.

SEBI, as part of its endeavor to improve the standards of corporate governance in line with the needs of a dynamic market, constituted another Committee on Corporate Governance under the chairmanship of Shri N. R. Narayana Murthy to review the performance of corporate governance and to determine the role of companies in responding to rumor and other price sensitive information circulating in the market in order to enhance the transparency and integrity of the market. The Committee in its Report observed that “the effectiveness of a system of Corporate Governance cannot be legislated by law, nor can any system of Corporate Governance be static. In a dynamic environment, system of Corporate Governance needs to be continually evolved.”

With a view to promote and raise the standards of corporate governance, SEBI on the basis of recommendations of the Committee and public comments received on the report and in exercise of powers conferred by Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Section 10 of the Securities Contracts (Regulation) Act 1956 and revised the existing Clause 49 of the listing agreement vide its circular SEBI/MRD/SE/31/2003/26/08 dated August 26, 2003. It clarified that some of the subclauses of the revised Clause 49 shall be suitably modified or new clauses shall be added following the amendments to the Companies Act 1956 by the Companies (Amendment) Bill/Act 2003, so that the relevant provisions of the clauses on corporate governance in the listing agreement and the Companies Act remain harmonious with one another.

The Securities and Exchange Board of India (SEBI) has formulated guidelines for corporate governance by listed companies through the listing agreement. The relevant clause is Clause 49 – corporate governance. These have and would continually evolve. Given below are the guidelines as enunciated by SEBI in October 2004. These are for information only and no responsibility is accepted.

7.9 Clause 49: New Initiatives in Corporate Governance

The company agrees to comply with the following provisions:

7.9.1 Board of Directors

7.9.1.1 Composition of Board

- (i) The board of directors of the company shall have an optimum combination of executive and nonexecutive directors with not less than 50 % of the board of directors comprising of nonexecutive directors.
- (ii) Where the chairman of the board is a nonexecutive director, at least one-third of the board should comprise of independent directors, and, in case he is an executive director, at least half of the board should comprise of independent directors.
- (iii) For the purpose of the subclause (ii), the expression “independent director” shall mean a nonexecutive director of the company who:
 - (a) Apart from receiving director’s remuneration, does not have any material pecuniary relationships or transactions with the company, its promoters, its directors, its senior management or its holding company, its subsidiaries, and associates which may affect independence of the director
 - (b) Is not related to promoters or persons occupying management positions at the board level or at one level below the board
 - (c) Has not been an executive of the company in the immediately preceding three financial years
 - (d) Is not a partner or an executive or was not partner or an executive during the preceding 3 years, of any of the following:
 - (i) The statutory audit firm or the internal audit firm that is associated with the company
 - (ii) The legal firm(s) and consulting firm(s) that have a material association with the company
 - (e) Is not a material supplier, service provider, or customer or a lessor or lessee of the company, which may affect independence of the director
 - (f) Is not a substantial shareholder of the company, i.e., owning 2 % or more of the block of voting shares

Explanation

For the purposes of the subclause (iii):

- (a) Associate shall mean a company which is an “associate” as defined in Accounting Standard (AS) 23, “Accounting for Investments in Associates in Consolidated Financial Statements,” issued by the Institute of Chartered Accountants of India.

- (b) “Senior management” shall mean personnel of the company who are members of its core management team excluding board of directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.
- (c) “Relative” shall mean “relative” as defined in Section 2(41) and Section 6 read with Schedule IA of the Companies Act, 1956.
- (iv) Nominee directors appointed by an institution which has invested in or lent to the company shall be deemed to be independent directors.

Explanation

“Institution” for this purpose means a public financial institution as defined in Section 4A of the Companies Act, 1956, or a “corresponding new bank” as defined in Section 2(d) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970, or the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 [both Acts].”

7.9.1.2 Nonexecutive Directors’ Compensation and Disclosures

All fees/compensation, if any paid to nonexecutive directors, including independent directors, shall be fixed by the board of directors and shall require previous approval of shareholders in general meeting. The shareholders’ resolution shall specify the limits for the maximum number of stock options that can be granted to nonexecutive directors, including independent directors, in any financial year and in aggregate.

7.9.1.3 Other Provisions as to Board and Committees

- (i) The board shall meet at least four times a year, with a maximum time gap of 3 months between any two meetings. The minimum information to be made available to the board is given in *Annexure: IA*.
- (ii) A director shall not be a member in more than ten committees or act as chairman of more than five committees across all companies in which he is a director. Furthermore it should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

Explanation

1. For the purpose of considering the limit of the committees on which a director can serve, all public limited companies, whether listed or not, shall be included and all other companies including private limited companies, foreign companies, and companies under Section 25 of the Companies Act shall be excluded.
2. For the purpose of reckoning the limit under this subclause, chairmanship/ membership of the audit committee and the Shareholders’ Grievance Committee alone shall be considered.

- (iii) The board shall periodically review compliance reports of all laws applicable to the company, prepared by the company as well as steps taken by the company to rectify instances of noncompliances.

7.9.1.4 Code of Conduct

- (i) The board shall lay down a code of conduct for all board members and senior management of the company. The code of conduct shall be posted on the website of the company.
- (ii) All board members and senior management personnel shall affirm compliance with the code on an annual basis. The annual report of the company shall contain a declaration to this effect signed by the CEO.

Explanation: For this purpose, the term “senior management” shall mean personnel of the company who are members of its core management team excluding board of directors. Normally, this would comprise all members of management one level below the executive directors, including all functional heads.

7.9.2 Audit Committee

7.9.2.1 Qualified and Independent Audit Committee

A qualified and independent audit committee shall be set up, giving the terms of reference subject to the following:

- (i) The audit committee shall have a minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
- (ii) All members of audit committee shall be financially literate, and at least one member shall have accounting or related financial management expertise.

Explanation 1: The term “financially literate” means the ability to read and understand basic financial statements, i.e., balance sheet, profit and loss account, and statement of cash flows.

Explanation 2: A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting or requisite professional certification in accounting or any other comparable experience or background which results in the individual’s financial sophistication, including being or having been a chief executive officer, chief financial officer, or other senior officer with financial oversight responsibilities.

- (iii) The chairman of the audit committee shall be an independent director.
- (iv) The chairman of the audit committee shall be present at Annual General Meeting to answer shareholder queries.

- (v) The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit, and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee.
- (vi) The Company Secretary shall act as the secretary to the committee.

7.9.2.2 Meeting of Audit Committee

The audit committee should meet at least four times in a year and not more than 4 months shall elapse between two meetings. The quorum shall be either two members or one-third of the members of the audit committee whichever is greater, but there should be a minimum of two independent members present.

7.9.2.3 Powers of Audit Committee

The audit committee shall have powers, which should include the following:

1. To investigate any activity within its terms of reference
2. To seek information from any employee
3. To obtain outside legal or other professional advice
4. To secure attendance of outsiders with relevant expertise, if it considers necessary

7.9.2.4 Role of Audit Committee

The role of the audit committee shall include the following:

1. Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient, and credible.
2. Recommending to the board, the appointment, reappointment, and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees
3. Approval of payment to statutory auditors for any other services rendered by the statutory auditors
4. Reviewing, with the management, the annual financial statements before submission to the board for approval, with particular reference to:
 - (a) Matters required to be included in the Director's Responsibility Statement to be included in the board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956
 - (b) Changes, if any, in accounting policies and practices and reasons for the same
 - (c) Major accounting entries involving estimates based on the exercise of judgment by management

- (d) Significant adjustments made in the financial statements arising out of audit findings
 - (e) Compliance with listing and other legal requirements relating to financial statements
 - (f) Disclosure of any related party transactions
 - (g) Qualifications in the draft audit report
5. Reviewing, with the management, the quarterly financial statements before submission to the board for approval
 6. Reviewing, with the management, performance of statutory and internal auditors and adequacy of the internal control systems
 7. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing, and seniority of the official heading the department, reporting structure coverage and frequency of internal audit
 8. Discussion with internal auditors any significant findings and follow-up there on, page 7 of 18
 9. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board
 10. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as postaudit discussion to ascertain any area of concern
 11. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of nonpayment of declared dividends), and creditors
 12. To review the functioning of the whistle-blower mechanism, in case the same is existing
 13. Carrying out any other function as is mentioned in the terms of reference of the audit committee

Explanation (i): The term “related party transactions” shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.

Explanation (ii): If the company has set up an audit committee pursuant to provision of the Companies Act, the said audit committee shall have such additional functions/features as is contained in this clause.

7.9.2.5 Review of Information by Audit Committee

The audit committee shall mandatorily review the following information:

1. Management Discussion and Analysis of financial condition and results of operations
2. Statement of significant related party transactions (as defined by the audit committee), submitted by management
3. Management letters/letters of internal control weaknesses issued by the statutory auditors

4. Internal audit reports relating to internal control weaknesses
5. The appointment, removal, and terms of remuneration of the chief internal auditor shall be subject to review by the audit committee

7.9.3 *Subsidiary Companies*

- (i) At least one independent director on the board of directors of the holding company shall be a director on the board of directors of a material non-listed Indian subsidiary company.
- (ii) The audit committee of the listed holding company shall also review the financial statements, in particular, the investments made by the unlisted subsidiary company.
- (iii) The minutes of the board meetings of the unlisted subsidiary company shall be placed at the board meeting of the listed holding company. The management should periodically bring to the attention of the board of directors of the listed holding company, a statement of all significant transactions and arrangements entered into by the unlisted subsidiary company.

Explanation 1: The term “material non-listed Indian subsidiary” shall mean an unlisted subsidiary, incorporated in India, whose turnover or net worth (i.e., paid up capital and free reserves) exceeds 20 % of the consolidated turnover or net worth, respectively, of the listed holding company and its subsidiaries in the immediately preceding accounting year.

Explanation 2: The term “significant transaction or arrangement” shall mean any individual transaction or arrangement that exceeds or is likely to exceed 10 % of the total revenues or total expenses or total assets or total liabilities, as the case may be, of the material unlisted subsidiary for the immediately preceding accounting year.

Explanation 3: Where a listed holding company has a listed subsidiary which is itself a holding company, the above provisions shall apply to the listed subsidiary insofar as its subsidiaries are concerned.

7.9.4 *Disclosures*

7.9.4.1 *Basis of Related Party Transactions*

- (i) A statement in summary form of transactions with related parties in the ordinary course of business shall be placed periodically before the audit committee.
- (ii) Details of material individual transactions with related parties which are not in the normal course of business shall be placed before the audit committee.

- (iii) Details of material individual transactions with related parties or others, which are not on an arm's length basis should be placed before the audit committee, together with Management's justification for the same.

7.9.4.2 Disclosure of Accounting Treatment

Where in the preparation of financial statements, a treatment different from that prescribed in an Accounting Standard has been followed, the fact shall be disclosed in the financial statements, together with the management's explanation as to why it believes such alternative treatment is more representative of the true and fair view of the underlying business transaction in the Corporate Governance Report.

7.9.4.3 Board Disclosures: Risk Management

The company shall lay down procedures to inform board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework.

7.9.4.4 Proceeds from Public Issues, Rights Issues, Preferential Issues, Etc.

When money is raised through an issue (public issues, rights issues, preferential issues, etc.), it shall disclose to the audit committee, the uses/applications of funds by major category (capital expenditure, sales and marketing, working capital, etc.), on a quarterly basis as a part of their quarterly declaration of financial results. Further, on an annual basis, the company shall prepare a statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice and place it before the audit committee. Such disclosure shall be made only till such time that the full money raised through the issue has been fully spent. This statement shall be certified by the statutory auditors of the company. The audit committee shall make appropriate recommendations to the board to take-up steps in this matter.

7.9.4.5 Remuneration of Directors

- (i) All pecuniary relationship or transactions of the nonexecutive directors vis-à-vis the company shall be disclosed in the annual report.
- (ii) Further the following disclosures on the remuneration of directors shall be made in the section on the corporate governance of the annual report:

- (a) All elements of remuneration package of individual directors summarized under major groups, such as salary, benefits, bonuses, stock options, and pension.
 - (b) Details of fixed component and performance linked incentives, along with the performance criteria.
 - (c) Service contracts, notice period, and severance fees.
 - (d) Stock option details, if any – and whether issued at a discount as well as the period over which accrued and over which exercisable.
- (iii) The company shall publish its criteria of making payments to nonexecutive directors in its annual report. Alternatively, this may be put up on the company’s website and reference drawn thereto in the annual report.
- (iv) The company shall disclose the number of shares and convertible instruments held by nonexecutive directors in the annual report.
- (v) Nonexecutive directors shall be required to disclose their shareholding (both own and held by/for other persons on a beneficial basis) in the listed company in which they are proposed to be appointed as directors, prior to their appointment. These details should be disclosed in the notice to the general meeting called for appointment of such director.

7.9.4.6 Management

- (i) As part of the directors’ report or as an addition thereto, a Management Discussion and Analysis report should form part of the annual report to the shareholders. This Management Discussion and Analysis should include discussion on the following matters within the limits set by the company’s competitive position:
- (a) Industry structure and developments
 - (b) Opportunities and threats
 - (c) Segment-wise or product-wise performance
 - (d) Outlook
 - (e) Risks and concerns
 - (f) Internal control systems and their adequacy
 - (g) Discussion on financial performance with respect to operational performance.
 - (h) Material developments in human resources/industrial relations front, including number of people employed
- (ii) Senior management shall make disclosures to the board relating to all material financial and commercial transactions, where they have personal interest, that may have a potential conflict with the interest of the company at large (e.g., dealing in company shares, commercial dealings with bodies, which have shareholding of management and their relatives).

Explanation: For this purpose, the term “senior management” shall mean personnel of the company who are members of its core management team excluding the board of directors.

This would also include all members of management one level below the executive directors including all functional heads.

7.9.4.7 Shareholders

- (i) In case of the appointment of a new director or reappointment of a director, the shareholders must be provided with the following information:
 - (a) A brief resume of the director
 - (b) Nature of his expertise in specific functional areas
 - (c) Names of companies in which the person also holds the directorship and the membership of Committees of the board
 - (d) Shareholding of nonexecutive directors as stated in Clause 49 (IV) (E) (v) above
- (ii) Quarterly results and presentations made by the company to analysts shall be put on company's website or shall be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own website.
- (iii) A board committee under the chairmanship of a nonexecutive director shall be formed to specifically look into the redressal of shareholder and investors complaints like transfer of shares, nonreceipt of balance sheet, nonreceipt of declared dividends, etc. This Committee shall be designated as "Shareholders/ Investors Grievance Committee."
- (iv) To expedite the process of share transfers, the board of the company shall delegate the power of share transfer to an officer or a committee or to the registrar and share transfer agents. The delegated authority shall attend to share transfer formalities at least once in a fortnight.

7.9.5 CEO/CFO Certification

The CEO, i.e., the managing director or manager appointed in terms of the Companies Act, 1956, and the CFO, i.e., the whole-time finance director or any other person heading the finance function discharging that function shall certify to the board that:

- (a) They have reviewed financial statements and the cash flow statement for the year and that to the best of their knowledge and belief:
 - (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading.
 - (ii) These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards, applicable laws, and regulations.

- (b) There are, to the best of their knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal, or violative of the company's code of conduct.
- (c) They accept responsibility for establishing and maintaining internal controls and that they have evaluated the effectiveness of the internal control systems of the company and they have disclosed to the auditors and the audit committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- (d) They have indicated to the auditors and the audit committee:
 - (i) Significant changes in internal control during the year
 - (ii) Significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements
 - (iii) Instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the company's internal control system

Corporations are the prominent players in the global markets. They are mainly responsible for generating majority of economic activities in the world, ranging from goods and services to capital and resources. The essence of corporate governance is in promoting and maintaining integrity, transparency, and accountability in the management of the company as well as in manifestation of the values, principles, and policies of a corporation.

Many efforts are being made, both at the center and the state level, to promote adoption of good corporate governance practices, which are the integral element for doing and managing business. However, the concepts and principles of good governance are still not clearly known to the Indian business setup.

Hence, there is a greater need to increase awareness among entrepreneurs about the various aspects of corporate governance. There are some of the areas that need special attention, namely:

- Quality of audit, which is at the root of effective corporate governance
- Role of board of directors as well as accountability of the CEOs and CFOs
- Quality and effectiveness of the legal, administrative and regulatory framework, etc.

7.9.6 Conclusion

That is, it is necessary to provide the corporate desired level of comfort in compliance with the code, principles, and requirements of corporate governance as well as provide relevant information to all stakeholders regarding the performance, policies, and procedures of the company in a transparent manner. There should be proper financial and nonfinancial disclosures by the companies, such as about remuneration package, financial reporting, auditing, and internal controls.

The Main Constituents of Good Corporate Governance are:

1. *Role and Powers of the Board:* The foremost requirement of good corporate governance is the clear identification of powers, roles, responsibilities, and accountability of the board, CEO, and the chairman of the board.
2. *Legislation:* A clear and unambiguous legislative and regulatory framework is fundamental to effective corporate governance.
3. *Code of Conduct:* It is essential that an organization's explicitly prescribed code of conduct is communicated to all stakeholders and is clearly understood by them. There should be some system in place to periodically measure and evaluate the adherence to such code of conduct by each member of the organization.
4. *Board Independence:* An independent board is essential for sound corporate governance. It means that the board is capable of assessing the performance of managers with an objective perspective. Hence, the majority of board members should be independent of both the management team and any commercial dealings with the company. Such independence ensures the effectiveness of the board in supervising the activities of management as well as make sure that there are no actual or perceived conflicts of interests.
5. *Board Skills:* In order to be able to undertake its functions effectively, the board must possess the necessary blend of qualities, skills, knowledge, and experience so as to make quality contribution. It includes operational or technical expertise, financial skills, legal skills, as well as knowledge of government and regulatory requirements.
6. *Management Environment:* It includes setting up of clear objectives and appropriate ethical framework, establishing due processes, providing for transparency and clear enunciation of responsibility and accountability, implementing sound business planning, encouraging business risk assessment, having right people and right skill for jobs, establishing clear boundaries for acceptable behavior, establishing performance evaluation measures, and evaluating performance and sufficiently recognizing individual and group contribution.
7. *Board Appointments:* To ensure that the most competent people are appointed in the board, the board positions must be filled through the process of extensive search. A well-defined and open procedure must be in place for reappointments as well as for appointment of new directors.
8. *Board Induction and Training:* It is essential to ensure that directors remain abreast of all development, which are or may impact corporate governance and other related issues.
9. *Board Meetings:* These are the forums for board decision making. These meetings enable directors to discharge their responsibilities. The effectiveness of board meetings is dependent on carefully planned agendas and providing relevant papers and materials to directors sufficiently prior to board meetings.
10. *Strategy Setting:* The objective of the company must be clearly documented in a long-term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.

11. *Business and Community Obligations:* Though the basic activity of a business entity is inherently commercial, yet it must also take care of community's obligations. The stakeholders must be informed about the approval by the proposed and ongoing initiatives taken to meet the community obligations.
12. *Financial and Operational Reporting:* The board requires comprehensive, regular, reliable, timely, correct, and relevant information in a form and of a quality that is appropriate to discharge its function of monitoring corporate performance.
13. *Monitoring the Board Performance:* The board must monitor and evaluate its combined performance and also that of individual directors at periodic intervals, using key performance indicators besides peer review.
14. *Audit Committee:* It is inter alia responsible for liaison with management and internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the board on the key issues.
15. *Risk Management:* Risk is an important element of corporate functioning and governance. There should be a clearly established process of identifying, analyzing, and treating risks, which could prevent the company from effectively achieving its objectives. The board has the ultimate responsibility for identifying major risks to the organization, setting acceptable levels of risks, and ensuring that senior management takes steps to detect, monitor, and control these risks.

7.10 Case Study Two: The Satyam Episode in India

The case examines the corporate governance issues at the India-based IT services company, Satyam Computer Services Limited (Satyam). In mid-December 2008, Satyam announced acquisition of two companies: Maytas Properties and Maytas Infrastructure owned by the family members of Satyam's founder and Chairman Ramalinga Raju (Raju). Due to adverse reaction from institutional investors and the stock markets, the deal was withdrawn within 12 h. Questions were raised on the corporate governance practices of Satyam with analysts and investors questioning the company's board on the reasons for giving consent for the acquisition as it was a related party transaction.

After the deal was aborted, four of the prominent independent directors resigned from the board of the company. In early January 2009, Raju revealed that the revenue and profit figures of Satyam had been inflated for past several years. The revelation further deepened concerns about poor corporate governance practices at the company. The case describes the corporate governance structure at Satyam, its code of conduct, roles and responsibilities of different committees under the board, whistle-blower policy, etc. It highlights the role played by the independent directors of Satyam in approving the Maytas deal and discusses their limitations.

7.11 Case Study Three: UTI Scam

Of all the recent encounters of the Indian public with the much-celebrated forces of the market, the Unit Trust's US-64 debacle is the worst. Its gravity far exceeds the stock market downswing of the mid-1990s, which wiped out Rs. 20,000 crores in savings. The debacle is part of the economic slowdown which has eliminated one million jobs and also burst the information technology (IT) bubble.

This has tragically led to suicides by investors. And then suspension of trading in US-64 made the hapless investors more dejected at the sinking of this "supersafe" public sector instrument that had delivered a regular return since 1964. There is a larger lesson in the US-64 debacle for policies towards public savings and public sector undertakings (PSUs). The US-64 crisis is rooted in plain mismanagement. US-64 was launched as a steady income fund. Logically, it should have invested in debt, especially low-risk fixed-income government bonds. Instead, its managers increasingly invested in equities, with high-risk speculative returns. In the late 1980s, UTI was "politicized" with other financial institutions (FIs) such as LIC and GIC and made to invest in certain favored scrips. By the mid-1990s, equities exceeded debt in its portfolio.

The FIs were also used to "boost the market" artificially as an "endorsement" of controversial economic policies. In the past couple of years, UTI made downright imprudent but heavy investments in stocks from Ketan Parekh's favorite K-10 portfolio, such as Himachal Futuristic, Global Tele, and DSQ. These "technology" investments took place despite indications that the "technology boom" had ended. US-64 lost half its Rs. 30,000 crore portfolio value within a year. UTI sank Rs. 3,400 crores in just six out of a portfolio of 44 scrips.

This eroded by 60 %. Early that year, US-64's net asset value plunged below par (Rs. 10). But it was repurchasing US-64 above Rs. 14! Today, its NAV stands at Rs. 8.30 – a massive loss for 13 million unit-holders. It is inconceivable that UTI made these fateful investment decisions on its own.

According to insiders, the Finance Ministry substantially influenced them: all major decisions need high-level political approval. Indeed, collusion between the FIs, and shady operators like Harshad Mehta, was central to the Securities Scam of 1992. The Joint Parliamentary Committee's report documents this. In recent months, the Finance Ministry became desperate to reverse the post-budget market downturn.

UTI's misinvestment now coincided with the global technology "meltdown." US-64 crashed. UTI chairman resigned. Although culpable, he was probably a scapegoat too.

The Ministry has kept a close watch on UTI, especially since 1999. The US-64 debacle, then, is not just a UTI scam. It is a governance scam involving mismanagement by a government frustrated at the failure of its macroeconomic calculations. This should have ensured the finance minister's exit in any democracy which respects parliamentary norms.

There are larger lessons in the UTI debacle. If a well-established, and until recently well-managed, institution like UTI cannot safeguard public savings, then we should

not allow the most precious of such savings – pensions – to be put at risk. Such risky investment is banned in many self avowedly capitalist European economies.

In India, the argument acquires greater force given the poorly regulated, extremely volatile, stock market – where a dozen brokers control 90 % of trade. Yet, there is a proposal by the Finance Ministry to privatize pensions and provident funds. Basically, the government, deplorably, wants to get rid of its annual pension obligation of Rs. 22,000 crores.

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Chapter 8

Corporate Social Responsibility

*Companies with their eye on their 'triple-bottom-line'
outperform their less fastidious peers on the stock market*

– The Economist

Globalization can be a force to create growth and opportunities. It has opened markets and linked economies and cultures. In empowering individuals and groups as never before, it has also led to demands for greater attention to be paid to issues such as human rights, environmental protection, and labor standards – the issues that form the core of the corporate social responsibility (CSR) agenda.

We propose that it would be an appropriate time for governments of the hemisphere to consider initiatives for engaging the private sector, the multilateral development banks, and civil society in a dialogue directed towards practical outcomes in support of the principles of good corporate governance and social responsibility.

Balancing corporate investment with community investment is the way of the future. With growing public interest and concern regarding the sustainability of communities as globalization deepens, it will be necessary to show that the nations are working together to ensure that the activities of the business community make a positive contribution to the communities in which they do business.

8.1 The Current Phenomenon

Already an increasing number of companies are recognizing that globalization is transforming corporate responsibility from a choice into an imperative. A recent international inquiry into consumer expectations concluded, for example, that 20 % of consumers surveyed had avoided products and services of particular companies because of their negative ethical profile, and a further 20 % were considering doing so.

The fact is that in today's connected world, there is no hiding place for poor corporate citizens and no excuse for poor corporate citizenship. Whether it is labor practices, environmental habits, or human rights, companies today must be concerned about their global reputations because their actions can quickly become globally known. The Internet is both the great advertiser and the great tattler – it can open doors faster than you would believe. But it can also close them faster than you'd imagine.

8.2 The Threshold of CSR

CSR is generally understood to be the positive role that businesses can play in a host of complex areas, including safeguarding employees' core labor rights (to nondiscrimination, freedom of association, and collective bargaining against child labor and forced labor), protecting the natural environment, eliminating bribery and corruption, and contributing to respect for human rights in the communities where they operate.

CSR is not new to the international agenda; it has been around for many years. It has been gaining prominence and momentum worldwide: Conferences are held weekly, papers and articles are published almost daily, and new and innovative partnerships are being developed. There is reason for optimism. Even if we look only as far back as the Battle of Seattle in the fall of 1999, since then numerous initiatives such as the OECD (Organization for Economic Cooperation and Development) Guidelines for Multinationals and the Global Compact have been introduced, implemented, and, in some cases, refined and implemented again.

8.3 The Global Scenario

The growing international and domestic interest in CSR stems largely from the concerns held by many in every society about the real and perceived effects of rapid globalization. The interest has been reflected in the expectation that globalization must proceed in a manner that supports sustainable development in all regions of the world. People insist that the activities of corporations should make a positive contribution not only to the economic development and stability of the countries in which they operate but also to their social and environmental development. Failure to respond to such an agenda satisfactorily will contribute to increased social tensions, environmental degradation, and political upheavals. Good corporate conduct makes an important contribution to sustainable development in any community and thus goes a long way towards responding to the concerns that globalization raises.

Many companies and business associations have recognized the importance of CSR. Not very long ago, the dividing line between business and society appeared to be clearly drawn. According to the economist Milton Friedman, "There is one and

only one social responsibility of business: to use its resources and engage in activities designed to increase its profits.” This view no longer prevails.

The CSR agenda is a complex one, requiring cooperation among a wide variety of stakeholders to be addressed effectively. Improved dialogue between the private and nongovernmental sectors is one positive pattern emerging from recent corporate social responsibility trends. While early relationships were often characterized by mistrust and misunderstandings that fed a cycle of opposing actions and reactions, today stakeholders are increasingly recognizing the value of multi-sector dialogue or partnerships to achieve substantive, long-term reform.

Such a dialogue can facilitate a better understanding of the expectations and concerns of key stakeholders, and it can also act as a forum where debates over differences are more about identifying mutually acceptable solutions and practical implementation steps than reiterating entrenched, nonretractable positions. Forward-looking companies and NGOs are working with their stakeholders and, in the process, are benefiting from the expertise of all involved. Responsible development brings major challenges, and no one stakeholder is capable of adequately responding to them alone.

The international community has policy tools to influence business activity within and between nations and to help ensure that globalization proceeds in a way that benefits all. These tools include legislation and regulatory frameworks, voluntary compliance with an agreed set of standards monitored by a third party, or self-regulation by businesses, often in conformance with voluntary codes of conduct.

The modern concept of environmental sustainability goes back to the post-World War II period, when a utopian view of technology-driven economic growth gave way to a perception that the quality of the environment was linked closely to economic development. Interest grew sharply during the environmental movements of the 1960s, when popular books such as *Silent Spring* by Rachel Carson (1962) and *The Population Bomb* by Paul Ehrlich (1968) raised public awareness.

There are two related categories of thought on environmental sustainability. In 1968 the Club of Rome, a group of European economists and scientists was formed. In 1972 they published *Limits to Growth*. Criticized by economists of the time, the report predicted dire consequences because humans were using up the Earth’s resources and it advocated as one solution the abandonment of economic development.

There followed the formation of groups sympathetic to the general premise that human society was growing too quickly and/or using up its resources, including the founding of the Worldwatch Institute in 1975. In a different category, other groups formed to focus less on population growth control and slowing economic development and more on establishing environmental standards and enforcement. In retrospect, while some of the predictions made in *Limits to Growth* have proved to have been unfounded or premature, the warning it sounded is regarded as valid by many today.

There is also a positive way to view sustainability: though values vary greatly in detail within and between cultures, at the heart of the concept of sustainability, there is a fundamental, immutable value set that is best stated as “parallel care and respect

for the ecosystem and for the people within.” From this value set emerges the goal of sustainability: to achieve human and ecosystem well-being together.

It follows that the “result” against which the success of any projector design should be judged is the achievement of, or the contribution to, human and ecosystem well-being together. Seen in this way, the concept of sustainability is much more than environmental protection in another guise. It is a positive concept that has as much to do with achieving well-being for people and ecosystems as it has to do with reducing stress or impacts.

Many people have pointed to various practices and philosophies in the world today as being inimical to sustainability. For instance, critics of American society state that the philosophy of infinite economic growth and infinite growth in consumption is completely unsustainable and will cause great harm to human civilization in the future. In recognition that the Earth is finite, there has been a growing awareness that there must be limits to certain kinds of human activity if life on the planet is to survive indefinitely. In order to distinguish which activities are destructive and which are benign or beneficial, various models have been developed. Such models include: life cycle assessment, ecological footprint analysis, and The Natural Step.

One of the critically important issues in sustainability is that of human overpopulation. A number of studies have suggested that the current population of the Earth, already over six billion, is too many people for our planet to support sustainably. A number of organizations are working to try to reduce population growth, but some fear that it may already be too late.

Critics of such efforts, on the other hand, fear that efforts to reduce population growth may lead to human rights violations such as involuntary sterilization and the abandoning of infants to die. Some human rights watchers report that this is already taking place in China, as a result of its one child per family policy.

The World Business Council for Sustainable Development, founded in 1995, has formulated the business case for sustainable development and argues that “sustainable development is good for business and business is good for sustainable development.”

In the age of globalization, corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. One of the key characteristics of globalization is the spread of the market and the change in the mode of production. The centralized mode of production has given way to a highly decentralized mode of production spread across the world.

In the last 20 years, multinational corporations have played a key role in defining markets and influencing the behavior of a large number of consumers. The rules of corporate governance have changed too. And there has been a range of reactions to this change. On the one hand, globalization and liberalization have provided a great opportunity for corporations to be globally competitive by expanding their production base and market share. On the other hand, the same situation poses a great challenge to the sustainability and viability of such mega-businesses, particularly in the context of the emerging discontent against multinational corporations in different parts of the world. Laborers, marginalized consumers, environmental activists,

and social activists have protested against the unprecedented predominance of multinational corporations.

In general corporate social responsibility (CSR) can be described as an approach by which a company:

1. Recognizes that its activities have a wider impact on the society in which it operates and that developments in society in turn impact on its ability to pursue its business successfully
2. Actively manages the economic, social, environmental, and human rights impact of its activities across the world, basing these on principles which reflect international values, reaping benefits both for its own operations and reputation and for the communities in which it operates
3. Seeks to achieve these benefits by working closely with other groups and organizations – local communities, civil society, other businesses, and home and host governments

This approach is derived from principles of sustainable development.

Other terms that are used alongside CSR are corporate responsibility, business responsibility, sustainable development, business ethics, and corporate citizenship.

8.4 Possibility

Businesses need fairness operating on a global basis. They have difficulty dealing with differing regulations, corrupt systems, and so forth. It is, therefore, in the interest of business to strengthen global mechanisms and establish a level playing field. To achieve that, it would be reasonable for businesses to pay taxes, assuming, of course, that the taxes were applied fairly. As business becomes more enlightened, it will become a leading force to establish effective global institutions, since these institutions will be good for business. Governments hold back for fear of losing power and eroding national sovereignty. So leadership has to come from elsewhere. Businesses are, in many ways, well placed to lead the effort to build the structures all of us need to make this system operate more effectively on a global basis.

We need, too, to find ways to balance all the accounts not only within corporations and within nations but also globally. And these accounts, whether they be social accounts or environmental accounts, are seriously out of balance. Here we face an enormous challenge, one that we can overcome through voluntary acts of consultative will or else we will be forced to respond to the challenge because of crises and catastrophe. At this point we seem to be more beset by crises and catastrophe than benefiting from voluntary will. But the potential is there. And business can provide the leadership needed to push society into a more constructive direction. We need to get affluent Western society to move away from ultra-materialism and excessive consumerism and, in doing so, simplify its lifestyle and increase its efficiency. Through greater simplicity in our lives and improved efficiency, we can maintain a similar quality of life while reducing by a factor of ten our consumption of energy and

resources. Studies done in Europe show this to be technically possible. So one of the challenges for business is to find ways to raise efficiency, reduce use of materials, increase production of services, and support recycling processes. By doing so, we can achieve these technically challenging but attainable goals.

Companies increasingly rely on the creativity, entrepreneurship, and initiative of all their employees to be successful. As consumer and market needs change more rapidly, and many companies become more decentralized, employees on the front lines must be empowered to make good decisions on their own. A clearly communicated system of values is key to rapid and appropriate decision making, especially since written “do’s and don’ts” codes cannot keep up with newly emergent ethical dilemmas.

The triple bottom line approach is a proactive answer to questions raised by investors concerned with increased transparency and accountability. Companies that measure their performance according to economic, environmental, and social performance are simply practicing cutting-edge risk management.

8.5 The Global Reporting Initiative and Sustainability

The Global Reporting Initiative (GRI) is an independent global institution that is developing a generally accepted framework for sustainability reporting. The aim of the GRI guidelines is to enable companies and other organizations to prepare comparable “triple bottom line” reports. The end goal of the GRI is to make sustainability reporting as routine and credible as financial reporting in terms of comparability, rigor, and verifiability.

Industry, accountants, academics, and nongovernmental organizations have all been involved in drafting the guidelines. The most recent draft was released during the World Summit on Sustainable Development in Johannesburg recently. Founded by the Coalition for Environmentally Responsible Economies (CERES), the GRI works in close collaboration with the UN and is headquartered in Amsterdam.

Reporting according to a standard such as the GRI will not solve all of a company’s problems. Companies are rarely either as virtuous or corrupt as they are portrayed to be. What people want is a balance of anecdotal and hard data; a frank discussion of challenges as well as a discussion of strengths; a discussion of a company’s overarching philosophy on sustainability as well as concrete goals; a discussion of how well prior goals have been achieved; and, finally, quantitative performance measures that provide the opportunity to compare a company’s performance over time and against other firms.

Reporting does not guarantee social acceptance, but social investors, at least, do tend to consider transparency a strength. And companies that are transparent are likely to be treated more fairly by environmental and social activists, as well as the press, than those that hide behind a veil of secrecy or issue glossy green-washing reports with few hard facts.

8.6 Achievements in Indian Context

CSR in India is being seen as a corporate philanthropy while these are many developments in line with global trends in CSR. With the challenges of globalization, liberalization, and the emerging trend towards a free market economy-facing India, the role of CSR is paramount. Because the foreign investment has increased in India, trade links of India and developed countries grown and extended role of private companies, these has been powerful influence on CSR in India.

Companies operating in India are increasingly recognizing the fact that the best way for their business to grow is by aligning themselves with the nations' development objectives.

According to a study commissioned by Action Aid India and conducted by the Indian Market Research Bureau:

1. 70 % believe they have an obligation towards the society upon whose resources they are drawing.
2. 50 % felt concern for a specific group. Forty percent felt concerned for the underprivileged.
3. 23 % cite benefits to the organization.

According to the same survey the following are some of the "benefits" perceived by the companies ($n=600$) for being philanthropic:

1. Satisfaction in fulfilling social obligation: 45 %
2. Improved credibility with the general public and the government: 28 %
3. Builds confidence and pride in staff: 19 %
4. Tax benefits: 9 %

Role of companies in development:

1. Belief in corporate social responsibility: 85 %
2. Belief in corporate across age and turnover: 91 % (40+ years/160 companies)

Ways in which companies can contribute:

1. Work for customer satisfaction
2. Help to rural people
3. Infrastructure
4. Plantation, environment, and pollution control
5. Donating money
6. Helping the down trodden
7. Medical help
8. Help in education
9. Increase employment

Policy:

1. Policy on corporate involvement in development: 78 %
2. Written policy: 11 %
3. Detailed policy document comes: 3 %

Social development activities:

1. Involvement in social development activities: 69 %
2. Health: 21 %
3. Education: 14 %
4. Natural Resource Management: 9 %
5. Infrastructure: 30 %
6. Community support: 6 %
7. Livelihood: 8 %
8. Others: 15 %

Beneficiaries of the social development activities (n=920):

1. Employees: 18 %
2. Shareholders: 1 %
3. Suppliers: 3 %
4. Urban people: 11 %
5. Rural people: 24 %
6. Community at large: 41 %
7. Some specific target group: 49 %

(Report on survey on Corporate Involvement in Social Development in India, July 2000, published by Partners in Change, New Delhi, India)

Our present society has fundamental structural and institutional problems that we must recognize and manage to resolve. We must change the basic operating principles and values of the structures of our society if we are to move in a more moral, ethical, and spiritual direction. For instance, because the economic system only values what is marketed or traded, everything else is considered an externality of no importance to economic analysis.

A fundamental problem with economics is that it maintains inadequate accounts. Paying attention only to what has monetary value, economic analysis misses much of what is happening in society. It is like trying to take care of an automobile only by keeping the tank filled and ignoring everything else necessary to keep it running safely. Moreover, society also follows the wrong economic guidelines. Take a measure like gross domestic product. GDP is widely equated with prosperity: higher GDP means greater prosperity. However, GDP also grows because more people are suffering from the health effects of pollution; it grows if more automobile accidents occur requiring repairs, replacements, and medical treatment. So GDP is no accurate measure of prosperity and ought not to be used to measure it. The use of monetary measures is similarly inadequate. Too often people say “more money equals prosperity.” But you cannot eat money. If food runs out, money has no value at all. Neither money nor profit can measure human happiness and well-being.

A related problem is consumerism, the pressure, through advertising and other exhortations to go out and buy, buy, buy to keep the economy going. An American expression, “When the going gets tough, the tough go shopping,” captures this misplaced emphasis. A system that pushes people to buy things they do not need, in a

world of limited resources in which people are starving, is a system that has something structurally and fundamentally wrong with it.

The drive for increased productivity is another issue in which the logic of individual decisions has a perverse collective impact on society. Raising productivity is an economic imperative. A company must raise its productivity and reduce its labor costs to increase its profitability. Yet this ignores the fact that employees are also consumers. If the number of people earning wages declines, there are that many fewer consumers to buy products and services. It is a case of sawing off the branch you are sitting on. To benefit the economy in a real sense, why not seek to make everybody a consumer by ensuring total employment. Instead, decision making in the corporate system moves in the opposite direction. This is encouraged by another structural problem in Western economies: the privatization of employment and the socialization of unemployment. In other words, companies reduce their labor costs in the short term by transferring to the government the cost of maintaining the redundant workers. Such a short-sighted system ignores the importance of work as a contribution to society and a spiritual obligation.

Then, of course, the economic system ignores the poor. Since they are not consumers, the poor are excluded or forgotten. Their presence illustrates a series of fundamental failures in present mechanisms for redistributing wealth within society. Any developed society considers extremes of wealth and poverty to be unacceptable. The poor cannot be left to die while the rich walk over their bodies, of course, so at least some effort is made to put the poor out of sight in some way. There is, however, a greater moral principle that requires some level of wealth sharing, and taxation systems are designed to do that. Yet, it is possible to escape taxation. With globalization, wealth creation is increasingly reported not in the countries with strong tax systems but in the Cayman Islands, Vanuatu, and other so-called tax havens. Such avoidance of taxation is logical within a system in which the first priority is to maximize profit. Multinationals increasingly shift their real wealth creation out of places where taxation is heavy, escaping the mechanisms that allow restoration of the social balance. One of the most fundamental crises with globalization today is the breakdown of the mechanisms for redistributing wealth.

Nor does the present economic system assign a meaningful priority to the needs of the poor. Where there is no potential income, there is no market and, therefore, no business interest. As a result, there is little incentive, in terms of the profit motive, in developing medicines to combat the diseases of the poor who cannot afford to buy them. There are many choices between elaborate technologies that can sell for a high price and those technologies that people can do for themselves without expensive inputs. Most business effort goes into products that yield profits. No mechanism encourages people to use technology they can apply themselves because there is no market for it. The profit motive, not the well-being of people or the overall benefit to humanity, pushes development towards high technology.

With respect to environmental sustainability, the economic system fails to deal effectively with most environmental problems. It works at the wrong scales in time and space. The economic system is very short term, while most environmental problems are long term and planetary and occur on a very large scale. Businesses only

deal with some small fragments of such problems. No mechanism puts together individual forms of corporate behavior to enable us to look at the larger picture. The result is a fundamental mismatch when it comes to dealing with such large-scale problems as carbon dioxide accumulation, the ozone hole, persistent organic pollutants, soil and water management, and the like. Too often, the economic system fails to come to grips with the essential issues because it tries to deal with them at the wrong scales in space and time.

Another area of growing concern involves intellectual property. In economic terms, we are witnessing a new “privatization” of “the commons.” Businesses are exploring ways to make money by buying (or privatizing) information (the commons) that it can then sell at a profit. Unlike most products, however, the more information is shared, the greater its value to society. Information on good soil management, for example, can be sold as a product only to farmers who can afford it, leaving other farmers to continue destructive agricultural practices. Obviously, there would be greater benefit by making such information available to all who can use it. This brings us to a point where two fundamental value systems collide.

The questions posed by these problems are fundamentally ethical: How do we foster a new moral, ethical, and spiritual foundation in business? How do we establish new ground rules for business to help it contribute to a more ecologically sustainable society? How can we create a broader legal and institutional framework in which business can work to overcome the problems of fragmentation of responsibility and of inadequate or absent moral and ethical accountability? The root of the problem lies in the way in which economic institutions are structured. We need to explore how we can maintain the vitality of corporate structures and their ability to evolve quickly but within a framework built around ethical, moral, and spiritual values that will help the system work effectively for society as a whole.

8.7 Indian Context

India is also working to promote CSR through support for the development of globalization that is already a force for great change, not simply a specter on the horizon. Through technology, communications and economics, globalization, and our increasing interconnection are inevitable. Time, distance, and geography are disappearing: globalization is a reflection of that reality. In this environment, companies can and do make an important contribution to sustainable development in communities where they operate. Certainly progress has been made in some areas. But we must temper our optimism with the awareness that there is still much to be done and many challenges for us to keep in mind as we strive to ensure that globalization is for the benefit of all people, in all countries of the world.

The Indian economy has been under two distinct and diverse forces of “Swadeshi,” i.e., buy Indian goods and the need to integrate with the larger world economy. Both forces have significant economic and political implications in the region.

Liberalization of the Indian economy in the late 1980s and early 1990s also saw the reestablishment of transnational corporations on the Indian horizon. The Indian political and economic climate has been far from stable in the last decade, and it has been claimed that transnational corporations, to influence this unstable political and economic climate in their favor, have used the concept of corporate social responsibility as bait. It is worth mentioning that though the concept of corporate social responsibility is gaining popularity with the Indian business too, its practice has been under varied external and internal influences. Therefore the benefit or loss of the increase in numbers and reach of transnational corporations is open to debate in the Indian context.

The Indian economy seems to have come full circle in the last 78 years since the 1920s–1930s. It started as a highly privatized state in the pre-independence era: Under the banner of “Swadeshi,” the public sector emerged strong in the early post-independence decades, yet under duress from the IMF and debt imbalances, privatization, and liberalization, foreign direct investment has been encouraged in the last decade. Thus, under international pressure, India, since the 1990s, has liberalized its economy in favor of the market. Many multinational and transnational firms have therefore since set up both marketing- and production-oriented operations in India.

In the newly liberalized Indian economy, transnational and multinational businesses have to deal with the issues of labor and environment and have also had to strategize to attract the Indian customer. The process has been designed primarily to reduce the foreign identity of these businesses and build an “Indian image” or, rather, reduce the “liability of foreignness.” The situation is precarious for the international business, as the Indian political scenario is constantly changing and coalition governments are not stable. International businesses have therefore made strategic financial agreements with the Indian government, if asked to pull out from the Indian economy. The Indian companies, on the other hand, have also got to deal with foreign competition and yet project and yet project an “Indian image.” Businesses both Indian and foreign therefore need to proactively deal with all stakeholders and project a positive image of stakeholder responsibility primarily to safeguard financial interest. Against this backdrop corporate social responsibility has been gaining currency in the Indian context and may have been adopted by business as a corporate strategy.

8.7.1 Rise of Corporate Social Responsibility in India: Internal and External Influences

Charity is an intrinsic part of the Indian culture and is encouraged as a means of salvation by most religions practiced in India. Charitable giving in the Indian business context is much like philanthropic donations of the British business where some causes are supported at random without any strategic planning. Corporate philanthropy is like charitable giving where “it is a voluntary activity on the part of business and is not normally part of its every day business functioning and is not restricted to monetary donations.”

A type of corporate philanthropy was put into practice under the guise of industrial welfare by the industrial houses of the 1920s and 1930s. It was believed that industrial welfare could improve the living conditions of the workers more effectively than what was delivered by government agencies, primarily because workers were tied to the factory and could more effectively utilize facilities that remained underutilized under government provision.

The family-run businesses of the 1920s and 1930s, the Tatas, the Shriram Group, and the Birla Group, were actively involved in running and establishing schools, colleges, hospitals, temples, cultural centers and training centers, etc. Most of these infrastructural establishments are all well known today by the names of business that were instrumental in their establishment, for example, the Shriram College of Commerce; the Birla Mandir (temple), one of which exists in almost each major city of the country; and the Tata Institute of Fundamental Research. These infrastructural initiatives were instrumental in popularizing the identity of these companies. The initiatives were also essential as per independence and early post-independence India lacked advanced centers of research and education. The infrastructural initiatives and the economic reach of these businesses have made the Tatas, Birlas, and the Shrirams household names in the Indian context.

Tatas, one of the major business houses of India, though did exhibit shades of corporate social responsibility by proactively engaging with stakeholders even in the early 1960s. According to the founder of the Tata business group, J.R.D Tata, "Every company has a special continuing responsibility towards the people of the area in which it is located" (Partners in Change 1998:15). Tata business group, therefore, has a well-established community development program at most of its industrial sites. The community development initiatives though were not a norm for Indian business, and most businesses were primarily involved in corporate philanthropy and or philanthropic donations, and the most popular activities were "running schools and hospitals, donations to the poor.... Most companies were content donating money, something that didn't require too much of involvement" or made a strategic gain (*Business World* 1998a:80).

Corporate philanthropy in India started to change, (though slightly) in favor of corporate social responsibility with the reemergence of transnational corporations on the Indian scene in the early 1990s. The transnational corporations planning to set up operations in India needed to develop an image, or rather, an "Indian identity" which the Indian customer could associate with. The need could also have been to proactively engage with media, pressure groups, and other stakeholders. This was specifically important in India, as experience had shown that ignoring any of these stakeholders was detrimental to the establishment of new bases of the transnational corporation media, pressure groups, civil society, and politically supported grassroots-level movements that have been instrumental in stalling establishment of new operations in India. Kentucky Fried Chicken was effectively stalled by pressure groups (Newspaper reports); the establishment of The Thapar-DuPont tire manufacturing plant in Goa was thwarted on grounds of poor planning for environment management, by local NGOs and pressure groups; the grassroots-level farmers movement has opposed signing of the GATT agreement by India.

Yet, very few businesses in the Indian context view corporate social responsibility as a “long term strategy to remain successful” (*Business World 1998*). The motivation of business has therefore been “to avoid backlash” (*Hindu Business Line 1998*). In recent times, though, the companies may not actively take part in philanthropic donations but much along charitable philosophy they want to “repay society” (*Business World 1998*). This attitude of “repaying society” is often put to practice via “social development” or “community development” (*Business World 1998*), and it is difficult to classify such activities as corporate social responsibility, as the mutuality factor either is not present or is not well articulated.

Foreign business, when competing with indigenous companies, may need to utilize corporate social responsibility as an effective strategy in attracting the indigenous customer. For example, during a recent India-Pakistan cricket match (1998), Coca-Cola advertisement campaigns revealed in the Indian identity in India and the Pakistan identity in Pakistan. Contrarily, though in the Indian context ownership, country of origin and public image are not as important as value addition is in the Indian context; public image may not play such an important role as the Indian customer is more motivated by value for money than the public image of the business. For example, products manufactured by fair means and in an environmentally friendly mode of production are much more expensive. Agencies manufacturing these products are under constant pressure to improve marketing strategies as labels of “against animal testing”; “natural dyes used” and “artisan initiatives” are not very effective as a selling point for the Indian customer.

International business may often need to lay stress on entry strategies that can tackle issues of competition from within and outside India, and corporate social responsibility may be one such entry strategy. International business operating in India, but with international marketing networks, has to be careful about the methods of production. The International customer is looking for more than mere cost-effectiveness. It has been claimed that the Indian customer is not as active as the international customer and is just starting “to take cue from western counterparts” (*Business World 1998*), though may be at a very slow pace.

During the 1990s corporate social responsibility gained currency internationally, rather, the investment in this sector changed from a perspective of donation to that of mutual benefit. Internationally, issues of environment and reputation and child labor are given more importance when evaluating performance against issues of corporate social responsibility. These international issues popularized by the transnational corporations, in the Indian context, have influenced business ethics of Indian business too. For example, the Century Mills has had to take concrete steps to be more environment friendly and efficient in utilization of resources. This has made the product competitive at the international level vis-à-vis cost of production, quality, and environmentally friendly methods of production. In general, Indian businesses abide by the rules and regulations of the state and consider this to be corporate social responsibility. This viewpoint, though, does not offer any security when dealing with the international customer. For example, the state does not have strict implementation of the child labor law in the carpet industry, yet the carpet industry is increasingly reducing number of children employed as per international

trends and demands. Therefore the Indian industry is increasingly aware of the cancellation of consignments for the international market, on the ground of harmful dyes, environmentally harmful methods of production, and utilization of child labor for production. Against this backdrop Indian businesses having to compete within and outside India have had to take up issues of environment and reputation more seriously than ever before. Therefore the concept of “niche marketing” may not be important while targeting the Indian consumer but is of great value when targeting the international customer. To understand the rise of corporate social responsibility in the Indian context, it is important to understand the political and bureaucratic climate of the country since 1990. India, since the mid-1990s, is under constant political upheaval, and no single party has achieved absolute majority in the parliament. This has led to formation of coalition governments none of which have lasted a full term of 5 years, till date. Therefore, a highly cautious, nervous, and speculative investment climate exists in India as the “Swadeshi” fervor often sways the political parties. Due to the political instability, projected figures for foreign direct investment have not been achieved. Even approved proposals may be called for reinvestigation in parliament. Financial caution related to investment is exercised not only by international business but also by Indian business. The Indian business sector, though, has the advantage of being intimately familiar with the Indian situation and makes attempts to proactively engage with the bureaucracy and the political parties. Under strict implementation of election guidelines, corporate donation to political parties at times of election has reduced drastically, but business now undertakes activities supported by major political leaders or political parties to influence the bureaucracy and the political climate.

India has an extensive bureaucratic machinery, and, even after liberalization and reduction in “license raj” “rule of the license,” each new industrial setup may require 70–90 clearances from local, state, and national government authorities, while the “Swadeshi” fervor creates a fear of “being asked to leave among the transnational corporations.” In an unstable political and rigid bureaucratic setup, businesses have to use caution when dealing with government and political parties. Corporation social responsibility in a situation where dealing with the stakeholders is imperative for survival, and the stakeholder stance may change overnight under political considerations and is thus gaining ground in becoming an important corporate strategy for survival.

In the age of globalization, corporations and business enterprises are no longer confined to the traditional boundaries of the nation-state. In the last 20 years, the role of multinational corporations in defining the markets and consumers has been tremendous. The rules of corporate governance have changed. And there has been a range of reactions to this change. On the one hand, globalization and liberalization have provided a great opportunity for corporations to be globally competitive by expanding the production base and market share. On the other hand, the same situation discounted against multinational corporations in different parts of the world. Laborers, marginalized consumers, environmental activists, and social activities have protested against the unprecedented predominance of multinational corporations. The ongoing revolution in

communication technology and the effectiveness of knowledge-based economics has created a new model of business and corporate governance. A growing awareness about the need for ecological sustainability has paved the way for a new generation of business leaders concerned about the responses of the community and sustainability of the environment.

Corporate social responsibility (CSR) is basically a new business strategy to reduce investment risks and maximize profits by taking all the key stakeholders into confidence. And new generation of corporations and the new-economy entrepreneurs created a tremendous amount of wealth in a relatively short span of time. Recognize the fact that social and environmental stability and sustainability are two important prerequisites for the sustainability of the market in the long run. From the eco-social perspective, corporate social responsibility is both a value and a strategy to ensure the sustainability of business. For the new generation of corporate leaders, optimization of profit is the key, rather than the maximization of profit. Hence there is a shift from accountability to shareholders to accountability to stakeholders. Companies through stakeholders can only achieve long-term business success because all the players like consumers, employees, affected communities, and shareholders have a right to know about corporations and their business. This brings forward the question of transparency in the organization.

The concept of corporate social responsibility has only recently been formulated, but it has a long history in both the East and West called social philanthropy. According to changes in nature of business, it can be divided in two areas: traditional corporate philanthropy where concern for the welfare of the immediate members of the corporate body like the staff and employees and their families and contributions by visionary business leaders, who build different institutions through individual shares, like some educational trust and women welfare.

Corporate social responsibility is a qualitatively different from the concept of the traditional concept of corporate philanthropy. It acknowledges the debt that the corporation owes to the community within which it operates, as stakeholders in corporate activity. It also defines the business corporation's partnership with social action groups in providing financial and other resources to support development plans, especially among disadvantaged communities. The emerging perspective on corporate social responsibility addresses stakeholder and more like people, plant and profit. Corporate focuses on them as the stakeholders, in a business, are not just the company's shareholders, sustainable development and economic sustainability, corporate profits to be analyzed in conjunction with social prosperity. Along with this, ethical business is more fundamental, emerging trend on the international scene. In an ethical business the essential thrust is on social values, and business is conducted in consonance with broader social values and the stakeholders' long-term interest.

Today it is an agenda of many CEO's. Now it is also on the agenda of governments, both national and local as well as NGO's, consumer groups, investor, and other actors in civil society.

8.7.2 *Current Trend*

Most business leaders would agree that they are managing in times of turbulence and accelerating change. They would also find a consensus about most of the trends and forces, which are challenging their traditional views of competitiveness and of the success factors for survival and profitability. Globalization of market stresses on consumer preference, supply chains and financial flows. Some business leaders consider globalization to be a revolution, not simply a trend, since it is having momentous effects on the economics of all countries and on corporations on most sectors. For increasing intensity of competition, Peter Veill used the expression “managing in while water” to express the challenge of meeting the turbulence and instability which global competition has created. There are few signs of ever returning to the comfortable 1970s. Rapid technology changes are transforming markets, alleviating burdensome tasks, enabling greater customization of production, and contributing to high labor displacement. Modern information technology makes it possible to decentralize decision making without losing “control” and to introduce more flexible and less hierarchical structures, meaning a shift from an industrial economy to a knowledge- and information-based economy. Human capital is replacing financial capital as the most important strategic resource. Traditional concepts of work, of jobs, and of motivation are being challenged.

Demographic changes do not create a mismatch between jobs and suitably trained workers and between present educational system and the needs of knowledge and information-based economy. Environmental challenges caused by pollution and resource depletion test the sustainability of our planet earth. Business leaders are called upon to play an important role in meeting these challenges. Changing value systems are finding expression in different life styles and expectations on the part of employees, customers, and communities as a whole. Tomorrow’s company referred to this phenomenon as the “death of difference.”

As the world business environment changes, so do the requirements for success and competitiveness. Because of the forces at work, building deep and more strategic relationships with customers, suppliers, employees, communities, and other stakeholders can become central to competitiveness and even survival. Building these relationships can form the foundation for a new, progressive, and people-centered corporate strategy, which attacks the sources – not the symptoms of challenges facing business today. This brings us to the increased importance of corporate social responsibility.

In Western Europe, Japan, and North America, an increasing numbers of companies are finding that it makes good business sense to fully integrate and needs of customers, employees, suppliers communities, and our planet – as well as to those of shareholders into corporate strategies. Over the long term, this approach can generate more profits and growth. Sometimes referred to as the “stakeholders” concept,” it implies that management’s task is to seek an optimum balance in responding to the diverse needs of the various interest groups and constituencies affected by its decisions, that is, by those that have a “stake” in the business. By including

societal actors – not just financial interest – the stakeholder model assumes that enterprise has a social responsibility.

It has no actual definition. Each company responds in its own unique way, depending upon its core competencies and stakeholders interests. Country and cultural traditions also influence how companies respond. Social responsibility is fundamentally a philosophy or a vision about the relationship of business and society.

In India CSR is known from ancient time as social duty or charity which through different ages changing its nature in broader aspect, now generally known as corporate social responsibility. From the origin of business, which leads towards excess wealth, social and environmental issues have deep roots in the history of business. Over the time we found four types of thinking regarding corporate responsibility.

The first is the ethical one where there is voluntary commitment to public welfare. In India, it has its roots in the Gandhian philosophy of trusteeship.

The second model is of state-owned public sector undertakings (PSUs). They provide housing and schools to workers. They have existed in India since 1947.

The third is the liberal approach where the belief is that the free market could take care of corporate responsibility. Since the late 1980s and 1990s, there has been increasing realization that business is a social responsibility. This has come about through public campaigns and pressure on the shareholders. The fourth is the stakeholder's model. Corporate responsibility now means ethical and environment-friendly practices. Companies are expected to stick to the triple bottom line of economic, social, and environmental responsibility towards workers, the shareholders, and the community.

India has had a long tradition of corporate philanthropy and industrial welfare has been put to practice since late 1800s. Philanthropy is practice of doing well to one's fellow men. It is not a relationship – therefore corporate philanthropy often does not have stakeholder's interaction and responsibility as a focus, unlike corporate social responsibility. Corporate social responsibility on the other hand is undertaken by the company not along charitable lines or with the "intent to do good" but also building of a good public image. It is transnational corporations under global ideological influence and the need to engage with all stakeholders that introduce the concept of corporate social responsibility on to the Indian horizon. This process began only in the 1800s. The concept is not similar to corporate philanthropy, as corporate social responsibility lays stress on stakeholder's involvement and on clear articulation of the mutuality of benefit. Thus corporate social responsibility is a corporate strategy for survival and not undertaken for the mere "feel good factor."

The concept of corporate social responsibility gained global prominence in the last 10 or 15 years. The rise of corporate social responsibility can be attributed to the process of globalization and to the increase in the reach of transnational corporations. Under the wake of globalization, the reach and numbers of the transnational corporations have increased, and new channels of production, labor, and marketing have been established across the world. Transnational corporations now increasingly deal with multicultural and multi-regulatory environments while customers on the other hand are increasingly aware and conscious about the means and methods of production and demand more than "value for money" while making product

choices. Corporate social responsibility therefore to deal with different stakeholders builds a positive public image and meets customer demands.

Historically, the philanthropy of business people in India has resembled western philanthropy in being rooted in religious belief. Merchant charity took various forms, such as treasury chests for the needy, providing relief in times of famine or floods; provision of drinking water; building temples, water tanks, wells, and ponds; and supporting schools. Merchants gave for charity both individually and collectively through their business and social organization.

At individual level they gave alms to the poor and needy, arranged for their feeding, set up *pathshalas* (traditional schools), constructed night shelters for the poor and travelers, built water tanks and *bathing ghats* (where people took bath), made provision for drinking water during summer, opened their granaries in times of famine, commissioned artists to prepare religious texts and other works of art for temples, provided for dowries and marriage expenses of poor girls, and so on.

In collective charity a group of families, streets of people, or all the inhabitants of the town would collect voluntary offerings and present them according to need, like for the health, sanitation, education, and general welfare of the people in their community. There was a strong tradition of charity in almost all the business communities of India. Tradition of merchant's charity has continued down the ages, even to present times, where it is still visible among individual businessmen and the unorganized sector.

The arrival of the East India Company in 1620 was a milestone in the history of trade and of sociopolitics in India. Over the subsequent 200 years, the purely trade and business interest of the East India Company changed to social and political management of the country by company executives until 1885, when India came under the British crown.

The business leaders of emerging indigenous industry remained rooted in the tradition of philanthropy, which gradually metamorphosed into corporate social responsibility. The period 1850 to early 1900 is noted for setting up of trusts and endowment by founders of business families to support schools, colleges, hospitals, orphanages, and the promotion of art and culture. By the third decade of the nineteenth century, merchant charity began to change from being largely religious and ameliorative in nature and confined to members of their own community, caste, or religion towards being more secular and more inclusive in terms of caste, creed, and community and more oriented to bringing progress to society through western-style modern institutions. Though the more enlightened merchants began to diversify their charitable giving in content and intent, they continued the older forms of gifting as well. Many did not change at also that there was a mix of charity and philanthropy throughout the period.

After independence, the need for repaid progress on the part of government, people, and the business community acted as spur for business to contribute more to social development as business leaders engaged themselves and their business in social welfare and reform. The emphasis was on vocational and technical training, public health, power and water supply, and the Gandhian social reform movements.

8.7.3 *Business Houses in India*

At the time when money making was all important, Kasturbhai stressed the need for moral leadership and social responsibility. Speaking at the Indian Merchants chamber in 1963, he said: Industry and trade have to discharge many responsibilities to the community. They should provide support – moral, personal, and financial – to institutions or cause, which make their towns and villages better for living and which are intimately connected without spiritual heritage. We should advertise what we produce and sell but, in doing so, also convince the public that free enterprise exists to serve the community by improving social and economic standards. We should provide leadership to the community.

JRD Tata always laid a great deal of emphasis to go beyond conducting themselves as honest citizens. He pointed out that there were many ways in which industrial and business enterprises can contribute to public welfare beyond the scope of their normal activities. He advised that, “Apart from the obvious one of donating funds to good causes which has been their normal practice for years, they could, as some of the companies with which I am connected have done, use their own financial, managerial and human resourced to provide task forces for undertaking direct relief and reconstruction measures. This form of public community service could be expanded by the cooperative effort among members of various industries.”

In his advocacy of responsibility, JRD was joined by Ramakrishna Bajaj who’s devotion to Gandhian ideals regarding fair business practices and philanthropy. He said, “The business community is an essential ingredient of our democratic society and it has a duty not only to create wealth but also to promote the ethical and social goals of the community. Unless it fulfils both these functions and thereby plays its due role as a responsible section, it will not be able to ensure its own survival.”

Arvind Mafatlal, chairman of Mafatlal Industries, also pleaded for more social responsibility on the part of business but pointed out that it was large concept than philanthropy and went beyond giving funds to more normative issues such as self-discipline, quality control of consumer of vulgar display of wealth, and ostentations consumption. Unless the business community contributed to basic development needs, its very survival would be threatened, and it was in its own interest to participate in the nation-building effort. Pointing out the need for industry to contribute more to community development, JRD said, “In every village, large or small there is always need for improvement, for help, for relief, for leadership and for guidance. I suggest that the most significant contribution organized industry can make is by identifying itself with the life and the problems of the people of the community to which it belongs and also by applying its resources, skills and talents to the extent that it can reasonably spare them, to serve and help them.”

The cumulative result of all these influences was distinctly visible in the action of many business houses. Slowly, it began to be accepted, at least in theory that business had to share a part of the social overhead costs of economic development if it wished to share in its fruits. Traditionally, it had discharged its responsibility to society through benefactions for education, medical facilities, and scientific research

among other objects. The important change now was that industry-accepted social responsibility as part of the management of the enterprise itself. The community development and social welfare program of the premier Tata Company, Tata Iron, and Steel Company was started in the concepts of "social responsibility." So on, many other companies have taken up.

The last decades of the twentieth century witnessed a swing away from charity and traditional philanthropy towards more direct engagement of business in mainstream development. Most corporate houses have been contributing to social cause largely through their own trusts, foundations, and societies. Some of these were set up long before India achieved independence. Today there are over 200,000 private sector trusts in India, a large number of which have been set up by business. A survey in 1997 conducted by the Social and Rural Research Bureau of 650 randomly selected companies from top 2,000 (of there, 13 % were MNCs) revealed that most CEOs acknowledge the companies have a social responsibility, only 36 % reported some sort of policy, of them only some had policy and person in charge. Nearly 81 % provided an account of various activities of corporate social responsibility on India.

Infosys Ltd., another IT company, has set up Infosys Foundation to help older people, destitute, handicapped, deserving students, and budding artists, promoting medical care for children and women and senior citizens suffering from cancer or brain fever.⁹ It has donated surgical equipment and ultrasound scanners to several hospitals in Karnataka. The foundation has also been involved in related causes like reconstructions of old school buildings, construction of additional classrooms, and donations for schools and corpus funds. It has also set up a science center in the Kolar district of Karnataka and floated scholarship for rural students in Karnataka, Orissa, Maharashtra, and Tamil Nadu. Free girls hostels and orphanages have also been set up by the foundation in several parts of Karnataka.¹⁰

Ranbaxy an Indian MNC,¹¹ in the pharmaceutical sector, set up Ranbaxy rural development trust to provide basic healthcare to the underprivileged through mobile healthcare that reaches out the needy in villages and slums. Ranbaxy community healthcare society provides preventative healthcare, social communication immunization, family planning, and contraceptive distribution, along with this Ranbaxy Research Foundation that promotes scientific and medical research.

The Mahindra¹² group of companies encourages education of employee's children by running schools at plant sites. It also supports education for all at all levels by providing studentship, loans, and scholarships for research students studying overseas, rehabilitation of disabled children, distribution of free books to children in slum and rural areas, and the endowment of the chair for research in nuclear sciences and journalism. The Mahindra Education Trust supports primary education for female children through various NGOs and provides relief work at time of natural disasters and care for cancer patients.

Reliance Ltd.,¹³ an Indian petrochemical MNC, has been supporting rural development work, modern healthcare facilities in rural areas, and scholarship for rural children for higher education in cities and laying of water pipelines in Jamnagar to improve access to drinking water. Rural development and social work begins with

the focus in on health, hygiene, and education. The company also provides relief and rehabilitation at times of cyclones, medical care, and mobile healthcare for villagers. Reliance also is the main corporate promoter of the Hyderabad-based Indian School of Business, which has been set up in Academic Association with the Wharton and Kellogg Schools in the USA.

National Thermal Power Corporation believes in growth with a human face and pursuing people-centered development. NTPC is a socially committed organization and a socially responsible corporate citizen. It attaches great importance to discharging its overall social responsibilities to the community and the society at large where its projects and stations are located. Sensitive to the social issues since its inception, the organization framed guidelines for the facilities to be given to the project affected. In this regard, resettlement and rehabilitation program was formulated in 1991 and revised in May 1993.

The resettlement and rehabilitation program aims at improving the overall economic status of Project Affected Persons (PAP). This is achieved by providing opportunities in the fields of sustainable income, health, education, sanitation, communication, and other such areas. Community development activities are carried out in a transparent and participative manner. Each program is based on the specific local requirement and guided by the extensive socio-economic surveys, which verify that Project Affected Persons improve or at least regain their previous standard of living. The PAP are systematically categorized on the basis like the following: in resettlement – *development alternate free house plot in resettlement colony with necessary infrastructure facilities; free transport arrangement for belongings and reusable material; and infrastructure to be provided that includes primary school, dispensary, panchayat ghar, drinking water, well, hand pumps, roads, drainage, and sulabh sauchalaya – and in rehabilitation, land for land and self-employment such as dairy, poultry, handcraft, shops, and award of petty contracts and jobs.*

The rehabilitation plans rest on the sound foundation of socio-economic surveys. Independent and reputed professional institutes conduct these surveys. Surveys help assess the information on each PAP and chalk out the Rehabilitation Action Plan (RAP); RAPs are prepared for new expansion and green field projects coming after adoption of May 1993 policy. The plans are finalized in a consultative manner with the PAPs and the state administration and soon they translate into viable projects. The plans primarily aim at resetting PAPs in resettlement colonies, providing them infrastructure facilities and also ways and means of rehabilitation. It has been finalized for 11 projects implemented after the adoption of May 1993 policy. They are:

1. *Kayamkulam*
2. *Talcher*
3. *Vindhyachal ash dyke*
4. *Korba ash dyke*
5. *Rihand ash dyke*
6. *Faridabad*
7. *Simhadri*
8. *Unchahar-II*

9. *Sipat*
10. *Anta-II*
11. *Auraiya-II*

While some RAP has been completed and closed in May 2001 to December 2001. Other RAPs are in various stages of implementation.

Recognizing the importance of sound institutional framework to achieve the desired results NTPC has set up dedicated R&R cells. Along with them professional NGOs, consultants also involved, encouragement has been given for the formation of informal groups, employees, and their families, service groups for the socio-economic development of the areas (information got from NTPC's official website).

Haldia Petrochemical Ltd is India's largest integrated naphtha-based petrochemical complex. The company has achieved sustainable and profitable growth through delivery of innovative world-class products and services of exceptional value to customers. They also care for their customers, care for each other, and care for the community and environment. They take pride in the quality of their products and services and business ethics, to create outstanding value for their shareholders and customers. Regarding corporate social responsibility, their focus areas are:

1. Social welfare
2. Community development
3. Environment
4. Occupational health and safety
5. Water management

In the field of social welfare, mass wedding takes place in association with NGO's, Haldia Utsav, (letting creativities flow), Haldia network (putting Haldia on the cultural roadmap) patronizing the local deaf and dumb school and blind school. Rehabilitation of evictees, maintaing roads, electricity, conserving water bodies, green belt, providing donations to local schools, distributing computers, and school bags are some of the major highlights of the events.

In community development, skills development with the assistance of Lokshiksha Parishad, flood relief, medical aid. Financial assistance for local and national sports and cultural events. Posters and drawing contests involving school children of Calcutta theme being "stop littering start recycling" look forward to a dirt-free environment-friendly Calcutta. OHS-gaseous emissions minimized with most modern state of the art technology from world-renowned licensors.

Health and safety awareness program. Managing Water resource from Rainwater harvesting, domestic use, and minor irrigation.¹⁴

Dr. Reddy's Laboratories in Hyderabad, Andhra Pradesh, is an emerging global pharmaceutical company focused on creating and delivering innovative healthcare solutions that enable people to lead healthier lives. Dr. Reddy's main focus areas are in education, eliminating child labor and livelihood development. Regarding this Dr. Reddy's Foundation for human and social development was established. The foundation is headed by an executive director and ably supported project officers and Research I from Dr. Reddy's lab, UNICEF, and UNDP.

Their Child and Police (CAP) project is a unique and innovative joint program of Andhra Pradesh state and Dr. Reddy's foundation for human and social development. The project's vision is to identify and work with children at risk and put them through enriched quality school education and a sustainable livelihood education program that will enable them to fight illiteracy, ill health, and poverty. Members of the CAP team visit slums and factories, conducting street-by-street surveys to identify and rehabilitate economically disadvantaged children. Families are then convinced to send their children to the foundation's Bridge school, where they are put through child-friendly syllabi; 4–8 months later, depending on the age and prior literacy level, they are integrated into the mainstream public education system. Police participation greatly enhances the CAP project in its efforts to get children off the streets and on to a better life.

The livelihood advancement business schools (LABS) are to provide young adults from economically weak backgrounds an opportunity to assimilate into the competitive job market. LABS target youth at risk on and off the street from the economically weakest category and offer formal education, career counseling, personality development, and skill development and apprenticeship opportunities for sustainable livelihoods.

Besides these two projects, another program named Tulasi. It is aiming to create models, which can be replicated regarding any of these activities (CAP and LABS).¹⁵

The guiding principles for social responsibility in the Tata group evolve from its rich heritage and traditions of trusteeship as a way to redistribute the wealth created by the industrial society kept aside exclusively for the benefit of people at large. Building on, they also increasingly recognize that in modern industrial organizations, the connotation of wealth goes beyond the money donated to charitable cause. "The company shall have among its objectives the promotion and growth of the national economy through increased productivity, effective utilization of material and manpower, resources, and continued techniques in keeping with the national aspiration, and the company shall be mindful of its social and moral responsibilities to the consumers, employees, shareholders, society and the local community" by J. R. D. Tata to be adopted by the board of Tata companies to reinforce their commitment to social responsibilities made on December 14, 1999 the following way.

The community is central to the core values we adhere to in the Tata group. Tata community programs aim at building trust and improving the quality of life. Tata programs facilitate sustainable change. We believe that community gives us valuable opportunities to learn. Commitment to social responsibility is explicit in every Tata Company. We network through our core competence to empower communities. Tata volunteers are committed to the spirit of service.

Community development is a well understood objective and important cornerstone of the TATA business philosophy. In fact, it is key element in the TATA business Excellence Model. Therefore, it is incumbent on every Tata Company's management to consider it to be an essential component of its strategic plan towards achieving the company's and the group's objectives. The strategy that each company evolves, needs to be focused on the real needs of the communities in which the company operates and which it seeks to serve. There needs to be a dovetailing of the skills and strengths of the company and its employees with

the immediate and longer-term gaps in the overall development of these communities- be they in the field of education, health, environment, civic amenities, infrastructure, family planning, vocational skills etc. Essentially one has to ensure that the strategic economic well being of the community is brought about expeditiously. Our founder's humanitarian objectives of over a century ago need to become strategic to the group today.¹⁶

1. Senior management involved in social programs.
2. Provide facility and support from the company.
3. Volunteers share their skills and competency.
4. Strengthen and work along with community-based organization.
5. Networking to raise funds and resources.

Company takes feedback from the media, government, NGO's special agencies, and surveying the perception of people.

Social expenditure of Tata companies: 1999–2002

Vocational training	12 crore
Education	25 crore
Computer education	10 crore
Pure funding	40 crore
Health	28 crore
Women and child	8 crore
Water management	13 crore
Total	136 crore

8.7.4 Review of Indian Experience in Corporate Governance

Basel committee norms relate only to commercial banks and financial institutions. Banking and financial institutions stand to benefit only if corporate governance is accepted universally by industry and business, with whom banks and financial institutions have to interact and deal. SEBI report only partially attends to this need. SEBI is a functional statutory body, and it can prescribe regulations only within its functions.

Kumar Mangalam Committee confined itself to submitting recommendations for good Corporate Governance and left it to SEBI to decide on the penalty provisions for noncompliance. In the absence of suitable penalty provisions, it would be difficult to establish good corporate governance. Some of the penalty provisions are not sufficient enough to discipline the corporates. For example, the penalty for noncompliance of the stipulated minimum of 50 % in respect of the number of directors in the board that should be nonexecutive directors is delisting of shares of the company. This would hardly serve the purpose. In fact, this would be detrimental to the interest of the investors and to the effective functioning of the capital market.

Similarly, an audit committee, which is subservient to the board, may serve no purpose at all; and one which is in perpetual conflict with the board may result in

stalemates to the detriment of the company. If a company is to function smoothly, it should be made clear that the findings and recommendations of the audit committee need not necessarily have to be accepted by the board which is accountable to the shareholders for its performance and which, under Section 291 of the Companies Act, is entitled to “exercise all such powers, and do all such things as the company is authorized to exercise and do.”

However, some functional specialists are of the considered view that whenever there is a difference of opinion and the audit committee’s advice is ignored or overruled, the board should be required to place the facts before the general body of shareholders at their next meeting.

Apart from these issues, there is another area, which needs to be attended to for bringing about further improvements in corporate governance in India. One such area is the accounting standards. There are some gaps in accounting standards, which need to be closed or narrowed down for better transparency.

One of the first and foremost demands of good corporate governance is to let investors know how their money has been used to further the interests of the company they have invested in.

The question that assumes importance here is how effectively the resources of the company are utilized for strengthening the organization. The only available source of information regarding the affairs of a company appears to be its balance sheet. Yet, for obvious reasons, the Balance Sheet remains the most abused statement of several companies.

The common methods by which companies hide their wrongful practices, which are all too well known, are to use legal and accounting jargon, nondisclosure, and selective adoption of only those policies that are mandatory in nature. It is only a handful of qualified persons, primarily the accountants and the other knowledgeable people, who can get to the picture behind the scenes and unmask the actual from the portrayed picture. It is in this context that the adoption of US-GAAP, which provides for rigorous accounting standards and disclosures, assumes relevance.

There are many areas such as consolidation of accounts, treatment of fixed assets, depreciation, and R&D costs where Indian Accounting Standards (IAS) are at variance with US-GAAP. However, it is heartening to note that things appear to be changing for the better on the Indian turf; thanks to the impetus towards a more transparent accounting system shown by market leaders. Recently, the Institute of Chartered Accountants of India (ICAI) issued the Accounting Standard 21 (AS-21) for consolidation of accounts whereby accounts of companies will be presented along with those of their subsidiaries. This would meet the long pending demand of investors on greater transparency and disclosure.

The need for transparency, so far, appears to have been felt in the context of public sector alone. Consequently, we have on the anvil the Right to Information Act and a modification of the Official Secrets Act. While, there is no doubt the government has to be completely transparent in its dealings, since it is dealing with public money, privately managed companies also have a wide shareholder base. They are also dealing with large volumes of public money. The need for transparency in private sector is, therefore, in no way less important than in the Public Sector.

However, private companies use “competitive advantage/company interests” as a pretext to hide essential information. Awarding of contracts, recruitments, and transfer pricing (for instance, through under/over-invoicing of goods in intracompany transfers) are the areas, which require greater transparency. Environmental conservation, redressal of customer complaints, and use of company resources for personal purposes are some of the other crucial areas, which call for greater disclosure. Relevant details about these must be available for public scrutiny. Fear of public scrutiny, as you will agree, will ensure corporate governance on sound principles both in the public and private sectors.

8.7.5 Ethics and Values in Corporate Governance

No discussion on public affairs will be complete without a reference to ethics and values. The quality of corporate governance is also determined by the manner in which top management, particularly the board of directors, allocates the financial resources of the company as between themselves and other interest groups such as employees, customers, and government. The basic qualities invariably expected in this regard are trust, honesty, integrity, transparency, and compliance with the laws of the land. There is an increasing body of public opinion that would expect a business enterprise not only to be a mere economic unit but also to be a good corporate citizen. For this, its corporate governance must be based on a genuine respect for business ethics and values.

8.7.6 Recent Developments

The Department of Company Affairs, in May 2000, invited a group of leading industrialists, professionals, and academics to study and recommend measures to enhance corporate excellence in India. The Study Group in turn set up a task force, which examined the subject of corporate excellence through sound corporate governance and submitted its report in November 2000. The task force in its recommendations identified two classifications, namely, essential and desirable with former to be introduced immediately by legislation and latter to be left to the discretion of companies and their shareholders. Some of the recommendations of the task force include:

1. Greater role and influence for nonexecutive independent directors
2. Stringent punishment for executive directors for failing to comply with listing and other requirements
3. Limitation on the nature and number of directorship of managing and whole-time directors
4. Proper disclosure to the shareholders and investing community

5. Interested shareholders to abstain from voting on specified matters
6. More meaningful and transparent accounting and reporting
7. Tougher listing and compliance regimen through a centralized national listing authority
8. Highest and toughest standards of corporate governance for listed companies
9. A code of public behavior for public sector units
10. Setting up of a Center for Corporate Excellence

Recently, the Government has announced the proposal for setting up the Center for Corporate Excellence under the aegis of the Department of Company Affairs as an independent and autonomous body as recommended by the Study Group. The Center would undertake research on Corporate Governance, provide a scheme by which companies could rate themselves in terms of their corporate governance performance, and promote corporate governance through certifying companies who practice acceptable standards of corporate governance and by instituting annual awards for outstanding performance in this area. Government's initiative in promoting corporate excellence in the country by setting up such a center is indeed a very important step in the right direction. It is likely to spread greater awareness among the corporate sector regarding matters relating to good corporate governance motivating them to seek accreditation from this body. Cumulative effect of the companies achieving levels of corporate excellence would undoubtedly be visible in the form of much enhanced competitive strength of our country in the global market for goods and services.

Impelled on these objectives on August 21, 2002, the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs appointed a High-Level Committee, under the chairmanship of Naresh Chandra, former cabinet secretary "to examine the auditor-company relationship, role of independent directors, disciplinary mechanism over auditors in the light of irregularities committed by companies in India and abroad." The Committee has already submitted its report and currently under consideration of the Finance Ministry, of which DCA is a part. The Department of Company Affairs is also proposing, as stated earlier, to set up a National Foundation for Corporate Governance in collaboration with industry associations – CII, FICCI, and ASSOCHAM and with professional Institutes ICAI and ICSI – to spread the culture of good corporate governance in the country.

The time for unmotivated philanthropy seems to be coming to an end in the Indian context, and the usage of the term "corporate social responsibility" is gaining currency since the 1990s. It needs to be mentioned that progressively businesses keen on corporate social responsibility also want "some visible benefits" (*Business World* 1998) identifying with the issue of "mutuality" of corporate social responsibility. Therefore well-established business also may have a well-established strategy of "corporate social responsibility" to (a) effectively deal with the instability of the Indian politico-economic climate, (b) proactively deal with all the other stakeholders, and (c) meet the demands of international customer especially as regards to labor and environment.

The success of the acceptance of these norms has been outside the letter of law, and the adoption has often influenced state to adopt better/improved or at least changed role for itself. The norms of resettlement and rehabilitation as dictated by the Indian state are by law adopted by joint venture companies involved in extractive industries, yet many other activities are also undertaken as corporate social responsibility, which are neither detailed nor dictated by law. Growth of civil society organizations has also led to increasing democratization in the marginalized and impoverished communities creating local responses to the grant meta-narratives. Yet nation-state needs to evolve a new role for itself in this fast changing world. A stable nation providing good governance is thus basic requirement for developing countries in their attempt to safe guard rights and interests of their poor and marginalized.

Yet, the business is wary of investing time and resources in proactively dealing with pressure groups, media, and local people for social or community development as they often lack familiarity and the skills to do so (*Business World 1998*). Indian business has been actively involved in corporate philanthropy since the early 1900s. The charitable outlook of Indian businesses is progressively undergoing change under some external and internal influences. The increase in the momentum of corporate social responsibility has created new routes or avenues via which issues of corporate social responsibility are put to practice.

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Chapter 9

Social Impact Management

Companies that are breaking the mold are moving beyond corporate social responsibility to social innovation. These companies are the vanguard of the new paradigm. They view community needs as opportunities to develop ideas and demonstrate business technologies, to find and serve new markets, and to solve longstanding business problems.

– Rosabeth Moss Kanter, Harvard Business Review.

Social impact management is the field of inquiry at the intersection of business needs and wider societal concerns that reflects the complex interdependency between these two realities. It is a critical part of contemporary business because without an understanding of this interdependency, neither business nor the society in which it operates can thrive. In fact, this understanding is becoming increasingly more essential as private corporations grow in size and influence, and public pressure intensifies for corporations to address pressing social and environmental concerns.

Research, teaching, and practice of social impact management consider the social context within which a business operates. The intersection between traditional business concerns and the social context has important consequences for both the present and future viability of a business's activity and also for the society within which that business has, by necessity, to operate. *And both sets of consequences matter to business.* In other words, there are social impacts of a business, as well as on a business. Social impact management is about asking a new and broader set of questions regarding the traditional terrain of business. For example, it is common for a business strategy discussion to explore a firm's purpose in terms of its vision for competitive positioning. What is less common is for that discussion to consider the firm's intentions and the implications for consumers, employees, and community members, given the different choices around growth objectives and product development. These broader questions consider both short- and long-term views, a wider set of actors and stakeholders, and a more complex set of metrics. Indeed,

social impact management, as way of thinking about business activities, explicitly considers and evaluates three aspects of a business.

9.1 Social Impact Management in India

Economic reforms in India over recent decades have spurred economic growth and contributed to a decline in poverty. Annual per capita growth has accelerated from less than 1 % per year over the 1960s and 1970s to around 3 % per year in the 1990s. This implied about a one-third increase in consumption per capita over the last decade and a 5–10 percentage point reduction in national poverty rates, depending on the methodology followed. Policy reforms have played a key role in this progress.

The acceleration of economic growth represents an important achievement, and given that one-third of the world's poor live in India, it is an achievement of real significance for world poverty. Despite this progress, over 300 million people still live in poverty; India cannot relax efforts to provide more opportunities for its poor. There are lessons from the recent experience in India and elsewhere that can guide policies and actions to accelerate growth and poverty reduction in India. There is great potential which could be released by stronger reforms.

The fight against poverty in India cannot be waged through an improved investment climate alone. Growth will be more pro-poor if poor people have a higher level of human capital and an opportunity to shape the decisions that affect their lives.

Basic education and health standards form a key part of the investment climate, as firms require workers with basic skills and physical health. These skill requirements tend to increase as countries advance. So both poor groups' participation in growth and the changing demands emerging from the private sector require a dynamic response from government in promoting the development of the human capital. Both improving governance and changing the role of the state to refocus its activities on core services can serve the dual purposes of improving the investment climate and empowering the poorer segments of society.

The people themselves can be more active and effective in fostering reform of the state, if the government provides them with the information – qualitative and quantitative data – with which to form opinions and enforce accountability. Better information both makes the government more accountable to the people and assists in the design and implementation of social programs.

9.2 Stakeholders' Responsibilities

Despite the variety of stakeholder groups and their demands, corporate social responsibilities can be classified into four broad categories: (1) economic, (2) legal, (3) ethical, and (4) discretionary responsibilities. Corporate citizenship can therefore

be defined as the extent to which businesses meet the responsibilities imposed by their various stakeholders.

As society's economic agents, businesses are expected to (1) generate and sustain profitability, (2) offer goods and services that are both desired and desirable in society, and (3) reward employees and other agents who help create success. To satisfy these expectations, businesses develop strategies to keep abreast of changing customer needs, to compensate employees and investors fairly, and to continually improve the efficiency of organizational processes. A long-term perspective is essential when establishing these strategies: a responsible business must continue to earn profits from its ongoing business in order to benefit its stakeholders.

Regardless of their economic achievements, businesses must abide by established laws and regulations in order to be good citizens. Because training all the members of an organization as lawyers is impossible, the identification of legal issues and implementation of compliance training are the best approach to preventing violations and costly litigation. The establishment of strict ethical standards in the workplace may also be an excellent way to prevent legal violations by creating a focus on integrity in decision making.

In addition, an organization guided by strong ethical values may also be better able to satisfy ethical responsibilities, the third type of responsibility imposed by stakeholders. Two main types of ethical issues are likely to emerge in an organizational context: (1) decisions in so-called Agray@ areas in which the right decision is debatable and (2) decisions in which the right course of action is clear, but individual and organizational pressures propel even well-intended managers in the wrong direction. A proactive corporate citizen develops precise guidelines that help organizational members deal with such pressures by stressing the importance of stakeholders' viewpoints relative to organizational achievements.

In addition to meeting economic, legal, and ethical responsibilities, businesses are also expected to display a genuine concern for the general welfare of all constituencies. For example, society desires a cleaner environment, the preservation of wildlife and their habitats, as well as living wages for employees, but it also demands low-priced products. Companies must balance the costs of these discretionary activities against the costs of manufacturing and marketing their products in a responsible manner.

One of the dimensions of corporate citizenship is an ethical work climate that includes values, traditions, and pressures exerted in the work environment to make legal and ethical decisions. An ethical climate involves formal values and compliance requirements as well as an understanding of how interpersonal relationships affect the informal interpretation of ethics. Loe (1996) examined the association between an ethical climate and improved organizational processes. When clear barriers are established to limit the opportunity for unethical activities, and when ethical behaviors are rewarded, an ethical climate prevails in an organization. In an ethical work climate, employees are able to identify ethical issues as they arise and are aware of the company resources available to help them act ethically and according to organizational policy and culture. An ethical climate characterizes businesses that are committed to ethical citizenship.

Before we examine the benefits of an ethical work climate, it may be useful to briefly consider the negative outcomes that may arise from a work climate that does not emphasize ethical conduct. Consider the case of Bausch and Lomb.

The company's operations were governed almost exclusively by strict sales and earnings objectives. Under stringent bottom-line pressures and with no counterbalancing values helping them to differentiate right from wrong, managers engaged in unscrupulous pricing and fraudulent billing. These practices translated into a series of lawsuits from customers and distributors, bad publicity, and a sharp decline in the firm's market value.

Thus, a major benefit of an ethical climate is avoidance of negative consequences that may result from unscrupulous conduct in the workplace.

9.3 Between “Business” and “Society”

The linkages, relationship, and interface between “business” and “society” are from their inception; however, over the years it has undergone spectacular changes. The survival and effectiveness of any organizational entity depend on the quality of support it gets from all stakeholders including the society at large. Although in the initial years of this interface between “society” and “business,” corporate social responsibility (CSR) was confined to “philanthropy,” there have been successive changes and developments in the understating of these stakeholders to make it more of business strategy “rather” philanthropy.

The corporate social responsibility (CSR) is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work force, of their families, as well as of the local community and society at large. Business needs a stable social environment that provides a predictable climate for investment and trade. Understanding society's expectation is quite simply enlightened self-interest for business in today's interdependent world. The CSR, therefore, will be centered on to (a) treat employees fairly and equitably, (b) operate ethically and with integrity, (c) respect basic human rights, (d) sustain the environment for future generations, and (e) be a caring neighbor in their communities.

Due to globalization, corporations are no longer confined to the traditional boundaries of the nation-state. On the one hand, globalization has provided a great opportunity for corporations to be globally competitive by expanding their production base and market share. On the other hand, the same situation poses a great challenge to the sustainability and viability of such mega businesses. Laborers, marginalized consumers, environmental activists, and social activists have protested against the unprecedented predominance of MNC's. The success of CSR initiatives, in future, will largely depend upon the relationship between the corporate system and the social and political systems. The notion of a generalized responsibility is not an operational concept anymore than is the idea of profit maximization. A company's goals, policies, and strategies must be uniquely

determined in the light of opportunities and threats sighted in its external environment, its internal resource strengths and weaknesses, and the values hailed by its principal managers.

Globalization along with changed norms of production, labor, and environment with conditions of best practice has influenced behavior of businesses across the world. The success of the acceptance of these norms has been outside the letter of law, and the adoption has often influenced state to adopt better/improved or at least changed role for itself. The norms of resettlement and rehabilitation as dictated by the Indian state are by law adopted by joint venture companies involved in extractive industries, yet many other activities are also undertaken as corporate social responsibility, which are neither detailed nor dictated by law. Growth of civil society organizations has also led to increasing democratization in the marginalized and impoverished communities creating local responses to the grant meta-narratives. Yet nation-state needs to evolve a new role for itself in this fast changing world. A stable nation providing good governance is thus basic requirement for developing countries in their attempt to safe guard rights and interests of their poor and marginalized.

Indian business has been actively involved in corporate philanthropy since the early 1900s. The charitable outlook of Indian businesses is progressively undergoing change under some external and internal influences. The increase in the momentum of corporate social responsibility has created new routes or avenues via which issues of corporate social responsibility are put to practice.

This has led to a marked and a welcome participation of corporate house in the local development agenda, showing that they do feel responsibility for the environment and people of the area where they set up business. Now it is no longer a question of what and how they help, because they have already proven, more so in the last decade, that they do want to help and that they do have the local welfare at heart. This attitudinal shift is not a response to any industrial, commercial, or government diktat, of course, certainly increasing goodwill. The fact that this makes it a two-way interaction is very welcome too, as that was the primary goal of the exercise anyway.

The time for unmotivated philanthropy seems to be coming to an end in the Indian context, and the usage of the term “corporate social responsibility” is gaining currency since the 1990s. Therefore, well-established business also may have a well-established strategy of “corporate social responsibility” to (a) effectively deal with the instability of the Indian politico-economic climate, (b) proactively deal with all the other stakeholders, and (c) meet the demands of international customer especially as regards to labor and environment.

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a new role for itself in this fast changing world. A stable nation providing good governance is thus basic requirement for developing countries in their attempt to safe guard rights and interests of their poor and marginalized.

9.4 Questions

Section A

1. Define business ethics.
2. What is morality?
3. How religion and ethics are related?
4. What is ethical dilemma?
5. Define corporate governance.
6. What are attitudes?
7. What is the psychological egoism?
8. State the two unethical practices in a software company.
9. What are tax ratios?
10. List four features of utilitarianism.
11. What is whistle blowing?
12. What is software privacy?

Section B

1. Explain the significance of ethics in business planning and decision making.
2. What are corporate crimes? What are their effects on society?
3. What are the implications of unethical practices on human resource management?
4. What do you mean by classical utilitarianism? Explain its principles.
5. Explain the benefits of good corporate governance.

Section C

1. Explain the ethical issues involved in managing finance with an objective of maximizing shareholders wealth rather than shareholders interests.
2. Describe cognitivism and noncognitivism ethical theories.
3. Explain the factors influencing ethical environment a service organization.
4. Explain the corporate social responsibility towards the educational institutions.

Section D

1. Define what is corporate social responsibility. Discuss why CSR is important in India. Discuss what motivates organizations to take up CSR activities.
2. Write short notes on any two of the following:
 - (a) Triple bottom line
 - (b) Importance of millennium development goals
 - (c) Different models of CSR
 - (d) Corporate governance

3. Answer any two from the following:

- (a) How can you measure the impact of CSR at workplace and communities? Give suitable answers to support your answers.
- (b) If a manufacturing organization wants to implement CSR, discuss how it should go about it.
- (c) What are business ethics? Discuss how business ethics and CSR are interrelated.
- (d) “The business of business is to do business.” Do you agree with this statement? Justify your answer with suitable answers.

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About the Author

Dr. Ananda Das Gupta has been engaged in teaching and research for more than 25 years in different universities and institutes across India and currently is the Head (HRD-Area) and Chairperson-PGP at Indian Institute of Plantation Management, Bangalore, an autonomous institute under Ministry of Commerce, Government of India. He also serves as an Adjunct Professor in Indian Institute of Management, Kozhikode, and Indian Institute of Management, Rohtak. Dr. Das Gupta did his doctorate as a UGC-research Fellow. He is having four books to his credit in the areas of Organizational Development, Strategic Human Resources Management, Corporate Social Responsibility and Business Ethics. He has published many papers in various refereed journals and conferences. He is currently the Editor-in-Chief, *International Journal of Business Ethics in Developing Economies*, Publishing India Group, New Delhi, India, and serving on the Editorial Boards of leading international journals. He is also on the International Editorial Board for *Encyclopedia on Corporate Social Responsibility* in five volumes, Springer, Germany (Published: 2013).

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