Business Ethics and Corporate Governance

(As per the Revised Syllabus of Mumbai University for T.Y. BBI, Semester VI, w.e.f. 2014-2015)

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Dedication

This book is dedicated to My Parents who were the constant source of inspiration, vitality and guiding spirit.
Preface

Ethics has become the buzzword in the corporate world because of globalisation and communication explosion. Ethics is related to every aspect of our life. It is the set of the guiding principle for doing right things.

Ethics is a part of business and the business cannot overlook various ethical issues. Business Ethics has been a hot topic and a growing discipline in India.

This book is an adventure into the world of Business Ethics, Corporate Governance and Corporate Social Responsibility.

Corporate Governance deals essentially with ethical issues. The need to study Corporate Governance has become imperative in view of the number of international frauds and other irregularities that the business world has seen from the third quarter of the last century.

I am fully aware reference books are rather heavy for the majority of the students. It does not mean that students should follow the easy path and use only exam-oriented books.

Only I have made humble attempt to fill up the gap and help the students and teachers community giving them a suitable textbook catering to their special needs.

The subject-matter of the textbook has been presented in a logical order.

The language is simple, lucid, convincing and easy to understand.

Also, throughout the development of the book, it has been my endeavour to tailor its approach, subject-matter and presentation according to the syllabus requirement of the course and students.

I would like to put on record the debt I owe to my parents for their constant encouragement and support, without which this book would not have seen the light of the day.

I wish to express my gratitude to Principal Mrs. Rina Saha for her cooperation and making resources available to complete this book.

Constructive suggestions for the improvements in the quality and utility of the book from teachers, students and other readers will be greatly appreciated. They can be sent to my e-mail address: riya_rupani@yahoo.com

RIYA RUPANI
Objectives:

- To understand ethical issues in business.
- To highlight the role of Corporate Governance practices in maintaining transparency in business transactions.
- To highlight the importance of commitment to values and ethical conduct of business.
- To increase awareness about the statutory and legal compliances involved in corporate governance.

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Unit : 2</td>
<td>Corporate Governance: Meaning, Principles, Significance, Corporate Governance Reports of Narayana Murthy Committee, Cadbury Committee, Kumar Mangalam Birla Committee, Malhotra Committee, CII Code, Narasimham Committee Corporate Governance in Globalised Economy, Corporate Governance in Banking and Financial Institutions.</td>
<td>15</td>
</tr>
<tr>
<td>Unit: 4</td>
<td>Corruption: Meaning, Causes, Effects, Frauds and Scams in Banks, Insurance Companies. Financial Markets (Current Case Studies and Supreme Court Judgments) Measures to Overcome Fraud and Corruption Zero Tolerance of Corruption Competition Act, Ethical Approach in IPR with Respect to Designs, Patents and Copyrights, Ethics and IT.</td>
<td>15</td>
</tr>
</tbody>
</table>
## Contents

### UNIT – I
1. Introduction to Ethics 3 – 7
2. Business Ethics 8 – 12
4. Whistle Blowing and Insider Trading 18 – 22
5. Disclosure Requirements 23 – 26
6. Values 27 – 32
7. Teaching from Scriptures 33 – 39

### UNIT – II
8. Corporate Governance 43 – 50
9. Evolution of Corporate Governance 51 – 53
10. Recommendations of Various Committees on Corporate Governance 54 – 68
11. Various Committees for Effective Corporate Governance 69 – 73
12. Corporate Governance in Banks 74 – 79
13. Corporate Governance in Insurance Industry 80 – 83
14. Corporate Governance in Globalised Economy 84 – 91

### UNIT – III
15. Code of Conduct 95 – 101
17. Introduction to Corporate Social Responsibility (CSR) 107 – 112
18. Arguments for and against CSR 113 – 116
19. Social Responsibility towards Different Stakeholders 117 – 122
20. CSR Initiatives 123 – 127
21. CSR towards Social Organisations 128 – 132

### UNIT – IV
22. Corruption 135 – 142
23. Frauds in Banks 143 – 152
24. Fraud in Insurance Industry 153 – 155
25. Scams and Scandals 156 – 164
27. Intellectual Property Rights 171 – 176
Case Studies 181 – 190
“It’s not hard to make decisions when you know what.”

1. DEFINITION

Ethics is:
1. The study of standards of conduct and moral judgment; moral philosophy.
2. A treatise on this study.
3. The study or code of morals of a particular person, religion, group, profession, etc.

The first one refers to an academic concept. Philosophers, law professors, socialists, moralists and a whole host of other academics are engaged in the study of what is considered moral behaviour. The study involves looking at different theories of ethics such as: situational ethics, consequential ethics, values, ethics, utilitarian ethics, moralistic ethics, ethical realism, ethical hierarchy, principles of ethics and moral development of ethics.
The second one refers to all the writings about all of these.

2. DERIVATION

The term “ethics” is derived from the Greek word “ETHOS” which refers to character or customs or accepted behaviour.

3. MEANING

1. Ethics is a branch of philosophy that addresses questions about morality that is, concepts such as good and bad, noble and ignoble, right and wrong, justice and virtue.
2. Ethics is the branch of study dealing with what is the proper course of action for man. It answers the question, “What do I do?” It is the study of right and wrong in human endeavours.
3. Ethical behaviour is generally considered behaviour that is in line with the accepted moral code and that is proper.
4. Ethics means the rules or principles that define right or wrong conduct. The term Ethics, refer to a code of conduct that guides an individual while dealing with others.

4. NINE THEORIES OF ETHICS

Nine major theories have been created to explain ethics and to determine whether a decision is ethical or not:

1. Situational Ethics:
   It suggests that the ethically right thing to do depends on the situation. For example, lying is wrong, but if you lie to avoid hurting someone’s feelings, lying is right.
2. Consequential Ethics:
   An action is ethical depending on the consequences of that action. Lying isn’t wrong if the consequences that result are positive.
3. Value Ethics:
   If you act according to your values and do what you feel is right, your behaviour is ethical.
4. Utilitarian Ethics:
   The behaviour that provides the most benefit is the ethical behaviour. If you can kill one person to save many, it is OK to do so.
5. Moralistic Ethics:
   There are certain moral absolutes and situations in which something is always right or always wrong. For example, pacifists may believe war is ALWAYS wrong, no matter how justified it may seem.
6. Ethical Realism:
   This theory recognises that in the real world, ethical principles can conflict and the best one has to be chosen.
7. Ethical Hierarchies:
   Certain ethical values are more important than others; the most important should always be chosen when conflict exists.
8. **Principles of Ethics:**
Ethical values are just principles or theories to guide decisions.

9. **Moral Development:**
This theory suggests that ethics can be taught and that greater levels of ethical behaviour can be achieved as one learns more.

## 5. **IMPORTANCE OF ETHICS**

1. Ethics is a requirement for human life.
2. It is our means of deciding a course of action. Without it, our actions would be random and aimless.
3. To the degree which a rational ethical standard is taken, we are able to correctly organise our goals and actions to accomplish our most important values.
4. Any flaw in our ethics will reduce our ability to be successful in our endeavours.
5. Ethics are important because they give us a baseline for understanding the concepts of right and wrong.
6. Ethics help us to have a ready understanding of how to react to a certain situation long before that situation happens.
7. There are situational ethics whereby we react as the situation dictates but our reaction is due to our built-in value system that tells us what to do, not the situation itself.
8. Ethics are important because they act as our mediator when dealing or coming into contact with other people. If we have the wrong sense of ethics, we will react to people in a negative manner.
9. Ethics are important because we pass them on to others. We have the ability to show others the correct way to act and behave by remaining ethical in the way we live, regardless of whether it involves our personal or business life.

## 6. **ETHICS AND MORALITY**

The term ethics and morality are not one and the same.

Ethics is the principle that guides the human behaviour. Morals are related to traditional beliefs, customs and convention that guide man’s social behaviour.

A great difference exists between ethics and morality because ethics is always based on moral standard and code of conduct developed by proper testing to guide the human behaviour. Whereas morality is concerned with generally accepted conducts, courtesies and conventions of the society.

Because human behaviour is influenced by emotions and sentiments, many organisations have no predetermined ethics, they evaluate good or bad conduct of business on the basis of social customs, traditional beliefs and expectations of the society.

## 7. **ETHICS AND LAW**

**Origin**
Ethics is the science of conduct. It deals with certain standard conduct and morals.

Law is a code of conduct which the authority in power prescribes for society.
It is concerned with the minimum regulation necessary for public order which is enacted by government.

**Relationship**

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<tr>
<th>Sr. No.</th>
<th>Ethics</th>
<th>Law</th>
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<tr>
<td>1</td>
<td>Ethics examines both the individual and social goodwill in all directions.</td>
<td>Law is concerned with the minimum regulation necessary for public order.</td>
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<tr>
<td>2</td>
<td>Ethics contains all the social obligations, customs and traditions which are essentially implemented in the society.</td>
<td>The social customs and traditional beliefs cannot get a place in law.</td>
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<td>3</td>
<td>The people who reject the ethical principles have to face social boycott and be subjected to society’s accusation.</td>
<td>People have to obey provisions of law, otherwise they will be subjected to punishment.</td>
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<td>4</td>
<td>The scope of ethics is broad.</td>
<td>The scope of law is narrow.</td>
</tr>
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<td>5</td>
<td>Ethics means the rules or principles that define right or wrong conduct.</td>
<td>Laws are written rules about what is right and what is wrong in various walks of life.</td>
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<td>6</td>
<td>It does not use force.</td>
<td>It uses force when necessary.</td>
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<td>7</td>
<td>Ethical behaviour will always be covered under ethics.</td>
<td>Ethical behaviour may or may not be covered by law.</td>
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<td>8</td>
<td>It is not backed by power.</td>
<td>It is backed by power.</td>
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<tr>
<td>9</td>
<td>Ethics concentrates on Do’s.</td>
<td>Law concentrates on Don’ts.</td>
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**Following Things Will Fall Within the Circle of Ethics But Not Within Law**

- Look after the aged.
- Be considerate to your workers.
- Teach well your students.
- Obey your elders.
- Do not tell a lie.

**8. CONCLUSION**

Unfortunately, there is no clear answer to what is ethical or to what an ethical behaviour is. Many turn to religion or to the law to give guidance as to ethical behaviour. Ultimately, however, ethics is a relative term not easily defined.

**9. REVIEW QUESTIONS**

1. Explain the concept of ethics.
2. Give an overview of nine theories of ethics.
3. Explain the importance of ethics.
4. Distinguish between ethics and morality.
5. Distinguish between ethics and law.

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