Business Ethics and Corporate Governance

Nidhi Chandorkar
Tushar Agarwal
Business Ethics and Corporate Governance

(As per the New Syllabus 2018-19 of Mumbai University for BBI, Semester V)

Nidhi Chandorkar
NET, MBA (HRM),
HOD – Department of Management Studies,
S.M. Shetty College of Science, Commerce and Management Studies, Powai.

Tushar Agarwal
SET, Ph.D. Scholar, MBA (Marketing),
MBA (Corporate Governance),
M.Com. (Management),
BMS Coordinator,
Chandrabhan Sharma College of Arts, Science and Commerce, Powai.
Success of any business, in today’s time, is judged not only by its revenue but also by its social contribution and environmental friendly strategies. Hence, the benchmarking of success is done on the basis of triple bottom line – Profit, Planet and People. Therefore, knowledge and importance of Ethics and Governance is essential for all the budding managers, bankers, etc.

This book is based on the syllabus prescribed by the University of Mumbai, which has been designed to educate the final year students of Banking and Insurance domain of commerce about ethics, governance and corporate social responsibilities. The book deals with concepts as well as its mechanism of application in Indian context.

The first chapter helps in developing an understanding towards the conceptual part of ethics in general and business ethics in specific. It also covers an overview of different functional areas under the scope of business ethics like marketing, foreign trade, copyright, etc.

The second chapter helps in developing decision-making skill and entails about various approaches to reduce ethical dilemma. These mechanisms are based on the theories developed by philosophers like Immanuel Kant, Aristotle, Jeremy Bentham, etc. Mahatma Gandhi suggested trusteeship principle as approach towards managing business. The application of this principle, and in general, the Gandhian approach for managing modern businesses has also been discussed in detail. The chapter also covers the functional areas like advertising and finance in light of the unethical practices and approaches to eliminate or minimize them.

The third chapter is dedicated to the concept of Corporate Governance. It discusses about the importance and principles of corporate governance and focusses mainly on the Indian Corporate Governance System. The mechanism of Corporate Governance in India comprises The Companies Act, 2013, SEBI and Clause 49 of listing agreement. The unit also helps in viewing various perspectives of Corporate Governance by studying the theories.

The ancient Indian approach towards governance was based on the teachings of the scriptures like Arthashastra and religious scriptures like Geeta, Quran and Bible. The fourth chapter also deals with the modern evolution of corporate governance in India.

Finally, the global perspective of Business Ethics is discussed. With the evolution of businesses, variety of scams and frauds have also taken place. The knowledge of these scams will help us developing a strong and ethical business set-up for long-term benefit of all the stakeholders.

Authors
## SYLLABUS

### Modules at a Glance

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<th>Modules</th>
<th>No. of Lectures</th>
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<td>1</td>
<td>Introduction to Business Ethics</td>
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<td><strong>Total</strong></td>
<td><strong>60</strong></td>
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### Sr. No. | Modules/Units
---|--------------------------------------------------
1 | **Introduction to Business Ethics**

- Definition, Meaning, Nature of Ethics, Meaning of Moral and Ethics.
- Types of Ethics, Importance of Ethics, Business Ethics – Meaning and Nature.
- Importance of Ethics in Business, Areas of Business Ethics. Meaning of Functional Ethics, Types of Ethics According to Functions of Business – Marketing Ethics, Foreign Trade Ethics and Ethics Relating to Copyright.
- Ethics relating to Free and Perfect Competitive Market.

2 | **Application of Ethical Theories in Business**

- Ethical Decision Making: Decision Making (Normal Dilemmas and Problems):
  - (I) Utilitarianism (J. Bentham and J.S. Mill),
  - (II) Deontology (I. Kant)

- Virtue Ethics (Aristotle), Gandhain Approach in Management and Trusteeship, Importance and Relevance of Trusteeship Principle in Modern Business.
- Ethical Issues in Functional Areas of Business.
- Ethics in Advertising (Truth in Advertising).
- Ethical Issues in Finance.

3 | **Introduction to Corporate Governance**

- Definition and Conceptual Framework of Corporate Governance, Business Ethics – an important dimension to Corporate Governance, Fair and Unfair Business Practices.
- Theoretical Basis of Corporate Governance, Mechanism- Corporate Governance Systems, Indian Model of Governance, Good Corporate Governance, Obligations towards Society and Stakeholders.
- Theories Underlying Corporate Governance (Stakeholder’s Theory and Stewardship theory, Agency Theory, Separation of Ownership and Control, Corporate Governance Mechanism: Process, Indian Model, OECD, and Emphasis on Corporate Governance (Transparency Accountability and Empowerment).

4 | **Genesis and Implementation of Corporate Governance in India**

- Introduction principles – Arthashastra and Good Governance in ancient India, Protection of Interest of Customers and Investors, Historical Perspective of Corporate Governance and Issues in Corporate Governance.

### Values:

- Meaning, Types, Teaching from Scriptures like Gita, Quran and Bible, Value Systems in Business.
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<tr>
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<tr>
<td>Role of Board of Directors and Board Structure, Role of the Non-executive Director, Role of Auditors, SEBI Growth of Corporate Governance, Role of Government, Corporate Governance in India, Accounting Standards and Accounting Disclosures, Finance Reporting and Corporate Governance, Non-accounting Regulations in Corporate Governance, Corporate Governance and CSR, Family Owned Business - Background, Family Businesses in India, Need for Professionalization and Transparency in Family Business.</td>
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<td>Business Ethics in Global Economy</td>
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<td>Corruption: Meaning, Causes and Effects.</td>
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<tr>
<td>Frauds and Scams in Banks, Insurance Companies, Financial Institutions, Measures to Overcome Fraud and Corruption, Zero Tolerance of Corruption.</td>
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# PAPER PATTERN

**Maximum Marks:** 75  
**Questions to be set:** 05  
**Duration:** 2 ½ Hrs.  
All questions are compulsory carrying 15 Marks each.

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<thead>
<tr>
<th>Question No.</th>
<th>Particular</th>
<th>Marks</th>
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</table>
| Q.1          | Objective Questions  
Sub-questions to be asked (10) and to be answered (any 08)  
Sub-questions to be asked (10) and to be answered (any 07)  
(*Multiple Choice/True or False/Match the Columns/Fill in the Blanks) | 15 Marks |
| Q.2          | Full Length Question  
OR  
Full Length Question | 15 Marks |
| Q.3          | Full Length Question  
OR  
Full Length Question | 15 Marks |
| Q.4          | Full Length Question  
OR  
Full Length Question | 15 Marks |
| Q.5          | Theory Questions  
Theory Questions  
OR  
Short Notes  
To be asked (05)  
To be answered (03) | 08 Marks  
07 Marks  
15 Marks |

**Note:**  
Theory question of 15 Marks may be divided into two sub-questions of 7/8 and 10/5 Marks.
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<td>3</td>
<td>Introduction to Corporate Governance</td>
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<td>4</td>
<td>Genesis and Implementation of Corporate Governance in India</td>
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<td>5</td>
<td>Global Scenario Business Ethics in Global Economy</td>
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Chapter 1
Introduction to Business Ethics

Ethics: Definition, Meaning and Nature
Meaning of Moral & Ethics
Types of Ethics
Importance of Ethics
Business Ethics -Meaning and Nature
Importance of Ethics in Business
Areas of Business Ethics
Meaning of Functional Ethics
Types of Ethics According to Functions of Business – Marketing Ethics, Foreign Trade Ethics and Ethics Relating to Copyright
Ethics relating to Free and Perfect Competitive Market

The concept of “ethics” was introduced by Socrates, and defined as a philosophical discipline by Aristotle. The word Ethics have been taken from the ancient Greek word ‘ethikos’ which itself is derived from the Greek word ethos, meaning custom or character. In philosophy, in general, ethical behavior is that which is “good.” The field of moral philosophy involves developing, defending, and recommending concepts of right and wrong behavior. These concepts do not change as one’s desires and motivations. They are not relative to the situation.

Hence, Ethics can be said to be the basic concepts and fundamental principles of decent human conduct. It is a philosophy which includes study of universal values such as the essential equality of gender, human or natural rights, obedience to the law of land, concern for health and safety and, increasingly, also for the natural environment.
ETHICS: DEFINITION, MEANING AND NATURE

Definition and Meaning

Ethics can be said to be ‘the field of study that is concerned with values, standards, morals, principles etc., which are used to base ones decisions or actions. It is a discipline tries to set up criteria for “good” and “bad” behavior/actions, and to evaluate the motives for these actions, and the consequences.

Ethics is a branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong conduct. Ethics seeks to resolve questions of human morality by defining concepts such as good and evil, right and wrong, virtue and vice, justice and crime.

Ethics deals with fundamental issues of practical decision making, and its major concerns include the nature of ultimate value and the standards by which human actions can be judged right or wrong.

Nature of Ethics

Ethics is a study of human behaviour in different external situations. Humans by default has a capability of judging good and bad, right and wrong behaviour based on the situation. Therefore ethics, though a relative and subjective term has some common features:

(i) Based on Moral and Social Values: Ethics has its roots in the individual values called as moral values and collective values also called as social values. As any system or organisation is a sub set of society and ethics are associated with human behaviour it cannot violate or contradict social and moral values.

(ii) Ethics as Social Science: Ethics is a study under social science. Though there is an argument whether ethics is a science or an art. But experts are of the opinion that ethics is more of science than an art because it is a systematic knowledge about moral behaviour and conduct of human beings.

(iii) Ethics as Normative Science: The term normative implies a guide or control of action. So, normative ethics tells us what we ought to do.

(iv) Voluntary: Ethics deals with human conduct that is voluntary and not formed naturally by any persons or his circumstances. It is created due to system and organisation and is voluntarily followed by individuals in it.

(v) Externally enforced: Ethics leads to coexistence and smooth functioning of a system, hence it has to be enforced to a person and is not in-born as morality.

(vi) Basis of Code of Conduct: Ethics of a system, (like organisation, institution or group) helps in forming its code of conduct which in turn dictates the expected behaviour of the individuals involved in it.

(vii) Requires Education and Guidance: Ethics is learned behaviour. Individuals need to be informed, educated, guided and motivated so that they follow the ethical norms with its true spirit.
(viii) **Relative Term:** As ethics is based on, and for smooth functioning of, the system hence it has to change in response to environmental conditions. Therefore, ethical values may change with time and environmental conditions.

Based on above points, we can understand that ethics values may change for a person with change in his environment or occupation. Therefore, the nature of ethics can be well understood by dividing it into three categories of features:

A. **Personal Ethics**

B. **Professional Ethics**

C. **Managerial Ethics**

**Nature of Personal Ethics**

Personal ethics refer to personal or self-created values and codes of conduct of a person. These ethics are instilled in an individual from the childhood by their parents, friends and family. Examples of personal ethics can be honesty, openness, commitment, unbiased behaviour and sense of responsibility. It remains with him all through his life and is reflected by his actions and words. A person’s personal ethics are also revealed in a professional situation through his behaviour. Personal values are the conception of what an individual or a group regards as desirable. Personal ethics refers to the application of these values in everything one does. Personal ethics might also be called morality, since they reflect general expectations of any person in any society, acting in any capacity. **Personal ethics is a category of philosophy that determines what an individual believes about morality and right and wrong.**

The principles of personal ethics are:

(i) Concerns and respect for the autonomy of others

(ii) Honest and the willingness to comply with the law

(iii) Fairness and the ability not to take undue advantage of others

(iv) Benevolence and preventing harm to any creature

**Nature of Professional Ethics**

A profession is a vocation or calling, especially one that involves a specific branch of advanced learning or a branch of science, for example, the profession of a doctor, advocate, professor, scientist for a business manager.

A professional who is engaged in a specified and is paid for services rendered based on specific skills. Professional ethics are those values and principles that are introduced to an individual in a professional organisation. Each professional is expected to strictly follow these principles. This approach is imperative in professional settings as it brings a sense of discipline in people as well as helps to maintain office decorum. **Professional ethics are those values and principles that are introduced to an individual in a professional organisation.** Each employee is meant to strictly follow these principles of his profession in the organisation. They do not have a choice.
Also, this approach is imperative in professional settings as it brings a sense of discipline in people as well as helps to maintain decorum in offices. Some examples may include confidentiality, fairness, transparency and proficiency.

There are some basic principles professionals are expected to follow in their professional career. These are the following:

(i) Impartial and objective
(ii) Openness: full disclosure
(iii) Confidentiality: trust
(iv) Due diligence
(v) Duty of care
(vi) Fidelity to professional responsibilities; and
(vii) Avoid potential or apparent conflict of interest.

Nature of Managerial Ethics

A complex workplace can be transformed into a less complicated landscape when thought is given to establishing some ground rules. Companies that incorporate a set of managerial ethics or guidelines create a clear path for managers to reference during tough decision-making scenarios.

Managerial ethics is a set of principles and rules dictated by upper management that defines what is right and what is wrong in an organisation. Managerial ethics is a major factor affecting how socially responsive an enterprise will be in the long term. The managerial ethics can lead types of responses given by a manager. Proactive responses are likely to be more ethical since they will go beyond minimum legal requirements. They are more consistent with the high social expectations as discussed earlier. Reactive responses either conforms only with the minimum legal requirements or even attempt to avoid legal requirements through long court cases, lobbying efforts to avoid responsibility and so forth. The ethics of an enterprise’s managers are a key factor in decision-making and may be formed by many forces.

MEANING OF MORAL AND ETHICS

Ethics and morals relate to “right” and “wrong” conduct. While they are sometimes used interchangeably, they are different: ethics refer to rules provided by an external source, e.g., codes of conduct in workplaces or principles in religions. Morals refer to an individual’s own principles regarding right and wrong.

Difference Between Ethics and Morality

<table>
<thead>
<tr>
<th>ETHICS</th>
<th>MORALITY</th>
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<tbody>
<tr>
<td>Meaning</td>
<td>Principles or habits with respect to right or wrong conduct. While morals also prescribe dos and don'ts, morality is ultimately a personal compass of right and wrong.</td>
</tr>
<tr>
<td>The rules of conduct recognized in respect to a particular class of human actions or a particular group or culture.</td>
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Where do they come from?

| Social system - External | Individual – Internal |

Why we do it?

| Because society says it is the right thing to do. | Because we believe in something being right or wrong. |

Flexibility

| Ethics are dependent on others for definition. They tend to be consistent within a certain context, but can vary between contexts. | Usually consistent, although can change if an individual’s beliefs change. |

Origin

| Greek word "ethos" meaning "character" | Latin word "mos" meaning "custom" |

Acceptability

| Ethics are governed by professional and legal guidelines within a particular time and place. | Morality transcends cultural norms |

TYPES OF ETHICS

Following three major types of ethics as explained below:

(i) Transactional Ethics

(ii) Participatory Ethics

(iii) Recognition Ethics

(i) Transactional Ethics

Man is a social animal. He has to act and react with others through different transactions. The practices of ethics in all these transactions is called as transactional ethics. In order to let each party’s transaction run smoothly, all parties have to accept the principle of equality, implying that every agent should allow every other the same amount of freedom or action he claims for himself. The moral principle of equality tells us where to refrain from intrusions in the freedom of action of others while following one’s own affairs, which is negative principle as well as basic.

Example: I need vegetables from vegetable vendor. The vendor wants customer like me for survival, as we both are dependent on each other, as long as both of us contribute appropriately, together we generate surplus that none of us on our own are able to produce.

In order to let things run smoothly, again adherence to two specific moral principles is required:

- Principle of honesty
- Principle of reciprocity

The domain of ethics covering transactions that are performed on the basis of simultaneous or connected interest and that are general by the principles of equality, honesty and reciprocity if indicated as the domain of transactional ethics.
(ii) Participatory Ethics

Participatory ethics is a privileged part of business ethics. Parties cooperate in order to produce more distant common good that has three characteristic features:

- The good can only be realised through the participation of all parties.
- Participation cannot be enforced into explicit moral obligation to take part in the project.
- Principle of decency where a real opportunity to contribute to the general welfare presents itself and no insurmountable obstacle arise, one should have solid moral reasons not to go for it.

The important thing is that parties in the alliance voluntarily, committing themselves to a self-imposed and non-enforceable obligation. This entails a specific type of social relations that is guided by two particular moral principles:

- Principle of decency
- Principle of enunciation

Participatory ethics is about the shape of solidarity in an age of individualisation. It is the ethics of the civil society, recently rediscovered as a solid ground for collective arrangements where both the market and the state fail. By participating in a regular basis, in common projects on behalf of general welfare, a corporation demonstrates that it can take seriously its corporate citizenship.

(iii) Recognition Ethics

As human beings, people are endowed with the ability to understand the problems of others. This quality leads to the recognition of individuals, institutions and societies. Conflicting situations can be solved by the correct recognition of the situation.

Example: The employees aged 57-60 years morally obliged to retire to give way to some younger colleagues, who being in the midst of their careers, can raise a more weighty claim to a job. The domain of recognition politics covers a large part of traditional ethics interventions. Ethics, in fact, is about asymmetrical relations about the rights of interest of the one generating a duty for another.

Recognition ethics clarifies and supports this type of discussion applying the two principles mentioned above and other moral convictions that are considered appropriate.

IMPORTANCE OF ETHICS

Ethics concern an individual’s moral judgements about right and wrong while she/he is in a system. Decisions taken within an organisation may be made by individuals or groups, but whoever makes them will be influenced by the culture of the company. Other than providing long term benefits, ethics are important because:

1. Developing Capability to Judge Right and Wrong: Ethics is a subject that deals with human beings. Humans by nature are capable of judging between right and wrong, good and bad behaviour. Since human beings are associated with values and morals, ethics is important.
2. **Develops Trust:** Ethics is closely related to trust. Most of the people would agree on the fact that to develop trust, behaviour must be ethical.

3. **Long-Term Survival of Business:** Ethics are important not only in business, but also in all aspects of life. The business of society which lacks ethics is likely to fail sooner or later.

4. **Covers all aspects of Life:** Ethics are important not only in business but also in all aspects of life because it is an essential part of the foundation on which a civilised society is build.

5. **Guiding Actions:** Ethics primarily aim to guide the behaviour and actions of a person or society or a business through adherence to certain moral principles, standards and values so that the others are not harmed by one’s unfair, immoral or unjust actions.

6. **Aids the Law:** Ethics makes for a complementary logic that aids laws in balancing equity, fairness and justice in those matters of disputes, and actions that touch or affect others.

7. **Caters to Wider Issues:** The aim of law and ethics may be similar, but ethics will examine wider social issues involved with an action and may direct the individual or a company to act differently from what law would do in normal course.

8. **Balancing Instrument for Social Justice:** Ethical considerations, along with legal provisions, act as the ‘balancing instrument’ for social justice, which are essential for sustained growth of a society.

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**BUSINESS ETHICS – MEANING AND NATURE**

**Meaning and Definition**

Business Ethics is a form of Applied Ethics. It originates from individuals, organizational statements or from the legal system. It can be said to be the attitude, culture and manner of doing business by the business community. It is a framework of contemporary organizational standards, principles, sets of values and norms that govern the actions and behavior of an individual in the business organization.

According to Andrew Crane, “**Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.**” Business ethics are those principles, policies or philosophies that are concerned with moral judgment & good conduct as they are applicable to business situation.

Business Ethics is a branch of ethics which prescribes standards of how the business is to be carried out. It lays down guidelines for the company’s response and accountability to its various stakeholders. It gives a deeper understanding of what is good and bad, what is moral and immoral or what actions are right or wrong in the operations of a business with respect to its customers, employees, investors, society and all other stakeholders – in order to protect them from harm and damages to their interests.
Features of Business Ethics

To develop a better understanding for Business Ethics, we should examine the key features:

1. **Code of conduct**: Business ethics is the code of conduct which businessmen should follow while conducting their normal business activities.

2. **Based on moral and social values**: Business ethics is based on well-accepted moral/principal values. It suggests moral of conduct for businessmen. They include self-control, service to society and fair treatment to social groups and not to harm/exploit others.

3. **Provides basic framework**: Business ethics provides the framework within which business is to be conducted. It suggests legal, social, moral, economic and cultural limits within which business has to be operated. It suggests what is good and what is bad in business.

4. **Needs willing acceptance for enforcement**: Business ethics cannot be enforced by law or by force. It must be accepted as self-discipline by businessmen. It should come from within the businessmen.

5. **Education and guidance required for introduction**: Businessman should be given proper education, guidance and training in order to motivate them to follow ethical business practices.

6. **Not against profit making**: Business Ethics is not against fair profit making. However, it is against profiteering by cheating and exploiting consumers, employees or investors. It supports expansion of business activities but by fair means and not through illegal activities or corrupt practices.

**IMPORTANCE OF ETHICS IN BUSINESS**

Ethics is important for any business, big or small, for its long term success. Following are the benefits of ethics for any business:

1. **Decision Making**: It is our means of deciding a course of action. Without it our actions would be random and aimless.

2. **Standardizing Behaviour of Employees**: Business Ethics is about standard of behavior in workplace, with partners, colleagues, customers etc. Many companies have standard code of ethics which everyone in the organization has to follow.

3. **Greater Customer Satisfaction**: Customer will be satisfied only if the business follows all the business ethics. Business ethics is needed to make business activities fair to consumers. It checks business malpractices and offers protection to consumers.

4. **More Responsible Behaviour**: Business ethics is needed in order to make businessmen conscious as regards their duties and responsibilities towards consumer and other social group.

5. **Improved Confidence of Stakeholders**: Business ethics is needed in order to improve the confidence of consumers as regards quality, price, reliability etc. of goods and services
supplied. It also helps in retaining confidence of stakeholders like financial institutions, shareholders, buyers, suppliers etc.

6. **Protecting Rights:** Business ethics is needed for the protection of rights of consumers at the business level such as right to health & safety, right to be informed, right to choose, right to be heard etc.

7. **Enhanced Corporate Image:** Business ethics is needed in order to create good image of businessmen in the society and also for avoiding public criticism. Ethical business gets public support while unethical business is criticized by all. Public will be ready to invest or lend money only if they are convinced that the organization is following fair business practices.

8. **Cordial Relationship and Support:** Business ethics is needed in order to develop cordial and friendly relations between business and society.

9. **Long Term Survival and Growth:** Organizations doing business ethically will continue to survive & prosper for the long time. Hence, it is important for the growth & development of the business in the long term.

10. **Uniform Behaviour Across Organisation:** Ethics in business are important most of all 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.

**AREAS OF BUSINESS ETHICS**

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company. Hence, the area or scope of business ethics all the functions of a business:

(i) **Ethics in Compliance**

Compliance is about obeying and adhering to rules and authority. The motivation for being compliant could be to do the right thing out of the fear of being caught rather than a desire to be abiding by the law. An ethical climate in an organization ensures that compliance with law is fuelled by a desire to abide by the laws. Organizations that value high ethics comply with the laws not only in letter but go beyond what is stipulated or expected of them.

(ii) **Ethics in Finance**

The ethical issues in finance that companies and employees are confronted with include:

- In accounting – window dressing, misleading financial analysis.
- Related party transactions not at arm’s length.
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation
- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements
(iii) Ethics in Human Resources

Human resource management (HRM) plays a decisive role in introducing and implementing ethics. Ethics should be a pivotal issue for HR specialists. The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Affirmative Action.
- Issues surrounding the representation of employees and the democratization of the workplace, trade-ization.
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee.
- Occupational safety and health.

Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance-related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

(iv) Ethics in Marketing

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements
- Content of advertisements.
- Children and marketing.
- Black markets, grey markets.

(v) Ethics of Production

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.
Defective, addictive and inherently dangerous products.

Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.

Ethical problems arising out of new technologies for eg. Genetically modified food.

Product testing ethics.

The most systematic approach to fostering ethical behaviour is to build corporate cultures that link ethical standards and business practices.

FUNCTIONAL ETHICS

Marketing Ethics

Marketing ethics is an area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. Marketing ethics has a potential to benefit society as a whole and the organisation is long term. It helps in winning customers loyalty. It is beyond the government regulations enforced on the market or the organisation. Some areas of marketing ethics overlap with that of media ethics.

Marketing ethics is defined as the basic principles and values that govern the business that is engaged in promoting products or services to customers.

Principles of Ethical Marketing

1. **Truth:** All marketing communications share the common parameter that is truth.

2. **Personal Ethics:** Marketing Professional is bound by the highest standard of personal ethics.

3. **Transparency:** Marketers should be highly transparent about the people whom they pay to endorse the products.

4. **Fair Treatment:** Consumers should be treated fairly based on the nature of the product and consumer.

5. **Privacy:** The privacy of the consumer should not be compromised.

Unethical Practices in Marketing

1. **Making false, exaggerated, or unverified claims:** Some marketers use false statements, exaggerated benefits, or make unverifiable claims about their offers to attract customers.

2. **Distortion of facts to mislead or confuse potential buyers:** Sometimes the claims made by the company are not true or are written in such a way that they confuse the buyers by concealing reality.

3. **Concealing dark sides or side effects of products or services:** Most manufacturers deceive potential buyers that their products have no side effects. Some products may have side effects immediately evident, but some may have after long time of usage. It’s better to say, “There are no known side effects” than to say “there are no side effects”.

4. **Bad-mouthing rival products:** Emphasizing the dark sides of your rival’s products in a bid to turn potential customers towards the company’s own products is another common but
unethical marketing practice. Rather than resort to this bad strategy, the company should emphasize on those aspects that make company’s offer stand out from the rest of the pack.

5. **Using women as sex symbols for advertising:** Presenting women in an undesirable way or in an indecent way is an unethical way of attracting attention of the audience. This, in long run, may spoil the reputation of the advertiser.

6. **Using fear tactics:** The company may create urgency by saying that the offer is for limited time period. This compels the customers to make on the spot decision, at times without comparing the product with other brands. Such tactics create undue pressure on the customers.

7. **Plagiarism of marketing messages:** Some marketers copy the exact message of the competitor, which can confuse the customers. It may cause harm to the reputation of the company as it may appear to be creatively bankrupt.

8. **Exploitation:** This is charging for much more than the actual value of a product or service. For marketing efforts to remain with ethical limits; the prices of your offers must be equal to or less than the value they give the buyer. If the value is less than the cost, it’s unethical.

9. **Demeaning references to races, age, sex, or religion:** Ethical marketing must be devoid of all forms of discrimination. If your marketing messages contain lines that place people of certain age range, sex, religion, nationality, or race at a higher level than others, then you are crossing the bounds of ethical marketing.

10. **Spamming:** Spamming is when you send unsolicited emails to potential customers, encouraging them to buy your products or services. This is the commonest unethical marketing practice done online. The number of time you send such emails doesn’t matter. Whether you send them once, or on occasions, or frequently, you remain a spammer.

**Ethical Values in Marketing**

There are six marketing ethics where the marketers are supposed to follow:

1. **Honesty:** Be forthright in dealings and offer value and integrity.

2. **Responsibility:** Accept consequences of marketing practices and serve the needs of customers of all types, while being good stewards of the environment.

3. **Fairness:** Balance buyer needs and seller interest fairly, and avoid manipulation in all forms while protecting the information of the consumers.

4. **Respect:** Acknowledge basic human dignity of all the people involved through efforts to communicate, understand and meet needs and appreciate contributions of others.

5. **Transparency:** Create a spirit of openness in the practice of marketing through communication, constructive criticism, action, and disclosure.

6. **Citizenship:** Fulfill all legal, economic, philanthropic and societal responsibilities to all stakeholders as well as giveback to the community and protect the ecological environment.
Foreign Trade Ethics

Business ethics is an important component of each manager’s education, but managers dealing with international operations deal with countless ethic problems that are not found in the internal context. Specific ethic problems that rise in international affairs are due to several factors, amongst which:

- the diversity of political and law regulation systems;
- the diversity of economical organizing forms and levels of economic development;
- insufficient regulations, especially in less developed countries;
- existing conflicts between national and regional economic interests;
- the influenced area and power of the multinational corporations, as well as their ability to elude law regulations;
- corruption in some areas of the world.

An organisation may get tempted to unethical practices in the following areas:

1. Employment Practices and Ethics
   Ethical issues may be related to employment practices in many nations. The conditions in a host country may be much inferior to those in a multinational’s home nation. Many may suggest that pay and work conditions need to be similar across nations, but no one actually cares about the quantum of this divergence.

2. Human Rights
   Basic human rights are still denied in many nations. Freedom of speech, association, assembly, movement, freedom from political repression, etc. are not universally accepted.

3. Environmental Pollution
   When environmental regulation in the host nation is much inferior to those in the home nation, ethical issues may arise. Many nations have firm regulations regarding the emission of pollutants, the dumping and use of toxic materials, and so on. Developing nations may not be so strict, and according to critics, it results in much increased levels of pollution from the operations of multinationals in host nations.

4. Corruption
   Corruption is an issue in every society in history, and it continues to be so even today. Corrupt government officials are everywhere. International businesses often seem to gain and have gained financial and business advantages by bribing those officials, which is clearly unethical.

5. Moral Obligations
   Some of the modern philosophers argue that the power of MNCs brings with it the social responsibility to give resources back to the societies. The idea of Social Responsibility arises due to the philosophy that business people should consider the social consequences of their actions.
Ethics Relating to Copyright

According to Investopedia “Copyright refers to the legal right of the owner of intellectual property”. In simpler terms, ‘copyright is the right to copy’. This means that the original creator of a product and anyone he gives authorization to are the only ones with the exclusive right to reproduce the work. Copyright law gives creators of original material, the exclusive right to further develop them for a given amount of time, at which point the copyrighted item becomes public domain.

A copyright gives the owner of a work of expression the exclusive right to:

1. Reproduce the work.
2. Distribute copies of the work to the public.
3. Display copies of the work in public.
4. Perform the work in public.
5. Create derivative works based on the original work.

A copyright is collection rights which can be given away, sold, leased, or licensed.

Copyright Infringement

Copyright infringement is the violation, piracy or theft of a copyright holder's exclusive rights through the unauthorized use of a copyrighted material or work. It includes unauthorized use of a work or material is any unauthorized reproduction, distribution, performance, public display or transfer to a derivative work without the copyright owner's permission.

An infringement occurs under all of the following three conditions:

- The owner must hold a valid copyright.
- The alleged infringer must be able to access the copyrighted work.
- Duplication of the copyrighted work must occur beyond exceptions. If an exception does not apply, permission is requested by the person seeking to use the work.

There are three terminologies associated with copyright infringement:

- Piracy: The term "piracy" has been used to refer to the unauthorized copying, distribution and selling of works in copyright.
- Theft: It is an instance where a person exercises one of the exclusive rights of the copyright holder without authorization.
- Freebooting: The term “freebooting” has been used to describe the unauthorized copying of online media, particularly videos, onto websites such as Facebook, YouTube or Twitter.

Ethics Relating to Free and Perfect Competitive Market

A market is a forum in which people come together to exchange ownership of goods; a place where goods or services are bought and sold. There are broadly three models of market:

- Perfect competition: A free market in which no buyer or seller has the power to significantly affect the prices at which goods are being exchanged.
- **Pure monopoly**: A market in which a single firm is the only seller in the market and which new sellers are barred from entering.

- **Oligopoly**: A market shared by a relatively small number of large firms that together can exercise some influence on prices.

The perfect market has the following key features:

(a) In perfectly competitive market, buyers and sellers are free to enter or leave the market as they choose. That is, individuals are neither forced into nor prevented from engaging in certain business, provided they have the expertise and the financial resources required.

(b) In the perfectly competitive free market, all exchanges are fully voluntary. That is, participants are not forced to buy or sell anything other than what they freely and knowingly consent to buy or sell. No single seller or buyer will so dominate the market that he is able to force the others to accept his terms or go without.

(c) In this market, industrial power is decentralized among numerous firms so that prices and quantities are not dependent on the whim of one or a few businesses. In short, perfectly competitive free markets embody the negative right of freedom from coercion.

**Ethics for A Free and Perfect Market are as Follows:**

- **Free to Choose the business**: Perfectly competitive markets respect the right to freely choose the business one enters.

- **Voluntary Exchange**: In perfectly competitive markets, exchanges are voluntary and respects the right of free choice.

- **No Coercion**: In perfectly competitive markets, no seller exerts coercion by dictating prices, quantities, or kinds of goods consumers must buy.

- **Maximising Utility by consumer satisfaction**: Perfectly competitive markets let consumers buy the most satisfying bundle of goods, so they distribute goods in way that maximizes utility.

- **Using Resource Efficiently**: Perfectly competitive markets encourage firms to use resources efficiently to keep costs low and profits high.

**QUESTIONS**

1. Define Ethics. State its basic features.
2. Discuss the features of Personal, Professional and Managerial Ethics.
3. Compare Morals and Ethics.
4. Discuss the three types of ethics and state its principles.
5. Give the meaning of Business Ethics. Discuss its nature.
6. Why is Ethics important in Business?
7. Write a note on Marketing Ethics.
8. State the common unethical practices in Marketing.
9. Write a note on Foreign Trade Ethics.
10. Define Copyright. Discuss Infringement of Copyright.
11. What do you mean by Free and Perfect Competitive Market? Discuss the Ethics of such market.

**Fill in the Blanks:**

1. Ethics is _________.
   (Absolute/Relative)
2. Reciprocity is the principle for ________ Ethics.
   (Transactional/Recognition)
3. ________ ethics is about the shape of solidarity in an age of individualisation.
   (Recognition/Participatory)
4. Business Ethics is a type of ________ Ethics.
   (Meta/Applied)
5. When marketers copy the exact message of the competitor, it is said to be ________ of marketing messages.
   (Plagiarism/Defamation)

**Answers:**


**State Whether the Following Statements are True or False:**

1. Ethics cannot change with time and situation.
2. Ethical code of different organisation are always same.
3. Ethics is a normative science.
4. Ethics is enforced externally.
5. Professional Ethics are self-imposed and are not based on profession.
6. Managerial ethics is a set of principles and rules dictated by upper management that defines what is right and what is wrong in an organisation.
7. Morals are internal and individualistic.
8. Participatory ethics is related to recognising situation and needs of others.
10. Copyright gives legal rights to the owner of an intellectual property.

**Answers:**

True: 3, 4, 6, 7, 10
False: 1, 2, 5, 8, 9
Match the Column:

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
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<tbody>
<tr>
<td>1. Participatory Ethics</td>
<td>(a) to send unsolicited emails</td>
</tr>
<tr>
<td>2. Transactional Ethics</td>
<td>(b) right of the owner of intellectual property</td>
</tr>
<tr>
<td>3. Morality</td>
<td>(c) Individual and Internal</td>
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<td>4. Spamming</td>
<td>(d) Principle of honesty</td>
</tr>
<tr>
<td>5. Copyright</td>
<td>(e) Principle of decency</td>
</tr>
</tbody>
</table>

Answers:
1. (e), 2. (d), 3. (c), 4. (a), 5. (b)

REFERENCES
10. https://www.techopedia.com/definition/6638/copyright-infringement