

# **Business Ethics**

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# **Introduction to Business Ethics**

## Meaning

The English word "ethics" is derived from the Ancient Greek word *ēthikós* meaning "relating to one's character", which itself comes from the root word *êthos* meaning "character, moral nature". This word was transferred into Latin as *ethica* and then into French as *éthique*, from which it was transferred into English.

## What is ethics?

At its simplest, ethics is a system of moral principles. They affect how people make decisions and lead their lives. Ethics is concerned with what is good for individuals and society and is also described as moral philosophy.

## Ethics covers the following dilemmas:

- How to live a good life
- Our rights and responsibilities
- The language of right and wrong
- Moral decisions - what is good and bad?
- Our concepts of ethics have been derived from religions, philosophies and cultures. They infuse debates on topics like abortion, human rights and professional conduct.
- To put it in simple terms, Ethics = Morals + Reasoning.
- To have an ethical viewpoint, you should be able to give some reason for it. Yes, Ethics is Moral Philosophy, and Philosophy is all about reasoning.

**For example**, you might feel that it is morally wrong to steal, but if you have an ethical viewpoint on it.

To be moral is all about adhering to what is described (by society or religion). But to be ethical, you should figure out what is right – by applying some principles and considering all the complexities involved. Clearly, ethical life is the harder path.

## Definition

**Richard William Paul and Linda Elder** define ethics as "a set of concepts and principles that guide us in determining what behaviour helps or harms sentient creatures".

**The Cambridge Dictionary of Philosophy** states that the word "ethics" is "commonly used interchangeably with 'morality' ... and sometimes it is used more narrowly to mean the moral principles of a particular tradition, group or individual."

**Larry Churchill** has written: "Ethics, understood as the capacity to think critically about moral values and direct our actions in terms of such values, is a generic human capacity."

## Nature of ethics

**Scientific Nature:** Ethics is a normative science which determines norms, moral values in a person and an individual's character. It is a systematic explanation of what is right and what is wrong.

**Not Art:** Ethics is not art as art deals with the acquisition of skill to produce objects, while morality deals with motive, intention, purpose and choice which are considered right or wrong in the light of goodness.

**Variable Nature:** Ethics is not static. It is not always the same. Human beings change and the morality and ethical perspective in them also changes.

**Exclusively for Human Beings:** Ethics can only be applied to human beings as we are the ones who have the capacity for moral judgment. We cannot expect ethical behaviour from animals, as they are not as intelligent as human beings are so ethics is exclusively for human beings.

### **Morals:**

Morals are the social, cultural and religious beliefs or values of an individual or group which tells us what is right or wrong. They are the rules and standards made by the society or culture which is to be followed by us while deciding what is right.

Some moral principles are:

- Do not cheat
- Be loyal
- Be patient
- Always tell the truth
- Be generous

### **Key Differences between Morals and Ethics**

- Morals deal with what is 'right or wrong'. Ethics deals with what is 'good or evil'.
- Morals are general guidelines framed by the society E.g., we should speak truth. Conversely, ethics are a response to a particular situation, e.g., is it ethical to state the truth in a particular situation?
- Morals are dictated by society, culture or religion while Ethics are chosen by the person himself which governs his life.
- As morals are framed and designed by the group, there is no option to think and choose; the individual can either accept or reject. Conversely, the people are free to think and choose the principles of his life in ethics.
- Morals may vary from society to society and culture to culture. As opposed to ethics, which remains same regardless of any culture, religion or society.
- Morals do not have any applicability to business, whereas Ethics is widely applicable in the business known as business ethics.

### **Importance of Ethics**

Most of us would agree that it is ethics in practice that makes sense; just having it carefully drafted and redrafted in books may not serve the purpose. Of course, all of us want businesses to be fair, clean and beneficial to the society. For that to happen, organizations need to abide by ethics or rule of law, engage themselves in fair practices and competition; all of which will benefit the consumer, the society and organization.

Primarily it is the individual, the consumer, the employee or the human social unit of the society who benefits from ethics. In addition, ethics is important because of the following:

**Satisfying Basic Human Needs:** Being fair, honest and ethical is one the basic human needs. Every employee desire to be such himself and to work for an organization that is fair and ethical in its practices.

**Creating Credibility:** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses or an organization. Infosys, for example is perceived as an organization for good corporate governance and social responsibility initiatives. This perception is held far and wide even by those who do not even know what business the organization is into.

**Uniting People and Leadership:** An organization driven by values is revered by its employees also. They are the common thread that brings the employees and the decision makers on a common platform. This goes a long way in aligning behaviours within the organization towards achievement of one common goal or mission.

**Improving Decision Making:** A man's destiny is the sum total of all the decisions that he/she takes in course of his life. The same holds true for organizations. Decisions are driven by values. For example, an organization that does not value competition will be fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.

**Long Term Gains:** Organizations guided by ethics and values are profitable in the long run, though in the short run they may seem to lose money. Tata group, one of the largest business conglomerates in India was seen on the verge of decline at the beginning of 1990's, which soon turned out to be otherwise. The same company's Tata NANO car was predicted as a failure, and failed to do well but the same is picking up fast now.

**Securing the Society:** Often ethics succeeds law in safeguarding the society. The law machinery is often found acting as a mute spectator, unable to save the society and the environment. Technology, for example, is growing at such a fast pace that by the time law comes up with a regulation we have a newer technology with new threats replacing the older one. Lawyers and public interest litigations may not help a great deal but ethics can.

Ethics tries to create a sense of right and wrong in the organizations and often when the law fails, it is the ethics that may stop organizations from harming the society or environment.

## **Business Ethics**

Business ethics can be defined as the written and unwritten codes of principles and values, determined by an organization's culture, that govern decisions and actions within that organization.

- Personal responsibility.
- Representative or official responsibility.
- Personal loyalties.
- Corporate responsibilities.
- Organizational loyalties.
- Economic responsibilities.
- Technical morality.
- Legal responsibility.

## **Nature of Business Ethics**

**Code of conduct:** Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.

**Based on moral and social values:** Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.

**Gives protection to social groups:** Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.

**Provides basic framework:** Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.

**Voluntary:** Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.

**Requires education and guidance:** Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.

**Relative Term:** Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.

**New concept:** Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

### **Importance of Business Ethics**

**Long-term growth:** Sustainability comes from an ethical long-term vision which takes into account all stakeholders. Smaller but sustainable profits long-term must be better than higher but riskier short-lived profits.

**Cost and risk reduction:** Companies which recognise the importance of business ethics will need to spend less protecting themselves from internal and external behavioural risks, especially when supported by sound governance systems and independent research

**Anti-capitalist sentiment:** The financial crisis marked another blow for the credibility of capitalism, with resentment towards bank bailouts at the cost of fundamental rights such as education and healthcare.

**Limited resources:** The planet has finite resources but a growing population; without ethics, those resources are replenished for purely individual gain at huge cost both to current and future generations.

### **Factors causing unethical behaviour**

1. Competition - An important cause of decreasing use of ethical conduct in business is the increasing nature of competition. When managers try to meet goals and have to cut corners at that moment this acute competition at national as well as international level becomes an unavoidable reason for unethical conduct.

2. There is an increasing pressure to earn more profit and to cope with the enlarged requirements and expectations of all like shareholders, customers, employees or all the categories of its stakeholders. So, this becomes an important factor of unethical conduct of business.
3. Ambiguous Situations create ethical dilemmas to the manager and selection of an alternative which gives them higher return at the cost of losing integrity they don't think.
5. Social values and customs are not followed by the new generation.
6. Now-a-days people want to become rich in a short while even by doing unethical acts. Money and success become the important motivator behind any activity.
7. People neglect social responsibility, lack of integrity and discipline in their social values. Many of the business activities which involve unethical activities are objectionable, exploitative and create big problems for innocent people.

### **A sample of unethical conducts**

- Encourage practices of corruption
- False representation of returns and income statements
- Ignore the social interest
- Creation of acute competition
- Political donations
- Exploit the consumer
- Illegal trade with enemy countries
- Exploit scarce natural resources.

The points mentioned above are some real practical situations which are embedded in business organization and are sometimes unavoidable and therefore corporate commitment to ethics is vital, it is a most valuable asset a firm can possess, which pays in long run.

### **CASE STUDY – 1**

Sanjay Verma was an MBA; He specialized in Marketing and Advertising. He has just joined XYZ Ad Agency. Though a competent and innovative person with outstanding performance during his stay at the MBA institute, he got this job with great difficulty due to recession in the job market. He had somehow managed to find this job through a contact of his uncle.

The chairman of the company wanted him to somehow persuade a well-known newspaper to avoid reporting on a controversial corruption charge against him and instead write a favourable editorial. Sanjay was not convinced that his chairman was clean in the case; on the other hand, the newspaper was willing to accommodate the chairman, if the organization came out with a large size advertisement in his favour.

Recently, Sanjay's father died leaving his wife and three sisters on the verge of marriage with Sanjay alone in a disastrous condition to help himself and his family. What should Sanjay do?

### **CASE STUDY – 2**

An Airplane manufacturer has spent great deal of money developing a new airplane. The company badly needs cash because it is financially over extended. If it does not get some large orders soon, it will have to close down some part of its operation. Doing that will put several

thousand workers out of job. The result will be disastrous not only for the workers but also for the town in which they live.

The President of the company has been trying to interest the government of a foreign country in a large purchase. He learns that one of the key governmental ministers in charge of making final decision is heavily in debt because of gambling. He quietly contacts that minister and offers him 10 Lakh in cash if he awards the contracts for five planes to his firm. The money is paid and the contract is awarded.

Is this Ethical on part of the President (The Company)!!!

## Areas of Business Ethics

**Ethics:** A branch of philosophy that involves systematizing, defending, and recommending concepts of right and wrong codes of conduct. It is often equated with moral philosophy.

Organizational ethics describes how an organization responds ethically to an internal or external stimulus. It expresses the values of an organization to its employees, its customers, and the community, irrespective of governmental and regulatory laws.

An organization's ethical behaviour is an extension of its organizational culture. The four elements necessary to quantify an organization's ethics are:

- A written code of ethics and standards;
- Ethics training for executives, managers, and employees;
- Availability for advice on ethical situations (i.e., advice lines or offices); and
- Systems for confidential reporting.

Ethical practices need to be formulated, disseminated, and followed at the organizational and functional levels (i.e., sales marketing, production, etc.) to be effective.

## Two Broad Areas of Business Ethics

### 1. Managerial mischief.

Madsen and Shafritz, in their book "Essentials of Business Ethics" (Penguin Books, 1990) explain that "managerial mischief" includes "illegal, unethical, or questionable practices of individual managers or organizations, as well as the causes of such behaviours and remedies to eradicate them."

### 2. Moral mazes.

The other broad area of business ethics is "moral mazes of management" and includes the numerous ethical problems that managers must deal with on a daily basis, such as potential conflicts of interest, wrongful use of resources, mismanagement of contracts and agreements, etc.

## Components of corporate ethics

Business ethics is a set of moral rules in a particular sphere of human/company behaviour. However, it can't arise just like that – the formation of the entrepreneurship ethics is a rather complicated and slow process.

There are three key components of corporate ethics:

- **Human values**
- **Macro level**
- **World level**

- **Human values**, which includes material benefits, the care of employees, and the creation of workplaces. When it comes to customers, good work ethics means fair advertising and value for money, as well as fair treatment of investors, shareholders, and partners.
- **Macro level** (the field of company's activity) – the compliance with market competition and absence of discriminating against any of the participants of the labour market.
- **World level** – adherence to the ethics in relations with customers, suppliers, personnel and so on.

As an entrepreneur, you should treat all business opportunities not only from the perspective of your personal benefit but also from the position of complying with moral standards and key components of corporate ethics.

In 1994, John Elkington, an American economist and entrepreneur, proposed his concept of a triple bottom line in business. According to the concept, any business should be based on three fundamentals of sustainable development: social, environmental and financial. Surprisingly, businessmen and companies sometimes ignore the first two cornerstones.

### **1 Social**

### **2 Environmental**

### **3 Financial**

**1 Social** – A company should be honest with people working for it, as well as with the community and region in which the company operates, organizing the business in such a way as to interrelate the profits, good working conditions and the interests of investors.

**2 Environmental** – The Company shouldn't harm to the environment (or at least, minimize it) and should donate some funds for environmental protection. Environmental ethics also implies the effective and wise use of non-renewable sources of energy, reducing the production waste and making it less toxic.

**3 Financial** – The vast majority of private companies are aimed at generating profit, and it's nothing wrong with that.

Lust for profit can lead to environmental disasters and deceit of workers, customers, and partners, so the company should come up with a clear strategy of increasing its income without violating moral and human values.

## **Functional Areas of Business Ethics**

- Production
- **Marketing & Sales**
- HRM
- Finance & Accounting
- R & D
- **Foreign Trade Ethics**
- **Ethics Relating to Copyright**
- **Ethics relating to Free and Perfect Competitive Market.**

## **Marketing Ethics**

Marketing is the task of creating, promoting and delivering goods and services to consumers and businesses.

According to the American Marketing Association “Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational goods”. Or Marketing is a societal process by which individuals group structure procure that they need or want freely exchanging goods and services.

A number of distinct functions comes under it like –

- Product development • Distribution • Pricing • Promotion • Sales

**Now the question arises:**

- Why should marketers worry about ethics?
- What role do moral values play in an economic system?
- Is it the need of the hour to be ethical while marketing?
- Is it the competitive pressure/legal laws which force them to consider ethics in marketing or they have realized that in the changing climate of consumerism, they have to adopt an ethical view to understand and meet the needs of customers?

## **Marketing ethics-important issues**

### **1. Ethical Product**

Product is the first and foremost important element of a marketing mix. A product is anything that can be offered to a market to satisfy need or want. The producers know more about the product than the buyer, so he should be extra careful as not to break the trust of the buyer.

Lawrence B. **Chonko** (Ethical Decision Making in Marketing **1995**) has given some conditions which should be considered while product development–

- (a) Initiation of the idea
- (b) Planning and Screening of Product Design
- (c) Development of the Product
- (d) Marketing Strategy
- (e) Introducing the Product in the Market
- (f) Decline Stage

**(a) Initiation of the idea:** Whose creativity is involved behind the idea to develop the product?

**(b) Planning and Screening of Product Design:** Which criteria the firm follows— only profitability and not safety utility or keeping a balance between profitability and safety-welfare? This stage depends upon the status of the in-company investments. The moment when the economics of scale are achieved, the company shows more concern for utility and safety of the product.

**(c) Development of the Product:** If little attention is paid to the way consumers would actually use the products, the marketers must be ready to bear the consequences of failure of the product. The crux of marketing ethics says that extra precautions are required in product development and evaluation.

**(d) Marketing Strategy:** Which kind of marketing strategy should be adopted? How strong is the product to face the competition? Are extra efforts needed in marketing strategy to compensate for some of its weak points? Or do you think you should be honest about its weak

points? The very success of any product depends upon its marketing strategy so it is required to answer all the above questions before adopting anyone.

**(e) Introducing the Product in the Market:** Should the company go for test marketing? What should be the sample size then? Should the company be transparent about its policies and strategies? Are they aware of the risks?

**(f) Decline Stage:** How should the company react in product decline stage? Should they go for some fair treatment and try to overcome the decline stage? Do the companies follow a pushing strategy to push the product by devious means, once a better product is available in the market?

## 2. Ethics in Pricing

Price is a critical element of the Marketing mix which produces revenue. It communicates to the market the company's intended value positioning of its product or brand. A firm must set a price for the first time when it develops a new product or when it introduces its regular product into a new distribution channel.

Companies generally do not go for a single price rather a price structure that has some variations according to purchase timing, order levels, geographical demands, market segment requirement like – • Price Discounts • Discriminatory Pricing • Geographical Pricing At this stage ethics comes into the picture.

Here four major areas are most common in which unethical practices in pricing may occur

**(a) Price Discrimination:** It occurs when a company sells a product/service at two or more prices that do not reflect a proportional difference in costs but it becomes illegal when seller offers different price terms to different people within the same group.

**(b) Predatory Pricing:** Selling below the cost when just having the intention to destroy competition.

**(c) Deceptive Pricing:** Deceive the customers to show them the wrong picture about the prices either by – (a) Low price offer (b) Inflated price

**(d) Price Fixation:** Here the concept of distributive justice given by (John Rawl -the socially just distribution of goods in a society) can be applied as we say if unique universal pricing is established, then it would be against the distributive justice.

On the other hand, if a favourable price is providing towards the weaker section, though it would be a sort of discrimination but this would provide a desired justice to the weaker segment of society and this would be anywhere considered as ethical!

## 3. Ethical Promotion

Promotion plays an important role in marketing of any product/Service. It would come up with perfect outcomes only if the perfect means would have been adopted. Promotional mix consists of sales promotion, advertising, sales force, public relation, direct mail etc. Promotional claims must be of such type that the reality of the company and its standard must match. Symmetry of information between the buyer and seller is an essential prerequisite for the ethicality of the market system.

### Ethical issues in Advertising

Advertising is multi-dimensional. It is a form of mass communication, a powerful marketing tool, a component of the economic system, a social institution, an art form, an instrument of business management, a field of employment and a profession.

Advertising can be defined as any paid form of nonpersonal presentation of ideas, goods and services by an identified sponsor. In order to be customer oriented an advertisement will have to be truthful and ethical. It should not mislead the consumers. If so, happens the credibility is lost. Advertisement's truth is to be judged and viewed from the consumer's point of view, not in the narrow legalistic framework. As we can say that in the advertising field, it is very difficult to establish a clear line of demarcation between what is true and what is untrue.

Advertisement is judged by its impact, by its acceptance, by the consumers, what it promises to provide must be actually there in the performance of products. As advertising is a social process, it must honour time tested norms of social behaviour and should not affront our moral sense.

### **Advertising play two important functions:**

Economic functions

Social functions

### **Economic functions**

The very basic function of all the advertisements is to promote any product/service by its unique strategies. So, the advertisement agencies must accomplish all the ads with: communicating properly and effectively

- Communicating to right people
- Communicating right message
- Put across through brilliant and persuasive language
- Not only marketing the products but introducing and spreading corporate ethos and corporate philosophy.

### **Social Functions**

Advertising must reflect the cultural values of that society as ads has affected not only the core cultural values but successful advertisement is consistent with society cultural values.

It can transfer some cultural values of one society to another at a given point of time.

## **4. Ethics in Channel**

How to place your products and services cannot be overlooked because until and unless the product is well placed, the desired outcome will not be received.

To reach a target market, the marketer used three kinds of marketing channels–

**(a) Communication Channels** – Deliver and receive messages from target buyers and these include newspapers, magazines, radio, T.V. etc.

**(b) Distribution Channels** – These are used to sell or deliver product services to the buyers or users. They include distribution, wholesalers, retailers and agents.

**(c) Service Channels** – These are used to carry out transactions with potential buyers like banks, insurance, transportation companies etc.

Marketers clearly face a design problem in choosing the best mix of communication, distribution and the service channels for their offerings and here the scope of unethical practices may occur. Channel decisions taken by companies are very much influenced by companies' systematic and unsystematic factors. Though it is hard to identify the unethical distribution

strategies, when unethical means of expansion becomes the rule of the day it evaporates competition.

### **Social or Ethical Issues Companies Face in a Foreign Market**

- Outsourcing Production Jobs
- Working Conditions and Standards
- Bribery and Corruption
- Gifts and Favours
- Human Rights Issues
- Work Standards and Conditions
- Workplace Diversity and Equal Opportunity
- Social and Cultural Considerations
- Using Child Labour
- Political and Legal Issues
- Risk of Foreign Governments
- The Impact on the Environment

### **Perfect Competition**

#### **What Is the Perfect Competition?**

Perfect competition is a theoretical market structure in which the following criteria are met:

- All firms sell an identical product (the product is a "commodity" or "homogeneous").
- All firms are price takers (they cannot influence the market price of their product).
- Market share has no influence on prices.
- Buyers have complete or "perfect" information—in the past, present and future—about the product being sold and the prices charged by each firm.
- Resources for such a labour are perfectly mobile.
- Firms can enter or exit the market without cost.

#### **How Perfect Competition Works**

Perfect competition is a benchmark, or "ideal type," to which real-life market structures can be compared. Perfect competition is theoretically the opposite of a monopoly, in which only a single firm supplies a good or service and that firm can charge whatever price it wants since consumers have no alternatives and it is difficult for would-be competitors to enter the marketplace.

Under perfect competition, there are many buyers and sellers, and prices reflect supply and demand. Companies earn just enough profit to stay in business and no more. If they were to earn excess profits, other companies would enter the market and drive profits down.

#### **Characteristics of Perfect Competition**

Large number of sellers/sellers are price takers

Large number of buyers

Free entry and Exit

Homogenous product

Perfect knowledge

Single price

Perfect mobility of factors of production

No transport cost

Non-Government Intervention

After analysing all the features of perfect competition, it is clear that perfect competition is an ideal form of market, but it is very difficult to realize the mentioned conditions practically.

**Thus, perfect competition is an imaginary concept.**

### **Examples of perfect competition**

In the real world, it is hard to find examples of industries which fit all the criteria of 'perfect knowledge' and 'perfect information'. However, some industries are closed.

**Foreign exchange markets.** Here currency is all homogeneous. Also, traders will have access to many different buyers and sellers. There will be good information about relative prices. When buying currency, it is easy to compare prices

**Agricultural markets.** In some cases, there are several farmers selling identical products to the market, and many buyers. At the market, it is easy to compare prices. Therefore, agricultural markets often get close to perfect competition.

### **Internet related industries.**

The internet has made many markets closer to perfect competition because the internet has made it very easy to compare prices, quickly and efficiently (perfect information). Also, the internet has made barriers to entry lower. For example, selling a popular good on the internet through a service like e-bay is close to perfect competition. It is easy to compare the prices of books and buy from the cheapest. The internet has enabled the price of many books to fall in price so that firms selling books on the internet are only making normal profits.

### **Ethics and Perfectly Competitive Markets (PCMs)**

- Capitalist distributive justice is well served by perfectly competitive markets
- Economic utility or efficiency is best served
- Negative rights are well respected, especially rights of economic liberty
- Limitations on Perfectly Competitive Markets' Claims to Moral Superiority

### **Capitalist distributive justice is well served by perfectly competitive markets**

Contributed justice: to each according to their contribution

- counting capital or ownership of the means of production as a contribution
- counting the value of workers contribution as = the price their services command on the job market
- accords with the practice of counting "normal" profit as a cost of production

### **Economic utility or efficiency is best served**

- demand is served: sellers sell and producers produce what consumers want
- efficiency is forced on producers & distributors by competition
- consumers individual preferences are served
  - each gets what they in particular most want
  - from among the goods available

### **Negative rights are well respected, especially rights of economic liberty**

- to buy and sell whatever you choose
- whenever you choose
- to and from whomever you choose

### **Limitations on Perfectly Competitive Markets' Claims to Moral Superiority**

- Justice and benefits alleged accrue only to market participants or those with money to buy
- Justice under competing conceptions not so well served
- Positive rights of the poor may be violated
- Conditions for perfect competition may conflict with care

- Certain bad character traits may be encouraged and certain good traits discouraged by competitive markets
- Imperfections of real markets

### **Justice under competing conceptions not so well served**

- Egalitarian justice violated by income & wealth disparities arising under PCMs (An **egalitarian** is defined as a person who believes all people were created equal and should be treated equal. An **example** of an **egalitarian** is a person who fights for civil rights)
- distribution according to ability to pay vs. need is contrary to needs-based conceptions
- counting the value of labour as the price it commands on the job market
- value of labour = fair-market value of product minus the ordinary costs of production
- "normal" profit not counted as a cost of production

### **Justice and benefits alleged accrue only to market participants or those with money to buy**

It's only their demand that are served

It's only their individual preferences that are served

### **Positive rights of the poor may be violated:**

e.g., rights to

- food & shelter
- education
- health-care

### **Conditions for perfect competition may conflict with care**

- rational egoistic utility maximization neglects caring -- it's selfish
- efficiency demands of competition may conflict with caring
  - **if I'm too caring**
    - pay my help substantially more than my competitors
    - if I spend substantially more on pollution controls than my competitors
    - if I spend substantially more on safe working conditions than my competitors then I may lose out in the competition
    - my production costs will be higher
    - my competitors will undersell me
    - putting me out of business

### **Certain bad character traits may be encouraged and certain good traits discouraged by competitive markets**

- discouraged good traits
  - kindness
  - caring
  - generosity
- negative traits encourage
  - greed & self-seeking
  - materialism

**Imperfections of real markets** (The real market is the range that exists between the price that is asked for a product, and the amount that the consumer is willing to pay.)

In so far as they fall short of perfect competitiveness, they may fail to deliver even the promised benefits of:

- **Serving capitalistic justice** (Everybody should be rewarded equally to their productivity, effort or contribution as in your income should match your efforts.)
- **maximizing utility**
- **Securing negative rights of economic liberty** (Negative Rights. Negative rights, or negative freedom, means freedom from something. Your negative right imposes a negative duty on others, meaning a duty to do nothing and not interfere)

## Copyright

### What is Copyright?

Copyright refers to the collection of rights that are automatically vested on the creator of the original work of authorship such as a literary work, music, movies or software.

The copyright holder i.e., the creator of the original work has the right over his work, he can transfer his rights to others or keep full control over his work by not giving the right to anyone to copy or produce his work.

Copyright has been defined in **Section 14 of the Copyright Act, 1957** as an exclusive right to do or authorize the doing of any of the following acts in respect of a work or any substantial part thereof, namely:

- Reproduce the work in any form including storing the work in any form
- Issue copies of the work to the public
- Perform the work in Public
- Make any cinematographic film in respect of the work
- Translate the work
- Make an adaptation of the work

### Examples of Copyright

Someone publishes the novel, then he gets the copyright for the novel.

The makers of the film have a copyright over the film.

### Why is copyright important

- Copyright is important for various reasons, namely,
- Copyright legally protects the creator's work
- Copyright helps the author to exercise control over his work
- It provides ownership to the creator of the work.

### Purpose of Copyright

- To promote the progress of useful arts and science by protecting the exclusive rights of the creators.
- To provide incentive and reward to the creators for producing original content. The creators can be economically benefited by their copyrighted work and receive proper recognition.
- To encourage the creators to come up with creative ideas.

### Scope of Copyright

- Copyright is provided for a wide range of expressions like literary works, Artistic work, music and Cinematography.
- Literary works include novels, books, newspaper articles, journals, research papers, magazines, instruction manuals.

- Artistic work includes painting, sculpture, diagrammatic representation, and drawing.
- Music includes original music work and a specific combination of melody and harmony.
- Cinematography includes movies, TV shows, documentaries, television recording of events.
- It is provided for work and not for ideas.

### **Copyright Protection**

- Copyright protection is given to all original literary, artistic, musical or dramatic, sound recording and cinematography. The originality of the work is the prerequisite to claim for copyright. Original work means that the work has not been copied. A work is protected irrespective of its content or quality.

### **Registration for Copyright**

- It is not mandatory to register the work to claim copyright and it commences the moment the work is created. However, it is advised to register the work for better protection, it will serve as proof in a matter of dispute.
- **Section 13 of the Copyright Act, 1957 states that the copyright can be given only for the original work. Copyright is usually provided for 60 years**

### **What is Copyright Infringement?**

Copyright infringement refers to the **unauthorized use** of someone's copyrighted work.

Thus, it is the use of someone's copyrighted work without permission thereby infringing certain rights of the copyright holder, such as the right to reproduce, distribute, display or perform the protected work.

Section 51 of the Copyright Act specifies when a copyright is infringed.

### **According to Section 51 of the Act, Copyright is deemed to be infringed if:**

- A person without obtaining the permission of the copyright holder does any act which only the copyright holder is authorized to do.
- A person permits the place to be used for communication, selling, distribution or exhibition of an infringing work unless he was not aware or has no reason to believe that such permission will result in the violation of copyright.
- A person imports infringing copies of a work
- A person without obtaining the authority from the copyright holder reproduces his work in any form.

### **Copyright Infringement examples**

- If a person uses someone's song as background music in his/her music video then he could be made liable for copyright infringement.
- If a person downloads movies or songs from an unauthorized source then it will amount to copyright infringement.
- A person is free to record a TV program to view it later, but if he transfers or distributes it to others then it becomes a copyright infringement.

### **Copyright infringement elements**

- The work was the original creation of the author
- The defendant actually copied the work of the author. It is important to note that not all factually copying is legally actionable. The substantial similarity between the works of

the author and the defendant has to be established to prove that the defendant has infringed the author's copyright.

### **Copyright Issues**

**Plagiarism:** Someone may copy the copyrighted material and pretend it to be his original work. People are allowed to quote the work or refer to the work but the person who is using the copyrighted work has to give the credit to the copyright holder.

**Ownership:** The issue of ownership may arise when an employer works for an organization. In such a case who has the copyright over the work? If a person is an employer, then it is the organization which has the copyright over the material but if a person is a freelance writer, then it is the person himself who is the sole owner of the copyrighted material.

**Derivative Works:** Derivative works use the already existing work of someone. It is a new version of already existing material. For example, translating a book into another language. A person requires a license for it but if he has not obtained the license for it then he can be made liable for copyright infringement.

### **Types of Copyright Infringement**

Copyright infringement can be broadly classified into two categories:

- Primary Infringement
- Secondary Infringement

#### **Primary Infringement**

Primary infringement refers to the real act of copying the work of the copyright holder. For example, photocopying a book and then distributing it for commercial purposes. However, sometimes a person may only copy a part of the work, for example, a paragraph of an article. In such a case, the copyright holder is required to establish two things:

**Substantial Taking:** A copyright is infringed only when an unauthorized person copies a substantial part of the work. For example, copying a catchy phrase of a lyricist.

**Casual Connection:** The copyright holder must prove that there is a similarity in the works of the copyright holder and the infringer. However, this may be because of several other reasons like both of them have used the same source for the research. In such a case, the copyright holder cannot claim for infringement.

#### **Secondary Infringement**

Secondary Infringement refers to the infringement of copyright work without actually copying it. This can happen in the following ways:

#### **Providing a place for Copyright Infringement**

If a person provides the place or permits the place (for profit) to be used for communicating of the work the public and such work amounts to copyright infringement then such person can be made liable for the offence of copyright imprisonment. However, if the person is unaware or has no reason to believe that the place is used for copyright infringement then cannot be made liable for the same.

It is important to note that the person should let the place for "profit" to be made liable for copyright infringement. If an NGO lets the place, then the NGO cannot be made liable for the same.

### **Selling Infringing Copies**

If a person sells the copies that infringe the right of the copyright holder, then it will amount to copyright infringement.

### **Distributing Infringing Copies**

When a person distributes infringing copies of the copyright holder works then it will amount to copyright infringement. For example, if a person uploads a movie on the internet for free then it is an infringement of copyright.

### **Importing Infringing Copies**

Importing the infringed work of the copyright holder in India also amounts to infringement of Copyright. However, if the person has imported the infringed work for the domestic or personal use then it will not amount to Copyright Infringement.

### **The UNIVERSITY OF OXFORD VS. RAMESHWARI PHOTOCOPY SERVICES**

The infamous DU photocopy case was a landmark **copyright violation** case in India. The genesis of this case lies in a prevalent practice in the University of Delhi, wherein photocopy shops copy reading material from prescribed textbooks and sell it to students at subsidized rates.

To contest the same, the chancellors, masters, and scholars of the University of Oxford filed a case against Rameshwari Photocopy Services, alleging them of **copyright infringement** under Section 2(o) of the **Copyright Act**.

**OUTCOME:** The publishers had to withdraw their lawsuits against the defendants, as it was observed that the shop had a legal license to operate within the North Campus premises of DU.

### **YRF v Sri Sai Ganesh Productions**

**Issue:** Whether copyright can subsist in a cinematography film independent of the underlying works that it is comprised of? 2. Whether the expression under section 14 to 'make a copy of the film' mean making physical copy of the film only? And between the two films is there a substantial and material similarity?

**Facts:** A copyright infringement suit was filed against Sri Sai Ganesh Productions & others by Yash Raj Films Pvt Ltd on the grounds that it blatantly copied the movie Band Baja Baarat produced under the YRF banner and producing Jabardasht which showcased substantial and material similarities in terms of theme, concept, plot, character, sketches, story, script, form and expression amongst other things.

# **Applications of Ethical Theories in Business**

### **Ethical decisions (individual/community) in organization**

Most people believe that when they work in group /community, it matters about who are ethical / unethical. They find that if they are ethical by themselves, they might be considered as ethical, or ethically poor or unethical by others.

“Reinhold Niebuhr” (1932), a famous American Theologist, felt that ethical standard fails when Individual work together in a group because their egoistic impulse gets compounded. There can be complex psychological reasons for varying levels of ethicality of groups”.

The great thinker, Father of Nation, Gandhiji also realized and believed in ethics of the means, rather than ends and often tread to lonely path.

Tagore too extolled in his famous Bengali poem “ Ekla Chalo Re ” (Strike the lonely furrow). On the other hand, “ Karl Akatsuki ” (1906, the Marxist philosopher, observed that the larger the conglomeration of people, the higher is their ethicality).

A typical characteristic of the functioning of a group or organization is that each member has different role to perform. As they perform different functions with different responsibilities so they cannot be evaluated on same yard sticks. In short, we understand that ethical decision making is a very complex and difficult task. There cannot be a single standard or process which can be followed by each and every one at different stages in an organization.

As organizations are not simply mass of people working together but they are an ever-present feature of human culture in which persons interact for objectives. The people who work in the organizations are the moral agents, they make collective decisions and act on them, they follow certain rules explicit / implicit, codes of conduct, regulations and their actions based on the followed behaviour can be subjected to ethical appraisal.

### **Structure of ethical decision making**

- Identify the problem
- Generate alternative solutions
- Evaluate Alternatives using cost - benefit approach
- Select the solution
- Implement the chosen solution

A logical five steps analytical structure ( Kitson and Campbell 1996 ) has been developed to help out the students how they should make the decisions?

- Identification of the present situation is the basic and most crucial step.
- A manager must understand the very nature of the problem or circumstances.
- Again, ethical considerations are involved in alternations generated by decision maker.
- Now evaluations and selection depend upon so many factors it involves ethical reasoning of the decision

### **Problems/Dilemmas in ethical decision making**

If we say or assure that unethical behaviour in organization is just because of some wrong doers or some greedy people, some bad individuals who are always behind money, then some where we would be wrong. Now-a-days, people who look decent, who seem to be ethical, do involve in unethical

practices, though they don't think of doing anything illegal or immoral but they get backed into doing something unethical by systems and practices of their own firms.

**The sources of ethical problems are various and varied:**

- Due to globalization, as companies deal with other countries where cross cultural diversity issues arise. Managers working in MNC'S find it very difficult to standardize ethical standards as they do change as society change.
- Sometimes the decision makers do not follow what they must follow as they have conflict in individual values v/s organizational goals.
- Individual moral standards affect whole organization decisions if they are morally strong, ethical decisions would be the outcomes.
- If the decision makers/managers/policy makers who are greedy, look for short cut routes to earn in earliest possible time, they have an upper hand on the moral values, therefore ethically the decision process would be corrupt.
- Competitive pressure is also the main cause which forces decision makers to choose such path where they have to kill their morals, values and move on unethical path just to cope up with the competition.
- Poor decisions without deep thinking of implications.
- Ambiguous situations create problem which put the manager in dilemma as to which decision they should make and follow.
- Pressures of budget systems.

**Guidelines for manager for ethical decision making**

- Individual codes of conduct: Here we mean by a man's personal code of ethics. What one finds moral, right and ethical. He/she will choose that option.
- Industry ethical codes: The ethical climate in the industry provides inspirational guidelines and a list of do not's like —Non deceptive ads, Fair dealing with customers, Safety measures, Quality products.

Professional managers who are more ethical do not go for any compromises. Sometimes govt. rules and regulations bound people to follow all laws as well as ethics.

Corporate code of ethics — Companies own rules, values and beliefs guide managers to follow ethics path in decision making. □ Larger the organization

- Higher the ethical conduct
- Result in great public image
- Long term survival Goodwill and high profits

**Case Study**

Mr. Rahul Tandon, VP (HRM) for a manufacturing firm 'XYZ.' The firm is undergoing a major change in direction. The rapid changes in the industries as well as competitors' dynamic policies and plans, put a big pressure over the firm to adapt in the new environment. In this changing environment, Mr. Tandon is thinking of hiring some young, energetic and advanced persons who would be able to cope up the dynamic and changing situation. 'XYZ' has organized a walk-in interview for new recruitments.

Ms. Isha Patil, well qualified as well as experienced in the similar field has appeared for the interview. She has just left one of the competitor's companies because of some personal reasons. Meanwhile in the interview she indirectly gave the hints that she would be happier to tell you all the competitors' plans and policies. What would Mr. Tandon do?

### **Case Study**

Mr. Rakesh Sinha was working as an officer in the excise dept. of a reputed steel company. He was from a very reputed and good family.

The steel company was reportedly involved in excise evasion of its goods. Excise evasion by the company resulting in dealer selling steel which was not excise paid. Mr. Sinha along with his boss were directly involved in excise evasion. Their philosophy being that, they are doing it not for good of their own but for the company.

The govt. had recently raided few companies practicing excise evasion lying in the vicinity of the steel company. Therefore, Mr. Sinha was under tremendous stress these days. Even he knew that his name would come in the list, as one of the company's executives to be interrogated. Mr. Sinha's wife, knowing about the entire situation advised him to get out of such activity or else quit the company.

Mr. Sinha was in dilemma, what should he do?

### **Ethical theories**

Ethical theories provide part of the decision-making foundation for Decision Making. When Ethics are In Play because these theories represent the viewpoints from which individuals seek guidance as they make decisions.

Each theory emphasizes different points

- a different decision-making styles
- a decision rule—such as predicting the outcome and following one's duties to others in order to reach what the individual considers an ethically correct decision.

In order to understand ethical decision making, it is important to realize that not everyone makes decisions in the same way, using the same information, employing the same decision rules. In order to further understand ethical theory, there must be some understanding of a common set of goals that decision makers seek to achieve in order to be successful.

Four of these goals include beneficence, least harm, respect for autonomy, and justice.

### **Ethical principles**

**Beneficence:** The principle of beneficence guides the decision maker to do what is right and good. This priority to "do good" makes an ethical perspective and possible solution to an ethical dilemma acceptable. This principle is also related to the principle of utility, which states that we should attempt to generate the largest ratio of good over evil possible in the world. This principle stipulates those ethical theories should strive to achieve the greatest amount of good because people benefit from the best.

**Least Harm:** Similar to beneficence, least harm deals with situations in which no choice appears beneficial. In such cases, decision makers seek to choose to do the least harm possible and to do harm

to the fewest people. For example, a student has a larger responsibility to simply walk past a teacher in the hallway rather than to make derogatory remarks about that teacher as he/she walks past even though the student had failed that teacher's class.

**Respect for Autonomy:** This principle states that decision making should focus on allowing people to be autonomous—to be able to make decisions that apply to their lives. Thus, people should have control over their lives as much as possible because they are the only people who completely understand their chosen type of lifestyle. Are there limits to autonomy? Each individual deserves respect because only he/she has had those exact life experiences and understands his emotions, motivations, and physical capabilities in such an intimate manner. In essence, this ethical principle is an extension of the ethical principle of beneficence because a person who is independent usually prefers to have control over his life experiences in order to obtain the lifestyle that he/she enjoys.

**Justice:** The justice ethical principle states that decision makers should focus on actions that are fair to those involved. This means that ethical decisions should be consistent with the ethical theory unless extenuating circumstances that can be justified exist in the case. This also means that cases with extenuating circumstances (excuse for an action) must contain a significant and vital difference from similar cases that justify the inconsistent decision.

## **Ethics**

- Descriptive
- Normative
- Analytic

### **Descriptive ethics**

Descriptive ethics is about what motivates pro-social behaviour, how people reason about ethics, what people believe to have overridden importance, and how societies regulate behaviour (such as by punishing people for doing certain actions). We know that empathy helps motivate pro-social behaviour (such as giving to charity) and we know that our beliefs about what has overriding importance is somewhat based on the culture we live in.

Jonathan Haidt (American social psychologist) has talked about the importance of gossip and reputation for motivating ethical behaviour. There are certain predictable ways people reason about ethics (often in unreasonable ways). For example, people often overestimate the importance of consequences when considering how well reasoned people's moral decisions are.

### **Lawrence Kohlberg: An example of descriptive ethics**

Lawrence Kohlberg is one example of a psychologist working on descriptive ethics.

In one study, for example, Kohlberg questioned a group of boys about what would be a right or wrong action for a man facing a moral dilemma (specifically, the Heinz dilemma): should he steal a drug to save his wife, or refrain from theft even though that would lead to his wife's death?

Kohlberg's concern was not which choice the boys made, but the moral reasoning that lay behind their decisions. After carrying out a number of related studies, Kohlberg devised a theory about the development of human moral reasoning that was intended to reflect the moral reasoning actually carried out by the participants in his research.

Kohlberg's research can be classed as descriptive ethics to the extent that he describes human beings' actual moral development. If, in contrast, he had aimed to describe how humans ought to develop morally, his theory would have involved prescriptive ethics.

**The Heinz dilemma** is a frequently used example in many ethics and morality classes. One well-known version of the dilemma, used in Lawrence Kohlberg's stages of moral development, is stated as follows

A woman was on her deathbed. There was one drug that the doctor's thought might save her. It was a form of radium that a druggist in the same town had recently discovered. The drug was expensive to make, but the druggist was charging ten times what the drug cost him to produce.

He paid \$200 for the radium and charged \$2,000 for a small dose of the drug.

The sick woman's husband, Heinz, went to everyone he knew to borrow the money, but he could only get together about \$1,000 which is half of what it cost. He told the druggist that his wife was dying and asked him to sell it cheaper or let him pay later. But the druggist said: "No, I discovered the drug and I'm going to make money from it." So, Heinz got desperate and broke into the man's laboratory to steal the drug for his wife.

Should Heinz have broken into the laboratory to steal the drug for his wife? Why or why not?

Kohlberg's theory holds that the justification the participant offers is what is significant, the *form* of their response.

### **Normative ethics**

Normative ethics is about intrinsic value, right and wrong, and/or virtues.

The following are claims concerning normative ethics:

- It is wrong to kill people just because they make you angry.
- We should fight to free slaves, when necessary, even when doing so is illegal.
- Pain is intrinsically bad—we ought not cause pain without a good reason to do so.
- It is reasonable for a person to give charity to those in need, even if no reciprocation should be expected.

Normative ethics is about what actually has overriding importance for determining how we ought to act. Even if you want a million dollars, you ought not kill innocent people in order to get a million dollars in return. Etiquette is often said to be similar to normative ethics, except etiquette is not of overriding importance. Burping is considered to be rude, but it is not that big of a deal.

### **Applied ethics**

Applied ethics is a field of ethics that deals with ethical questions specific to a professional, disciplinary, or practical field. Subsets of applied ethics include medical ethics, bioethics, business ethics, legal ethics, and others. Many analytic philosophers did not focus on normative or practical ethical questions during the early part of the twentieth century. However, throughout the century various issues such as pollution, human rights abuses, abortion, human cloning, poverty, and others raised pressing ethical questions and applied ethics became an increasingly important field of philosophy.

## **Metaethics**

Metaethics is a branch of analytic philosophy that explores the status, foundations, and scope of moral values, properties, and words. Whereas the fields of applied ethics and normative theory focus on *what is moral*, metaethics focuses on *what morality itself is*. Metaethics may be thought of as a highly abstract way of thinking philosophically about morality. For this reason, metaethics is also occasionally referred to as “second-order” moral theorizing, to distinguish it from the “first-order” level of normative theory.

Metaethical positions may be divided according to how they respond to questions such as the following:

- What exactly are people doing when they use moral words such as “good” and “right”?
- What precisely *is* a moral value in the first place, and are such values similar to other familiar sorts of entities, such as objects and properties?
- Where do moral values come from—what is their source and foundation?
- Are some things morally right or wrong for all people at all times, or does morality instead vary from person to person, context to context, or culture to culture?

**Descriptive ethics: What do people think is right?**

**Meta-ethics: What does "right" even mean?**

**Normative (prescriptive) ethics: How should people act?**

**Applied ethics: How do we take moral knowledge and put it into practice?**

## **Virtue Ethics**

Virtue ethics is a broad term for theories that emphasize the role of character and virtue in moral philosophy rather than either doing one’s duty or acting in order to bring about good consequences. A virtue ethicist is likely to give you this kind of moral advice: “Act as a virtuous person would act in your situation.” Most virtue ethics theories take their inspiration from Aristotle who declared that a virtuous person is someone who has ideal character traits.

These traits derive from natural internal tendencies, but need to be nurtured; however, once established, they will become stable. For example, a virtuous person is someone who is kind across many situations over a lifetime because that is her character and not because she wants to maximize utility or gain favours or simply do her duty. Virtue ethics do not aim primarily to identify universal principles that can be applied in any moral situation.

And virtue ethics theories deal with wider questions—

- “How should I live?”
- “What is the good life?”
- “What are proper family and social values?”

**Here are some common objections to virtue ethics.**

- Its theories provide a self-centred conception of ethics because human flourishing is seen as an end in itself and does not sufficiently consider the extent to which our actions affect other people.

- Virtue ethics also does not provide guidance on how we should act, as there are no clear principles for guiding action other than “act as a virtuous person would act given the situation.”
- Lastly, the ability to cultivate the right virtues will be affected by a number of different factors beyond a person’s control due to education, society, friends and family. If moral character is so reliant on luck, what role does this leave for appropriate praise and blame of the person?
- Virtue ethics are normative ethical theories which emphasize virtues of mind, character and sense of honesty. Virtue ethicists discuss the nature and definition of virtues and other related problems that focus on the consequences of action.

### **Duty-based or Deontological ethics**

Deontological (duty-based) ethics are concerned with what people do, not with the consequences of their actions.

- Do the right thing.
- Do it because it's the right thing to do.
- Don't do wrong things.
- Avoid them because they are wrong.

Under this form of ethics, you can't justify an action by showing that it produced good consequences, which is why it's sometimes called 'non-Consequentialist'.

The word 'deontological' comes from the Greek word *deon*, which means 'duty'.

Duty-based ethics are usually what people are talking about when they refer to 'the principle of the thing'. Duty-based ethics teaches that some acts are right or wrong because of the sorts of things they are, and people have a duty to act accordingly, regardless of the good or bad consequences that may be produced.

#### **Deontologists live in a universe of moral rules, such as:**

- It is wrong to kill innocent people
- It is wrong to steal
- It is wrong to tell lies
- It is right to keep promises

Someone who follows Duty-based ethics should do the right thing, even if that produces more harm (or less good) than doing the wrong thing:

People have a duty to do the right thing, even if it produces a bad result.

### **Kantian duty-based ethics**

Immanuel Kant (1724-1804) was arguably one of the greatest philosophers of all time.

Kant thought that it was possible to develop a consistent moral system by using reason. If people were to think about this seriously and in a philosophically rigorous manner, Kant taught, they would realize that there were some moral laws that all rational beings had to obey simply because they were rational beings, and this would apply to any rational beings in any universe that might ever exist

Kant taught (rather optimistically) that every rational human being could work this out for themselves and so did not need to depend on God or their community or anything else to discover what was right and what was wrong. Nor did they need to look at the consequences of an act, or who was doing the action.

Although he expressed himself in a philosophical and quite difficult way, Kant believed that he was putting forward something that would help people deal with the moral dilemmas of everyday life, and provide all of us with a useful guide to acting rightly.

### **Rossian duty-based ethics**

Kantian ethics seems pretty uncompromising and not really suited to the untidiness of many moral choices that people have to make.

The 20th Century philosopher W. D. Ross [Sir David Ross] (1877-1971) suggested that it would be helpful to look at two kinds of duty:

- Prima facie duties
- Actual duties

#### **Prima facie duties**

- are self-evident and obvious duties (*prima facie* is a Latin expression meaning 'on first appearances' or 'by first instance')
- can be known to be correct if a person thinks about them and understands them: □ should be promoted, "all things considered" □ can be outweighed by other prima facie duties.

#### **Actual duties**

This is the duty people are left with after they have weighed up all the conflicting prima facie duties that apply in a particular case:

Ross listed seven prima facie duties:

- Fidelity
- Reparation
- Gratitude
- Justice
- Beneficence
- Self-improvement
- Non-maleficence (avoiding actions that do harm)

### **Utilitarianism**

Utilitarianism, at its most basic, states that something is moral, or good when it produces the greatest amount of good for the greatest number of people. It's a theory of normative ethics that asks whether a specific action is good or bad, moral or immoral. Utilitarianism answers this question with an economic analysis that focuses on human lives and says that those actions that make people happy are good.

For example, a utilitarian may ask whether it's moral for politicians to spend billions of dollars on campaign ads. He or she would examine how the money is spent and whether the ads directly resulted in improving people's lives, or if that money could have been better spent on something else.

### **Some Actions Are More Moral Than Others**

In any ethical theory, morals are separated into good and bad. In utilitarianism, good is defined as the existence of pleasure and the absence of pain. This is called utility. An action that maximizes utility is one that maximizes total benefits while reducing negative consequences for the largest number of people. To paraphrase, something is good if it does better than harm for a lot of people.

In utilitarianism, this is called the greatest happiness principle, which states that a moral action is one that increases the total utility in the world. In other words, if an action is moral, it increases the amount of happiness in the world. This allows actions to be ranked by morality. If an action makes one person happy, it is moral. However, if another action would make many people happy, it is more moral.

Utilitarianism, in normative ethics, a tradition stemming from the late 18th- and 19th-century

English philosophers and economists Jeremy Bentham and John Stuart Mill according to which an action is right if it tends to promote happiness and wrong if it tends to produce the reverse of happiness—not just the happiness of the performer of the action but also that of everyone affected by it. Such a theory is in opposition to egoism, the view that a person should pursue his own self-interest, even at the expense of others, and to any ethical theory that regards some acts or types of acts as right or wrong independently of their consequences (see deontological ethics). Utilitarianism also differs from ethical theories that make the rightness or wrongness of an act dependent upon the motive of the agent, for, according to the utilitarian, it is possible for the right thing to be done from a bad motive.

Utilitarian's may, however, distinguish the aptness of praising or blaming an agent from whether the act was right.

**Jeremy Bentham and John Stuart Mill** argued that requires a decision maker to maximize utility for society as a whole. Maximum utility is equal to achieving the highest level of satisfactions over the dissatisfactions. Though consistent in their Pursuit of Happiness, Bentham and Mills versions of utilitarianism differ.

### **Bentham's Utilitarianism**

Bentham argued that happiness was the ultimate good and that happiness was pleasure and the absence of pain. He acknowledged the egoistic and hedonistic nature of peoples' motivation, but argued that the maximization of collective happiness was the correct Criterion for moral behaviour. Bentham identifies several aspects of pleasure that contribute to its value, including certainty, propinquity, extent, intensity and duration.

The Hedonic Calculus (a method of working out the sum total of pleasure and pain produced by an act, and thus the total value of its consequences) also makes use of two future-pleasure or pain related aspects of action – fecundity (the ability to produce many new ideas) and purity.

Bentham's modified seven points Hedonistic Calculus □

Intensity: How strong is the pleasure?

- Duration: How long will the pleasure last?
- Certainty or Uncertainty: How likely or unlikely is it that the pleasure will occur?

- Propinquity or remoteness: How soon will the pleasure occur?
- Fecundity: The probability that the action will be followed by sensation of the same kind.
- Purity: The probability that it will not be followed by sensations of the same kind.
- Extent: How many people will be affected?

### **John Stuart Mill**

Mill's major contribution to Utilitarianism is his argument for the qualitative separation of pleasures. Bentham treats all forms of happiness as equal whereas Mill argues that intellectual and moral pleasures (higher pleasures) are superior to more physical forms of pleasure (lower pleasures). Mill distinguishes between happiness and contentment, claiming that the former is of higher value than the latter, a belief wittily encapsulated in the statement that "it is better to be a human being dissatisfied than a pig satisfied".

Since Mill's theory of Hedonism focuses on the quality of the pleasure, rather than the amount of it, it is best described as a type of qualitative hedonism (the pursuit of pleasure)

Mills account of utilitarianism may be summarized in the following five statements

- Pleasure is the only thing that is desirable
- The only proof that everything is desirable is the fact that people do actually desire it
- Each person's own pleasure or happiness is a good that the person so the general happiness is good to everybody
- Men do Desire other objects but they desire them as a means to measure
- If one of two pleasures is preferred by those who are competently acquainted with both we are justified in saying that this preferred pleasure is superior in quality to the other

### **The Highlights of Utilitarianism are as under**

- It judges our actions based on outcomes
- Strength: Easy to articulate the standard of conduct- Merely do what is best for society as a whole?
- Criticisms: Difficulty in measuring benefit and harm to all members of society. Unequal distribution of costs and benefits may lead to detrimental results for a particular class or group of people.

### **Deontology: Rights Theory by Immanuel Kant**

Deontology is a theory that suggests actions are good or bad according to a clear set of rules Its name comes from the Greek word *deon*, meaning duty. Actions that obey these rules are ethical, while actions that do not, are not. This ethical theory is most closely associated with German philosopher, Immanuel Kant. His work on personhood is an example of deontology in practice. Kant believed the ability to use reason was what defined a person.

From an ethical perspective, personhood creates a range of rights and obligations because every person has inherent dignity – something that is fundamental to and is held in equal measure by each and every person. This dignity creates an ethical 'line in the sand' that prevents us from acting in certain ways either toward other people or toward ourselves (because we have dignity as well). Most importantly, Kant argues that we may never treat a person merely as a means to an end (never just as a 'resource').

## **Kantian ethics**

German philosopher Immanuel Kant (1724-1804) was an opponent of utilitarianism.

Kant, unlike Mill, believed that certain types of actions (including murder, theft, and lying) were absolutely prohibited, even in cases where the action would bring about more happiness than the alternative.

For Kantians, there are two questions that we must ask ourselves whenever we decide to act:

- Can I rationally will that *everyone* acts as I propose to act? If the answer is no, then we must not perform the action.
- Does my action respect the goals of human beings rather than merely using them for my own purposes? Again, if the answer is no, then we must not perform the action. (Kant believed that these questions were equivalent).

Kant's theory is an example of a deontological moral theory—according to these theories, *the rightness or wrongness of actions does not depend on their consequences* but on whether they fulfil our duty. Kant believed that there was a supreme principle of morality, and he referred to it as *The Categorical Imperative*. The CI determines what our moral duties are.

**Morality and imperatives:** *What do it mean for one's duty to be determined by the categorical imperative?*

**What is an imperative?** An imperative is a command. So, "Pay your taxes!" is an imperative, as are "Stop kicking me!" and "Don't kill animals!"

**Hypothetical Imperatives:** these imperatives command conditionally on your having a relevant desire.

E.g., "If you want to go to medical school, study biology in college." If you don't want to go to medical school, this command doesn't apply to you.

Another example, your father says, "if you are hungry, then go eat something!" - if you aren't hungry, then you are free to ignore the command.

**Categorical Imperatives:** These command unconditionally. E.g., "Don't cheat on your taxes." Even if you want to cheat and doing so would serve your interests, you may not cheat.

**What is the connection between morality and categorical imperatives?** Morality must be based on the categorical imperative because morality is such that you are commanded by it, and is such that you cannot opt out of it or claim that it does not apply to you.

### **How does the categorical imperative work?**

The categorical imperative has different formulations.

Formulation (*The Formula of Universal Law*): "Act only on that maxim through which you can at the same time will that it should become a universal law [of nature]"

**What is a maxim?** A maxim is the rule or principle on which you act.

For example, I might make it my maxim to give at least as much to charity each year as I spend on eating out, or I might make it my maxim only to do what will benefit some member of my family.

**Basic idea:** The command states, crudely, that you are not allowed to do anything yourself that you would not be willing to allow everyone else to do as well. You are not allowed to make exceptions for yourself. For example, if you expect other people to keep their promises, then you are obligated to keep your own promises.

**More detail:** More accurately, it commands that every maxim you act on must be such that you are willing to make it the case that everyone always act on that maxim when in a similar situation.

For example, if I wanted to lie to get something I wanted, I would have to be willing to make it the case that everyone always lied to get what they wanted - but if this were to happen no one would ever believe you, so the lie would not work and you would not get what you wanted. So, if you willed that such a maxim (of lying) should become a universal law, then you would thwart your goal - thus, it is impermissible to lie, according to the categorical imperative. It is impermissible because the only way to lie is to make an exception for yourself

### **Human Rights Theories Modern Perspectives: Immanuel Kant**

Immanuel Kant (1724 – 1804) examined the idea of human rights within politics in such a way that it “is only a legitimate government that guarantees our natural right to freedom, and from this freedom we derive other rights”.

From this basis it can be assumed that Kant looks at the development, creation and implementation of rights as primarily dependent on the state and how the government within the state functions. Furthermore, Kant stresses that a society can only function politically in relation to the state if fundamental rights, laws and entitlements are given and enhanced by the state.

As Kant teaches, these “righteous laws” are founded upon 3 rational principles: □

The liberty of every member of the society as a man

- The equality of every member of the society with every other, as a subject
- The independence of every member of the commonwealth as a citizen.

Under these three principles it is clear how rights and “righteous laws” develop in a natural way. Furthermore, the role of freedom within a state and commonwealth is emphasized because it is the foundation from which, under Kant’s theory, all rights emerge. An interesting aspect of these principles is that they are not given by the state, but are fundamental in the creation and acceptance of a state by the people of the state. In this sense Kant believes that these principles are necessary above all, not only for the founding of “righteous laws”, but for the state to function in the first place. This is so because without the acceptance of the people a state would not exist therefore rights are necessary within states to keep the support of the people of the state.

### **Virtue Ethics by Aristotle**

Aristotle defines the supreme good as an activity of the rational soul in accordance with virtue. Virtue for the Greeks is equivalent to excellence. A man has virtue as a flautist, for instance, if he plays the flute well, since playing the flute is the distinctive activity of a flautist.

A virtuous person is someone who performs the distinctive activity of being human well. Rationality is our distinctive activity, that is, the activity that distinguishes us from plants and animals. All living things have a nutritive soul, which governs growth and nutrition. Humans and animals are distinct from plants in having a sensitive soul, which governs locomotion and instinct. Humans are distinct

above all for having also a rational soul, which governs thought. Since our rationality is our distinctive activity, its exercise is the supreme good.

Aristotle defines moral virtue as a disposition to behave in the right manner and as a mean between extremes of deficiency and excess, which are vices. We learn moral virtue primarily through habit and practice rather than through reasoning and instruction. Virtue is a matter of having the appropriate attitude toward pain and pleasure. For example, a coward will suffer undue fear in the face of danger, whereas a rash person will not suffer sufficient fear. A virtuous person exhibits all of the virtues: they do not properly exist as distinct qualities but rather as different aspects of a virtuous life.

### **Gandhian Approach in Management and Trusteeship**

Trusteeship is a Gandhian Concept. It implies that:

- All assets be held and used in trust for the benefit of the community
- Distribution to be equitable, not equal
- Owner, manager, worker, subordinate titles are removed
- There is no use of compulsion, force or exploitation there is continuous participation.

### **Mahatma Gandhi's Views on: Principle of Trusteeship!**

This principle evolved in Gandhi's mind as a result of his spiritual development, which he owed partly to his deep involvement with and the study of theosophical literature and the Bhagvad Gita. His familiarity with the maxims of equity in western legal tradition also made him aware of the implications of the principle of trusteeship. On an individual plane, he realized that those who sought to attain God through social service, even if they controlled vast possessions, should not regard any of it as their own. They should rather hold their possessions in trust for the benefit of those less privileged than themselves.

On the social plane, this principle implied that the wealthy could not justly claim their possessions to be theirs entirely. The reason was that they could not accumulate their wealth without the labour and cooperation of workers and the poorer sections of society. Hence, they were logically and morally bound to share their wealth in a fair measure with their workers and the poor. But instead of ensuring this through legislation, Gandhi wanted wealthy people to voluntarily surrender part of their wealth and hold it in trust for those working for them.

Adoption of this doctrine on an individual and national scale was, he believed, the only way to form an egalitarian and non-violent society. He defines trusteeship in simple terms: "The rich man will be left in possession of his wealth of which he will use what he reasonably requires for his personal needs and will act as a trustee for the remainder to be used for society." Gandhi did not believe in inherited wealth for he was of the view that a trustee has no heir but the public. He did not favour compulsion in the surrender of riches because he believed that forcible dispossession of the wealthy would deny to society the talents of people who could create national wealth.

His method was to persuade the wealthy to act as trustees, failing which satyagraha could be adopted. But by the 1940s, he had come to believe that state legislation would be necessary to ensure compliance with the principle of trusteeship. In fact, he often said that he never stopped learning. Introspection and experiment played a major part in the evolution of his social ideas.

Even though, till the end, Gandhi maintained that the ideas expressed by him in Hind Swaraj as far back as 1909 still held good, in actual fact, he made many compromises over the years mainly because

he was a pragmatist and believed in making compromises without sacrificing fundamental principles. Thus, a study of the sources and evolution of Gandhi's social ideas is a survey of the complexities that go to mould a man's ideas. In it are the cultural influences imbibed unconsciously, the impact of other minds, the experimentation with ideas and ideals, the adjustments and compromises and, above all, the lessons learnt from experience.

**Importance and Relevance of Gandhian principles of Trusteeship are examined in the following focuses**

- Reduce Inequalities
- Change of Attitude of Businessmen Social Pressure
- Legal Pressure
- Socialism
- Consider Social Needs
- Equal distribution of wealth
- Earn money by hard work
- No Right to Private Ownership
- Government Regulation

**Limitations of Principles of Trusteeship**

- This concept is not relevant in today's competitive business world because every businessman tries to earn maximum profits and accumulate huge wealth.
- It demotivates the hardworking businessmen. The businessmen will lose their creativity, and they will become lazy. This will slow down the economic development of the country.
- This concept is based on the concept of Socialism. However, today socialism is outdated.
- Businessmen feel that the welfare of the society is not their responsibility. It is the responsibility of the Government.
- This concept is not accepted by shareholders who invest their money to earn the highest dividend.
- This concept is against capitalism. Today, capitalism is proving very successful all over the world.
- Poverty levels are very low in capitalist countries when compared to the poverty statistics of socialist nations.

**Ethical Issues in Functional Areas of Business.**

The basic issues can be grouped under:

**Systemic issues:**

Economic, political, legal or other social systems within which businesses operate.

These include questions within the morality of capitalism or of the laws, regulations, industrial structures, and social practices within which businesses operate.

**Corporate issues:**

These include questions about the morality of the activities, policies, practices, or organizational structure of an individual company taken as a whole.

**Individual issues:**

A particular individual within an organization and their behaviours and decisions.

These include questions about the morality of the decision, actions, or character of an individual.

### **Ethics in advertising**

Ethics in advertising means a set of well-defined principles which govern the ways of communication taking place between the seller and the buyer. Ethics is the most important feature of the advertising industry. Though there are many benefits of advertising but then there are some points which don't match the ethical norms of advertising. An ethical ad is the one which doesn't lie, doesn't make fake or false claims and is in the limit of decency.

The main area of interest for advertisers is to increase their sales, gain more and more customers, and increase the demand for the product by presenting a well decorated, puffed and colourful ad. They claim that their product is the best, having unique qualities than the competitors, more cost effective, and more beneficial. But most of these ads are found to be false, misleading customers and unethical. The best example of these types of ads is the one which shows evening snacks for the kids, they use colouring and gluing to make the product look glossy and attractive to the consumers who are watching the ads on television and convince them to buy the product without giving a second thought

### **Ethical Principles especially relevant to Advertising**

- Principles of the moral order must be applied to the domain of media.
- Human freedom has a purpose: making an authentic moral response. All attempts to inform and persuade must respect the purposes of human freedom if they are to be moral.
- Morally good advertising therefore is that advertising that seeks to move people to choose and act rationally in morally good ways; morally evil advertising seeks to move people to do evil deeds that are self-destructive and destructive of authentic community
- Means and techniques of advertising must also be considered: manipulative, exploitative, corrupt and corrupting methods of persuasion and motivation
- Respect Truthfulness (deception objection)
- Never directly intend to deceive
- Never use simply untrue advertising
- Do not distort the truth by implying things that are not so or withholding relevant facts
- "Puffery (exaggerated or false praise) is acceptable where it is consonant with recognized and accepted rhetorical and symbolic practice.
  
- Respect The Dignity of Each Human Person (attacks autonomy objection)
- Do not exploit our "lower inclinations" to compromise our capacity to reflect or decide either through its content or through its impact: using appeals to lust, vanity, envy and greed, and other human weakness.
- Give special care to the weak and vulnerable: children, young people, the elderly, the poor, and the culturally disadvantaged
- Respect Social Responsibilities (promotes consumption, empties communication, objections)
- Example: Concern for the ecology advertising should not favour a lavish lifestyle which wastes resources and despoils the environment
- Example: Advertising should not reduce human progress to acquiring material goods and cultivating a lavish lifestyle

- Ethical danger points in market research include:
  - ✓ Invasion of privacy.
  - ✓ Stereotyping.

**Ethical pitfalls in advertising and promotional content include:**

**Issues over truth and honesty.** In the 1940s and 1950s, tobacco used to be advertised as promoting health. Today an advertiser who fails to tell the truth not only offends against morality but also against the law. The difference between mere puffery and fraud is a slippery slope: "The problem... is the slippery slope by which variations on puffery can descend fairly quickly to lies." false advertising.

**Taste and controversy.** The advertising of certain products may strongly offend some people while being in the interests of others. Examples include: feminine hygiene products, haemorrhoid and constipation medication. The advertising of condoms has become acceptable in the interests of AIDS-prevention, but is nevertheless seen by some as promoting promiscuity.

Some companies have actually marketed themselves on the basis of controversial advertising.

**Negative advertising techniques,** such as attack ads. In negative advertising, the advertiser highlights the disadvantages of competitor products rather than the advantages of their own. The methods are most familiar from the political sphere: see negative campaigning.

**Issues with violence, sex and profanity.** Sexual innuendo is a mainstay of advertising content (see sex in advertising), and yet is also regarded as a form of sexual harassment. Violence is an issue especially for children's advertising and advertising likely to be seen by children.

**Advertising is a highly visible business activity and any lapse in ethical standards can often be risky for the company.**

Some of the common examples of ethical issues in advertising are given below:

- Vulgarity / sexually suggestive used to gain consumers' attention
- Misleading information and deception
- Puffery
- Stereotypes
- Racial issues
- Controversial products (e.g., alcohol, gambling, tobacco etc)
- Use of women
- Targeting kids
- Subliminal advertising
- Targeting health
- Hitting vulnerable minds – youth

**Advertisement is considered unethical in the following situations**

- When it has degraded or underestimated the substitute or rival's product.
- When it gives false or misleading information on the value of the product.

- When it fails to give useful information on the possible reaction or side effects of the product.
- When it is immoral.
- When it targets those who are vulnerable and have lesser maturity to decide what is right and wrong for them.
- When advertisements show that use of certain type of products enhances style, prestige and status in society.
- When ads use women in indecent manner to promote their products.
- When ads relate products of harmful nature with youth, which gradually leads to change in taste, preference and opinion.

### **Ethical Issues in Finance**

Ethics and finance, a very new discovery. What role does ethics play in financial sector is not much discussed earlier? If we think deeply, we find that there is a close relationship between ethics and finance. Finance would be impossible without ethics. High finance is the particular area where most of the breakdowns of ethical norms occurred. The basic foundation of business is trust, as we place our money or our assets in the hands of other unknown people to carry out our business sometimes these unknown people come out as untrust-worthy like untrust agent or attorney.

If we talk about finance, it's a very wide area full of complex activities, but broadly we find – □  
Financial Market

- Commodity Markets
- Currency Markets
- Option Market

Financial Operations and Services by

- Financial Planer
- Tax Adviser
- Stock Broker
- Insurance agents

For smooth running of any economy, its financial activities must be ethical. Here we don't say that high return on investment or high interest rate etc. is not desirable. Good finance is the life blood of any organization. As huge amount is involved in financial dealings people invest their money with financial institution, seeing their better life after the retirement, so there must be well developed and organized structure of ethics to ensure personal and organizational welfare.

**Unsuitability:** Insurance agents, brokers and other sales-person cheat innocent investors by recommending unsuitable securities and financial products.

**Deception:** Deception is quite common unethical practice in India by strengthening the returns and minimizing the weaknesses and risk factors. Sales persons, agents, advisers deceive the public using the misleading statements like tax free or 0% interest etc. they make public unable to make rational choices among so many alternatives.

**Inappropriate and Excessive Trading:** This situation arises when the broker keeps an intention to generate commission rather than benefits to client in the standing of having control over the client's account. It's a kind of 'Churning' breach of a fiduciary duty.

- When broker acted with intent
- When broker control the account
- When trading is excessive for the character of the account

**Fraud and Manipulation in Markets:** As by law all the participants in the financial markets are same so fairness in our dealings is desired. Here the fairness is not meant by preventing losses rather it contributes to the efficiency. Here fraud means when a company fails to report proper information and manipulation of buying and selling of securities for the purpose of creating misleading impression about price to misguide the investors to buy or sell the securities. They have to rely on the information available to them which is hard to verify.

**Unequal Bargaining Power:** It's a quite common unfair practice along with unequal information in the financial market. The principle of equal bargaining power says that all the parties have relatively equal bargaining power.

**Insider Trading:** The act of buying or selling a company's stock on the basis of 'inside' information about the company is called as 'insider trading'. Insider trading is illegal as well as unethical the information which is confidential and not available to the general public outside the company, have a significant impact on the price of the company's stock. So, the person who is practicing insider trading in true manner steal this information and enjoys the unfair advantages over the member of the general public. A lot more unethical practices are prevalent in corporate finance. It is felt by so many ignorant and unaware people that ethical cannot be involved in finance but in reality, we say that finance would be impossible without ethics because the very act of placing us

**Ethics in finance is about far more than trust. It is too difficult to define a complete account which is the need for ethics in finance in few words –**

- First of all, finance is not like medicine, law. Accounting is not a clearly identifiable occupation or profession. It involves highly technical body of knowledge financial experts engage in a much wider range of activities.
- Accounting ethics focuses on the ethical problems of a relatively uniform activity. Accountants do much the same work in every setting and so many accounting practices like public and management accounting, external and internal auditing can be addressed in a uniform code of ethics.
- If we talk about the wide range of activities in finance, we cannot find single code of ethics for each and every activity in finance.
- Ethics in finance is concerned not solely with the ethical problems of individual in a specific occupation but also with problems in financial markets and financial.

# Organizational Ethics

### **Individual/Personal Ethics**

Personal ethics is a category of philosophy that determines what an individual believes about morality and right and wrong. This is usually distinguished from business ethics or legal ethics. These branches of ethics come from outside organizations or governments, not the individual's conscience. These branches of ethics occasionally overlap. Personal ethics can affect all areas of life, including family, finances and relationships.

#### **Some common personal ethics include:**

- Integrity.
- Selflessness.
- Honesty.
- Loyalty.
- Equality and fairness.
- Empathy and respect.
- Self-respect.

'Personal ethics' is rarely identified by philosophical institutions as a formal area for philosophical investigation, but there is little doubt that the history of philosophy, west and east, includes much work about individual choices, good and bad ways of living, and articulating what may be considered guides to good living on a personal level. That is, of course philosophers addressed good and bad values in terms of politics, culture, religion, and so on, but they also took seriously individual struggles and values involving such ordinary things as:

- How to eat and how much to eat?
- How should you devote your time?
- When do you know you have a good friendship or, backing up, what is friendship and its value?
- When is solitude good?
- Can fasting be purifying?

An important point to address in the domain of personal ethics is identifying when some matter is personal in the sense of "private" as opposed to public. An important argument has been advanced by Thomas Nagel in the essay "Concealment and Exposure," in which he argues that, in a liberal democracy, it is important for individuals to have a zone or protected area in which they are unobserved and free to do what they like.

This is not a completely open-ended matter, but some privacy, Nagel insists, is essential. Some believe that your personal values are a matter not just of how you live, act, and feel, but how you would live, act, and feel under different conditions.

- What if a person is non-racist and non-sexist because it is simply uncool to be either, but if in a group of friends telling racist and sexist jokes, they would join in?
- Does friendship involve duties?
- Could you be good friends with someone who is cruel and self-destructive?
- How do you know when you are in love?

### **Ten Commandments of Ethical Business Behaviour:**

1. Be honest, truthful, forthright, candid and sincere.
2. Have integrity: Strive to be scrupulous.
3. Keep your word and abide by the spirit as well as the letter of the law.
4. Maintain fidelity: Be faithful and never disclose confidential information.
5. Always be fair: Demonstrate a commitment to justice, with equal treatment of all.
6. Care for others: Be kind.
7. Respect others in every way.
8. Be a responsible citizen. Obey just laws and protest unjust ones.
9. Rigorously pursue excellence. Never be content with mediocrity.
10. Always be accountable: good leaders lead by example.

### **Professional ethics**

Professional ethics are principles that govern the behaviour of a person or group in a business environment. Like values, professional ethics provide rules on how a person should act towards other people and institutions in such an environment. Unlike values, professional ethics are often codified as a set of rules, which a particular group of people use. This means that all those in a particular group will use the same professional ethics, even though their values may be unique to each person.

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### **Ethical principles**

Ethical principles underpin all professional codes of conduct. Ethical principles may differ depending on the profession; for example, professional ethics that relate to medical practitioners will differ from those that relate to lawyers or real estate agents.

However, there are some universal ethical principles that apply across all professions, including:

- honesty
- trustworthiness
- loyalty
- respect for others
- adherence to the law
- doing good and avoiding harm to others
- accountability.

### **Codes of conduct**

Professional codes of conduct draw on these professional ethical principles as the basis for prescribing required standards of behaviour for members of a profession. They also seek to set

out the expectations that the profession and society have of its members. The intention of codes of conduct is to provide guidelines for the minimum standard of appropriate behaviour in a professional context.

Codes of conduct sit alongside the general law of the land and the personal values of members of the profession. The primary value of a professional code of conduct is not as a checklist for disciplining non-conforming members, although breaches of a code of conduct usually do carry a professional disciplinary consequence. Rather, its primary value is to act as a prompt sheet for the promotion of ethical decision-making by members of that profession.

### **Professional codes of conduct provide benefits to:**

- the public, as they build confidence in the profession's trustworthiness
- clients, as they provide greater transparency and certainty about how their affairs will be handled
- members of the profession, as they provide a supporting framework for resisting pressure to act inappropriately, and for making acceptable decisions in what may be 'grey areas'
- the profession as a whole, as they provide a common understanding of acceptable practice which builds collegiality and allows for fairer disciplinary procedures
- others dealing with the profession, as the profession will be seen as more reliable and easier to deal with.

### **Basic Principles of Corporate Ethics**

- Complying with the laws and rules of the countries and regions where business is conducted and engaging in fair practices in the light of social ethics.
- Aiming to become a sensible corporate citizen, and striving for harmony with society.
- Disclosing information in a timely fashion, and engaging in honest and transparent communications.
- Protecting the irreplaceable earth and contributing to the preservation of the environment.
- Respecting fundamental human rights and individuality, and building up a corporate culture with a broad vision which fosters the spirit of corporate ethics.

### **Comply with the laws and regulations of the countries and regions**

- Fair Competition
- Fair Procurement
- Respect for Intellectual Property Rights
- Proper Accounting Procedures
- Ban on Improper Expenditure
- Maintenance of Internal Systems

### **Responsible corporate citizen and strive to coexist harmoniously with society.**

- Linking into Society
- Disengagement from Antisocial Forces

- Donations to Political Parties, etc.

**Disclose information in a timely manner and aim to provide sincere and transparent communications.**

- Management of Corporate Information
- Conservation of Corporate Property
- Corporate Communications

**Appreciate our irreplaceable planet Earth and contribute to the protection of the environment.**

- Conservation of the Environment

**Respect fundamental human rights and individual personalities, and strive to create an open-minded corporate culture**

- Establishment of a Healthy Working Environment

**Auditing Ethics**

Ethics is the foundation of any successful organization and internal audit has a key role to play by auditing the organization's ethical program. Ethics is all about behaviour, choices and doing what is right. Internationally there have been developments around ethics and how organizations handle this. Many multinational companies have, over the past few years, appointed a senior executive with the responsibility for promoting ethical behaviour throughout the company.

**The 'Tone at the Top' is all about the board, chief executive officer and senior executives demonstrating their personal commitment to ethical behaviour.** Ethics is the basis of good governance and ultimately the basis for the success of an organization. **The lack of ethics can be safely described as the reason for many high-profile corporate fraud cases.** Most organizations have a code of ethics for their workforce which prescribes expectations of the behaviour expected of employees. In some cases, the code of ethics extends to consultants, contractors and suppliers.

However, a robust ethics program is more than just a code of conduct that includes:

- policies
- regular communication
- response protocols for ethical violations

Regardless of who is responsible for the ethics program, the effectiveness is not always assessed. Therefore, an audit of ethics becomes important to provide an independent view on the state of the organization's ethics program.

### **The Role of Internal Audit**

Internal auditors have often avoided the challenge of auditing ethics because it is difficult. Far easier to do a simple compliance or financial audit where hard controls are easier to audit than soft controls. However, the International Standards for the Professional Practice of Internal Auditing (The Standards) issued by the Institute of Internal Auditor (IIA) state that (Standard 2110.A1):

**“The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.”**

### **The Scope of an Ethics Audit**

The IIA Practice Guide ‘Auditing Ethics-Related Programs and Activities’<sup>2</sup> states that the four pillars of organizational governance are the board, management, internal audit, and external audit, and that ethics is an integral part of this organizational governance structure. This means that any assurance provided around governance needs to take into account ethics. Internal audit needs to audit ethics in order to provide an opinion to the audit committee and senior management on its effectiveness.

An audit of ethics should at least cover the following:

- **Tone at the top** – commitment of the board and top management to ethics.
- **Ethical principles** – how well these are adhered to by all levels of the organization, including stakeholders and suppliers.
- **Risk management** – recognition of the need for risk management and effective implementation of risk management throughout the organization.
- **Information** – availability of information relating to ethical conduct such as a documented ethical program, awareness activities, and breaches of ethical guidelines.
- **Sharing** – active sharing of information relating to the ethical program and its results.
- **Alignment** – risk management alignment with the organization’s ethical culture.

### **Key Considerations to Auditing Ethics**

There may be several approaches to take when carrying out an ethics audit such as reviewing ethics policies and procedures, reviewing the work of the ethics or compliance department or surveys / interviews with employees.

Regardless of the approach taken, there are several considerations that should be taken into account:

1. The audit committee should identify specific ethics-related issues on which to focus. In some settings, the committee may decide to conduct a comprehensive ethics audit. In other organizations, the committee may focus on specific ethical issues that are especially important in those settings.
2. An audit of ethics needs to be risk-based and based on a risk assessment. The internal auditor must establish the key risks to the organization’s ethics program which will help to focus the audit objectives.

3. Realistic audit objectives need to be set, which are likely to include such things as whether:
  - There is compliance with laws, regulations and policies.
  - The organization has a documented ethics program and adequate means of measuring its effectiveness.
  - There has been effective implementation of the ethics program.
  - Breaches of the ethics program have been properly investigated and adequate sanctions imposed on offenders.
  - Lapses in ethical behaviour have an impact on the efficiency, effectiveness and economy of business operations and, if so, what is the impact on the organization.
  - Assets are properly safeguarded from unethical conduct.
  - Opportunity for fraud and corruption is minimized.

4) Determine how to audit controls around ethics:

“Internal auditors should help a company improve its ethical culture”

- Tone at the top from the board, chief executive officer and senior executives.
- Employee awareness.
- Assurance regimes to identify unethical conduct and its impact on the organization.
- Code of conduct and treatment of breaches.
- Reporting arrangements for alleged unethical conduct.
- Investigation protocols and if these are independent.
- Effectiveness of whistle-blower mechanisms and treatment of whistle-blowers.
- Report the audit results without fear or favour to the audit committee and senior management.
- Monitor and follow-up to ensure recommendations are effectively implemented and meaningful change occurs in a timely way.

#### 7 Elements of a World Class Ethics Program

In a maturity model<sup>2</sup> provided by the IIA, the following elements are considered to be an integral part of a world class ethics program (not a comprehensive list):

**Detailed guidance** on key components of the Code of Ethics including the use of an anonymous reporting hotline.

**Periodic surveys** of employees to understand perceptions on the organization’s ethical climate.

**Review of disciplinary action** in response to ethical violations takes place by an independent party to ensure consistency.

**Openly praising** employees for demonstrating ethical conduct.

**Regular communication** on the importance of the code of ethics and reporting on the ethics program in the company’s annual report.

**Investigations** are conducted by experts in accordance with a defined investigation protocol.

**Ethics related metrics** are included as part of an employee’s performance goals.

Conducting an ethics audit requires a team effort as well as a clear definition of ethical behaviour.

Auditing ethics is not only required by the IIA's Standards but it is essential for the overall health of the organization. Even though there is no "one size fits all" approach to auditing ethics, the internal audit department should still take steps to audit the ethics program. Just because it is a difficult audit to do is no reason to ignore it especially when the risk of not carrying out an ethics audit can be severe.

### **Fairness and efficiency in financial markets**

Financial markets unite entrepreneurs seeking funds for new ventures and investors seeking a store of value for savings. Investors initially allocate capital to entrepreneurs through a trading system in which securities issued by entrepreneurs are priced as they are sold to investors.

Securities continue to be priced as one investor sells them to another. Financial markets are regulated by rules requiring companies to disclose information about their assets and earnings, rules allowing state regulators to prohibit sales of securities that fail merit tests, and rules setting minimum levels of margins on purchases of securities. What is the goal of such regulation?

Regulation of financial markets is an attempt to enhance both efficiency and fairness.

Enhancement of fairness increases efficiency in some cases, but in other cases, a conflict exists. We seek to understand the nature of each set of financial market regulations by analysing the fairness and efficiency goals they serve and the trade-offs they entail. Promotion of efficiency is generally accepted as a goal of the financial market and its regulation, but does fairness matter? Yes and no.

### **Efficiency**

We distinguish Pareto efficiency (**Pareto efficiency**, or **Pareto** optimality, is an economic state where resources cannot be reallocated to make one individual better off without making at least one individual worse off) from informational efficiency. The Pareto notion of efficiency takes as given the subjective beliefs of all people. Also given are the amounts of available resources and technology, which define feasibility. An allocation is Pareto efficient if no other feasible allocation exists such that at least one person's situation can be improved without harming another person.

Pareto efficiency assures maximization of production by precluding wasteful use of resources. It also assures that the riskiness of investment projects undertaken matches the attitudes of investors toward risk; that is, all mutually beneficial transfers of risk take place, and investors are subjectively content with the riskiness of their portfolios. Pareto efficiency does not imply, however, that investors never make mistakes. Investors might take on more risk than is objectively appropriate, they might overreact to information, and they might cause security prices to be excessively volatile.

### **Informational Efficiency**

If all investors hold objective beliefs and information is common, then competitive prices accurately reflect that information. When prices accurately reflect information, prices are considered informational efficient.

Note that prices can be informational efficient even when not all investors have objective beliefs. If subjective errors contain no systematic component (so that investor errors aggregate to zero) and the covariance between wealth and error is zero (so that no investor exerts a disproportionate effect on the market), then competitive prices will be informationally efficient. Informationally efficient prices provide proper guidance to entrepreneurs, managers, and investors.

Entrepreneurs and managers who observe correct prices have an opportunity to avoid projects with negative expected net present values. Investors who observe correct prices can design and hold optimal portfolios. Informational efficiency, however, does not ensure that the guidance offered by correct prices will be followed. Entrepreneurs and managers might select projects with negative expected net present values, and investors might choose undiversified portfolios.

Common information is essential to the fundamental theorems of welfare economics. Asymmetric information is a well-known destroyer of efficiency.

Moral hazard can interfere with efficiency by causing the market to collapse. The preceding notions of efficiency are termed just best, because feasibility is defined in terms of resource and technology availability. The introduction of additional constraints to cope with information asymmetries leads to second-best efficiency notions.

### **Fairness**

A claim to fairness is a claim to entitlements. Seven classes of fairness are identified by the entitlements they provide:

- Freedom from coercion
- Freedom from misrepresentation
- Equal information
- Equal processing power
- Freedom from impulse
- Correct (efficient) prices
- Equal bargaining power

In the category **freedom from coercion**, fairness comes in two forms, a positive form and a negative one. The positive form entitles people to the right not to be coerced into a transaction. The negative form entitles people to the right not to be prevented from engaging in a transaction. Thus, a transaction is fair if all people enter into it voluntarily. Each person is free to engage in a search for information but not to compel another to reveal information. Moreover, no person is to rely on information received from another as truthful. For example, bargainers might be allowed to say, "This is my last offer," even when that is not true

Fairness in **freedom from misrepresentation** entitles all people to rely on information voluntarily disclosed by others as truthful. For example, laws pertaining to contracts provide that a person has a valid claim against another if information provided was wilfully untrue. A claim is not valid, however, because a product or service simply did not meet the buyer's expectations. Fairness in freedom from misrepresentation does not compel people to reveal information.

**Fairness regarding equal information** entitles all people to equal access to a particular set of information. Therefore, a person who has the set of information is compelled to disclose it to the others. For example, some states require sellers of houses to disclose to buyers' information about defects in the houses. Similarly, people with inside information on securities are prohibited from using it in trades.

**Fairness in equal information processing** entitles all people not only to equal access to a common set of information but also to a "competency floor" of information processing skills. This class of fairness recognizes that some people commit cognitive errors as they process information. For example, although information about state lotteries is available to the public, some people are unable to estimate correctly their odds of winning. Protection from deficiencies in information processing can take the form of compulsory disclosure in a "processed" form, such as disclosure of interest rates in the annual percentage rate form prescribed by the Truth-in Lending Act, or prohibition of certain transactions, such as lotteries, in which people might be at an information processing disadvantage.

**Fairness in freedom from impulse** entitles all people to protection from imperfect self-control. Lack of self-control might cause a discrepancy between what people claim they should do and what they actually do. Overeating, drug abuse, and overspending are examples of self-control problems. Protection from such problems is sometimes provided through outright prohibition, such as outlawing the use of drugs, or through remedial mechanisms, such as the Truth-intending Act, which requires sellers to provide buyers with a three-day "cooling-off" period during which they can cancel an impulsive transaction.

**Provision of rights** to equal processing power and to freedom from impulse are usually called paternalism, because outsiders are charged with protecting people from their own mistakes, as parents protect their children.

**Fairness regarding efficient prices** entitles all people to trade at prices they perceive as efficient or correct. Fairness in the efficient prices class is the entitlement that underlies the notion of fairness inherent in the term "fair and orderly market." NYSE specialists are responsible for preserving a fair and orderly market by trading from their own inventories in response to order imbalances that might distort prices. The alternative is to let prices adjust by whatever amount necessary to equate supply and demand by investors, even if this process creates "excessive" volatility.

**Fairness in equal bargaining power** entitles all people to differential alternatives to a negotiated agreement. Unequal bargaining power can occur when one person in a transaction has deficiencies in information processing or imperfect self-control. Unequal bargaining power can also exist, however, in the absence of such deficiencies. For example, poor people might be at a power disadvantage relative to rich ones. The ultimatum game provides another example. The inequality in bargaining power is created by the first-player advantage; the second player is disadvantaged because he or she faces a take it or leave it position. One example of a remedy to a perceived inequality in bargaining power is a state-mandated limit on interest rates charged by credit card companies.

**An additional notion of efficiency**, called ex post efficiency, is a hybrid of Pareto efficiency and fairness. Recall that Pareto efficiency rests on the subjective judgments of individuals to ascertain whether one situation is more efficient than another. The ex-post notion replaces subjective judgments with objective ones. Ex post efficiency is, in effect, what Pareto efficiency would be if all investors had equal information, equal processing capabilities, and no self-control difficulties. The implicit notion of efficiency is ex post in some regulatory issues.

### **Insider Trading**

Insider trading refers to the practice of purchasing or selling a publicly-traded company's securities while in possession of material information that is not yet public information. Material information refers to any and all information that may result in a substantial impact on the decision of an investor regarding whether to buy or sell the security.

By non-public information, we mean that the information is not legally out in the public domain and that only a handful of people directly related to the information possess. An example of an insider may be a corporate executive or someone in government who has access to an economic report before it is publicly released.

### **Hypothetical Examples of Insider Trading**

- The CEO of a company divulges important information about the acquisition of his company to a friend who owns a substantial shareholding in the company. The friend acts upon the information and sells all his shares before the information is made public.
- A government employee acts upon his knowledge about a new regulation to be passed which will benefit a sugar-exporting firm and buys its shares before the regulation becomes public knowledge.
- A high-level employee overhears some conversation about a merger and understands its market impact and consequently buys the shares of the company in his father's account.

Insider trading happens when someone makes an investment trade based on "material" information that's not publicly available. In market terms, material information is any detail that could affect a company's stock price. This information gives the individual an edge that

few others have. The trader must typically be someone who has a fiduciary duty to another person, institution, corporation, partnership, firm, or entity. You can get into trouble if you make an investment decision based upon information that's related to that fiduciary duty if that information isn't available to everyone else

A fiduciary duty exists when one individual or entity has an obligation to act in another's best interest. Fiduciaries have duties of care, loyalty, good faith, confidentiality, prudence, and disclosure

### **Greenmail**

Greenmail is an intentional purchase of a substantial number of shares in an entity with an ultimate objective to threaten it with a hostile takeover, which usually results in forcing the owners to repurchase the shares at a premium. The target firm is actually forced to buy its stock at an increased price to ward off a corporate raider. It is a blackmail that gives the corporate raider a good profit by just creating a takeover threat. In the case of mergers and acquisitions, this payment is made to put a stop on the takeover bid.

### **Greenmail – “Blackmail of a Different Colour”**

It is a very challenging situation for the target company. They are forced to decide between being taken over and paying a high premium to buy back their shares from the corporate raider. In most circumstances, the target firm chooses to pay the premium price and buy back their shares over a hostile takeover. It is like blackmail, where the raider asks for a ransom amount to release the control of shares over the target company. It should be kept in mind that the raider has no intention of buying the target company, but it just wants to make the profit from the costly premium it demands from the target company.

On accepting this payment, the raider will stop harassing the target company for takeover and cannot buy any shares of the target company for a specified period. Though the target company gets back its control over its shares, it may have an additional debt of a considerable amount that the target company has taken to finance the greenmail. The term is derived from the combination of blackmail and greenbacks (dollars).

### **How does Greenmail work?**

- **Purchase** – A corporate raider or an investor gets hold of a large stake in the target company by purchasing its shares from the open market.
- **Struggle** – Threaten the target company over a hostile takeover. Still, they offer to sell the acquired shares to the target company at a premium price, much above the market value. The raider also makes a promise of not harassing the target company on repurchasing the shares by the target company.
- **Sale** – The corporate raider sells its share at a higher price. The target company utilizes the shareholder money to pay the premium price for buyback. The target company is left with a considerable amount of debt, and its value is reduced, whereas the raider makes a handsome profit.

### **Examples of Greenmail**

American Investor Carl Icahn bought an approximately 9.9% stake in Saxon Industry at an average price of \$7.21 per share. Saxon Industries were afraid that he might go for a hostile takeover and increase his stake further. Saxon Industries offered to buyback Carl Icahn's stake at an average price of \$10.50 per share. It represented a premium of 45% of his purchase price, thereby making Icahn a handsome profit.

### **Effective Measures by the Target Company**

During these situations, the target companies have two options.

The first option is that the target company can take no action and allow the hostile takeover to happen. Secondly, the target company can pay a premium price above the market value to avoid hostile takeovers and buy back its shares. Suppose a company X buys 30% shares of company Y and then threatens X for a takeover. The management of company Y decides to buy back the shares at a premium price to avoid the takeover bid. After this greenmail, company X makes a considerable amount of profit from the resale of shares at the premium price. Still, company Y makes a significant loss and is left with additional debt.

Greenmail is a profit-making strategy wherein the investor buys large stakes of the target company and then threatens the target company of hostile takeover and creates a situation in such a way that the target company is forced to buy back their shares at a significant premium. It is similar to blackmail, where threats are made to establish a benefit and gain profit. This money is paid to another company to stop the aggressive behaviour.

### **Golden Parachute**

A golden parachute consists of substantial benefits given to top executives if the company is taken over by another firm, and the executives are terminated as a result of the merger or takeover. Golden parachutes are contracts with key executives and can be used as a type of antitakeover measure, often collectively referred to as poison pills, taken by a firm to discourage an unwanted takeover attempt. Benefits may include stock options, cash bonuses, and generous severance pay. Golden parachutes are thus named as such because they are intended to provide a soft landing for employees of certain levels who lose their jobs.

Golden parachutes are lucrative severance packages inked into the contracts of top executives that compensate them when they are terminated. In addition to large bonuses and stock compensation, golden parachutes may include ongoing insurance and pension benefits. The practice is controversial as poorly performing or short-lived CEOs and other top executives can get paid large sums for little or poorly perceived work.

### **How Golden Parachutes Work**

Golden parachute clauses can be used to define the lucrative benefits that an employee would receive if they are terminated. The term often relates to the terminations of top executives that result from a takeover or merger. Golden parachutes may include severance pay in the form of cash, a special bonus, stock options, or vesting of previously awarded

compensation. The employment contract contains explicit language detailing the conditions under which the silver parachute clause will become valid.

**In addition to monetary awards, other examples of opulent parachute benefits include:**

- Continued enrolment in company pension plans
- Vesting of all retirement benefits
- Paid health and dental insurance
- Compensation for legal fees

Instances of these and other exclusive advantages have drawn criticism from shareholders and the public. As a result, the post-financial crisis era has seen many companies review their executive-level compensation policies and devise new ways to link executive performance to corporate success. In many cases, their goal has been to determine whether such packages were in the best interests of the firm and its investors.

**Advantages of Golden Parachutes**

By providing golden parachute clauses to high-level company executives, companies are able to:

- **Hire and retain top talent:**
- **Reduce/Remove conflict of interest during a merger:**
- **Reduce hostile takeovers:**

**Controversies Regarding Golden Parachutes**

Golden parachutes given to company executives create controversies because they create the following circumstances:

- **Require the company to pay a lot of money:** Golden parachute compensation may substantially reduce the company's bottom line profitability.
- **Moral hazard problem:** Knowing that their termination would give them substantial benefits, executives with golden parachutes may feel little to no incentive to do a good job. Executives with a golden parachute may not act in the best interest of shareholders.
- **May not deter hostile takeovers:** Although golden parachutes may reduce hostile takeovers, they typically make up only a small percentage of the overall cost of a merger. Therefore, golden parachutes may not significantly inhibit hostile takeovers. That would mean that they offer relatively little benefit as compared to their very high cost.

**Workers' Rights and Duties**

As a worker, you have a legal right to:

- A safe and healthful workplace

- Any information your employer has about any exposure you may have had to hazards such as toxic chemicals or noise. You also have a right to any medical records your employer has concerning you.
- To ask your employer to correct dangerous conditions.
- To file a complaint about workplace hazards:
- To participate in enforcement inspections.
- To not be discriminated against for exercising your health and safety rights. Your employer may not fire you, threaten you, harass you, or treat you differently for exercising your health and safety rights.
- To refuse work that puts you in immediate danger of serious harm. Before you refuse unsafe work, request that your employer eliminate the hazard and make it clear that you will accept an alternate assignment.
- To information on hazards in your workplace; chemicals used in your workplace; tests your employer has done to measure chemical, noise and radiation levels; and what to do if you or other employees are involved in an incident or are exposed to other toxic substances.
- To training from your employer on chemicals you are exposed to during your work and information on how to protect yourself from harm and on other health and safety hazards and standards that your employer must follow.

**As a worker, it is your responsibility to:**

- Read the workplace safety and health poster at the jobsite.
- Comply with all applicable safety standards.
- Follow all lawful employer safety and health rules and regulations, and wear or use required protective equipment while working.
- Report hazardous conditions to the employer

Report any job-related injury or illness to the employer, and seek treatment promptly.

**Workplace Safety: Importance, Benefits, and Ways to Incorporate It**

A work environment free from injuries and accidents attracts employees. Employees are more satisfied and productive in such an environment. A safe work environment is important for both employees and employers alike. It is the right of all employees to have safety in the workplace. Workplace safety is important regardless of the size of a company. All companies, big or small, need to incorporate safety in their workplaces. Well implemented safety measures keep employees safe and also protect industry equipment. It is the responsibility and duty of employers to protect their employees and keep them safe.

**What is the Need for Safety in the Workplace?**

It is not possible to measure the effects of human casualties. They can have grave consequences for employees and their families and friends as well. This is why workplace safety and health measures are necessary. They are important for the wellbeing of employers and employees alike. The feeling of assurance that one has, knowing that he will return safely from work is greater than anything else.

There are occupational safety and health risks in every company. Factors affecting workplace safety include unsafe working conditions and environmental hazards. It can also include substance abuse and workplace violence. For example, employees working in an IT company may have to work with faulty wires or electronics. Whereas in a construction company, employees may be exposed to the dangers of operating heavy equipment. To combat these risks, employers should create strategies that ensure and promote safety in their workplaces. Employers should also learn the desired aspects of their employees in terms of safety and protection. This will help increase productivity and the quality of the products and services.

### **Here are some Benefits of a Safe and Healthy Work Environment**

- It goes without saying that the safer the work environment, the more productive it is. Productive employees are an asset to all companies. For instance, productive employees can produce more output in less time, reducing operational costs for a company.
- Workplace safety promotes the wellness of employees and employers alike. Better safety equates to better health. Healthier employees do tasks more efficiently and they are happier in general.
- There are very few accidents in a safe working environment. This results in less downtime for safety investigations and reduces costs for worker's compensation. This also reduces the time needed for employees to heal from injuries.
- Damage to industrial equipment creates costs for replacement and repair. Avoiding workplace injuries and damage to industrial equipment will incur fewer expenses and increase profit.
- If employers are concerned about the safety of their employees, the employees are more confident and comfortable in general. Also, absenteeism rates drop and employees are more focused on doing their tasks

### **Ways to Create a Safe Working Environment**

- Being Aware and Identifying workplace Hazards
- Implementing Workplace Safety Programs
- Providing Proper Safety Training to Employees
- Using Protective Safety Equipment
- Reporting Unsafe Working Conditions
- Practicing Correct Posture
- Promoting Regular Breaks
- Staying Sober and Alert
- Easy Access to Exits in Case of Emergencies
- Using Mechanical Aids

### **The Bottom Line**

- A safe work environment is a feature of good companies throughout the world. All employees want assurance of their safety and protection.
- Workplace safety is a very important issue. Employers should ensure that their employees are working in a safe environment.

- Management systems and business owners are responsible for promoting workplace safety. Employers should encourage employees to adopt safe practices and use safety equipment. They should promote safety policies and safety programs.
- Also, employees should be aware of the risks of operating hazardous machinery

### **Sexual Harassment at Workplace**

Sexual harassment at a workplace is considered violation of women's right to equality, life and liberty. It creates an insecure and hostile work environment, which discourage women's participation in work, thereby adversely affecting their social and economic empowerment and the goal of inclusive growth

### **Sexual Harassment is said to take place**

- When one person subjects another person to an unwelcome act of physical intimacy! contact such as grabbing, brushing, touching, pinching, eve teasing, etc.
- Makes an unwelcome demand or request directly or by implication for sexual favours from another person.
- Shows a person any sexually explicit visual material, in the form of pictures/cartoons/pinups/calendars/ screensaver version computers/any offensive written material / pornographic e-mails, etc. or any other form of unwelcome conduct of a sexual nature.
- Eve teasing, jokes likely to cause awkwardness or embarrassment, innuendos, sexist remarks

### **What you should do?**

- Hold the harasser accountable for his actions. Let people know what he did. Privacy protects harassers, but visibility undermines them.
- Objecting to harassment is a matter of principle and ones right.
- Don't respond to the harasser's excuses or diversionary tactics.
- Speaking out: Speaking about sexual harassment is an effective tool in combating it. It mobilizes public opinion against it.
- Report such harassment immediately or as soon as possible to the superior officer or to the police or seek the assistance of any NGO

As per official data, not even half the people report about sexual harassment experiences for the fear of losing their job. But, no one should have to put up with sexual harassment at a workplace. We all have the right to enjoy a safe and comfortable work environment. Many times, women worry that people won't believe their story or will try to tell them how it was all their fault and for fears similar to these, most women prefer to stay quiet.

While there are some apparent ways that people are molested like unwanted kissing, touching of privates, butt slapping, making sexually explicit comments, uninvited massages, requests

for sexual favours, sexually suggestive gestures, ogling, catcalls or cornering someone in a tight space, there are more subtle forms of harassments too.

- Making sexual jokes.
- Repeated compliments of an employee's appearance.
- Commenting on the attractiveness of others in front of an employee.
- Discussing someone's sex life in front of a colleague.
- Circulating nude photos of women in bikinis or shirtless men in the workplace - Interrogating an employee about their sex life.
- Leaving unwanted gifts of a sexual or romantic nature.
- Spreading sexual rumours about a colleague.
- Repeating hugs or other types of unwanted touching.

Any of the above-mentioned actions can be taken as sexual harassment if they happen often or are severe enough to make an employee feel uncomfortable, intimidated or evident enough to interfere with their work.

**Sexist comments as well as actions also fall under harassment.** It is a misconception that harassment must only be sexual in nature in order to be illegal.

Offensive conduct based on an employee's gender is severe enough to create an abusive work environment which is also illegal. For example, if women are told to compete and live up to other gender stereotypes and looked down upon or not taken seriously, the workplace is considered hostile

Most people know that sexual harassment by a manager or co-worker is illegal. But a boss or a leader has the responsibility to protect its employees from any kind of sexual harassment by outsiders as well. This very much includes clients, vendors, business partners, customers, etc. As long as the boss knows that harassment is taking place, the company should take necessary action against it.

It's a very traditional way of thinking if you only believe that females get sexually harassed. While this is still the most common scenario in today's world, there are many cases where females harass male members of a workplace. Same-sex harassment by a male against a male or a female against a female is also illegal. The harassment doesn't necessarily have to be motivated by sexual desires. It just has to base on the victim's gender.

### **Whistleblowing**

Whistleblowing is the term used when a person passes on information concerning wrongdoing, such as corruption, sexual harassment... This can be referred to as "blowing the whistle", "making a disclosure", "making a whistleblowing report", or otherwise.

The person is usually closely associated with the organisation, often an employee, but also sometimes a supplier or a customer. They become a whistle-blower when they observe behaviour or actions that they believe to be misconduct, illegal and not in line with the company's Code of Conduct, and report that suspicion as a whistleblowing matter.

### **Whistleblowing can take place either within an organization, or publicly.**

**Organisational whistleblowing:** Is a preventive tool for organisations to reduce the risks of malpractice and irregularities. Empowering employees and other relevant stakeholders to blow the whistle increases the chances of managers obtaining information on irregularities that should be acted upon at an early stage. Organisations that take their Code of Conduct seriously will therefore put in place mechanisms to enable organisational whistleblowing, such as a secure corporate whistleblowing system or hotline and a whistleblowing policy or guidelines.

**Public whistleblowing:** In organisations where trust is low, the above mechanisms are not in place, or there is no possibility to be an anonymous whistle-blower, the person may be more inclined to blow the whistle publicly. This may include reporting to the police, media or through online social channels, which of course brings a greater risk of reputational damage for organisations. In some instances, though, there is a duty to blow the whistle to a professional body or regulator.

### **What counts as a whistleblowing complaint?**

Perspectives vary from organisation to organisation, and whistle-blower protection laws define whistleblowing cases differently from jurisdiction to jurisdiction.

- a criminal offence, e.g., fraud or corruption
- a person's health and safety are in danger
- risk or actual damage to the environment
- a miscarriage of justice
- serious forms of discrimination or harassment
- the company is breaking the law, e.g., does not have the right insurance
- there is suspicion that someone is covering up wrongdoing

### **Why is whistleblowing currently so in focus?**

The rise of whistleblowing started with the 2007-08 global financial crisis, which re-awakened the world to the need for a crackdown on corporate corruption. Further, in the last two years, the #Metoo campaign has completely changed how whistle-blowers are viewed; from troublemakers to heroes. Consequently, we have seen a sharpened focus on anti-corruption and greater pressure on organisations to give employees a voice.

At the same time, more and more governments are putting in place whistleblowing laws that in some cases mandate the implementation of whistleblowing systems, in other cases, enhance whistle-blower protection. As a result, organisations are increasingly choosing to set up whistleblowing channels to better manage issues internally and to ensure compliance.

# Ethics & Social Responsibility

### **Corporate Social Responsibility (CSR)**

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

To engage in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them.

Corporate social responsibility is a broad concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands. As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employees and corporations, boost morale and help both employees and employers feel more connected with the world around them

### **A Brief History of Corporate Social Responsibility (CSR)**

For decades, companies have been using corporate social responsibility (CSR) to give back to society while bolstering brand reputation. This management concept as we know it today is mainly a product of the twentieth century, taking shape in the early 1950s. However, the history of corporate social responsibility is one that actually spans over two centuries.

#### **The 1800s and the Birth of Responsible Organizations**

While there has been a recent spike in the popularity of CSR, evidence of businesses' concern for society can be traced back to practices originating from the Industrial Revolution. In the mid-to-late 1800s, there was growing concern about worker wellbeing and productivity among industrialists. Growing criticisms of the emerging factory system, working conditions, and the employment of women and children were being brought to light, especially in the United States.

The consensus among reformers was that current employment practices were contributing to social problems, including poverty and labour unrest. However, industrial betterment and welfare movements at the time were viewed as a combination of humanitarianism and business acumen

#### **The Catalyst for Modern Corporate Social Responsibility**

Although responsible companies had already existed for more than a century before, the term Corporate Social Responsibility was officially coined in 1953 by American economist Howard Bowen in his publication *Social Responsibilities of the Businessman*. As such, Bowen is often referred to as the father of CSR.

However, it wasn't until the 1970s that CSR truly began to take flight in the United States. In 1971, the concept of the 'social contract' between businesses and society was introduced by the Committee for Economic Development. This contract brought forward the idea that companies function and exist because of public consent and, therefore, there is an obligation to contribute to the needs of society.

By the 1980s, early CSR continued to evolve as more organizations began incorporating social interests in their business practices while becoming more responsive to stakeholders.

### **The Concept of Charity**

Charity is the act of extending love and kindness to others unconditionally, which is a conscious act but the decision is made by the heart, without expecting a reward. When Charity is carried out selflessly, it is a one-way act where a person gives but asks for nothing in return. It is due to this act of nature that makes it precious and soulful. There are people who believe charity should begin at home but others believe it should originate from the heart. However, charity originates from the heart as you feel the urge of giving, begins from home, ultimately extending to others in the society.

Charity begins with the inward recognition of a need to show compassion to others whether consciously or unconsciously. Everyone has problems, troubles, and griefs of some sort in life but charity starts with those who learn to downplay their own problems, in order to extend compassion, kindness, and love to help others. Hence some people set aside their own pains to relieve the pain of others.

### **Purpose of Charity**

Charity is essential and therefore meant to be done for public benefit, relief and to provide assistance to people at times of need in any part of the world, especially who are the victims of war, natural disaster, catastrophe, hunger, disease, poverty, orphans by supplying them with food, shelter, medical aid and other fundamental needs.

Such charitable purposes can gain momentum from advancing the education of young people for the public benefit by making grants and awards to students in full-time education.

When considering poverty in the developing world, people feel deep sorrow but seem to put no effort whatsoever to reduce or eradicate the problem. Poverty in today's world has turned out to be sinister and we lay passive towards the problem, therefore such attitude has made us powerless to stop it.

### **Corporate Philanthropy**

Corporate philanthropy involves the act of donating to a charity or a foundation whose mission is to fight a cause and deliver social impact. The donations can consist of monetary help as well as in-kind contribution.

### **Breaking Down Corporate Philanthropy**

The term philanthropy comes from ancient Greece and literally means "love for humankind". In the past, this practice was narrowed down to moguls' big donations. Those had the primary goal of showcasing the donor's good heart and sensitiveness. Over time, the concept broadened until including corporate social initiatives, growing from a donation-based notion to a richer and deeper framework.

While philanthropy can employ different techniques, one way most companies donate to charity is through matching gift programs. The latter consists of acknowledging how much the employees are donating. And then matching the amount, doubling or tripling it. Collective imagery sees corporate philanthropy as an activity that can have a positive impact on the organization's brand image. Also, it can be a powerful point of differentiation. Nevertheless, it's important to underline that the pure act of donating profit shares is not enough. Big and successful companies need to truly believe in the causes they are supporting. They must show

interest and raise their voices. Moreover, stakeholders are interested to see how they can integrate donations and grants with their overall business model.

Big and successful companies need to truly believe in the causes they are supporting. They must show interest and raise their voices. Moreover, stakeholders are interested to see how they can integrate donations and grants with their overall business model.

In summary, philanthropy nowadays is not pure charity anymore. It needs to showcase the company's own identity and mission in order for it to be effective and praised.

### **Why is corporate philanthropy different from CSR?**

We often use both concepts in the same way. But there are some differences. Corporate philanthropy is meant to be driven by a desire to make a social change. The company just makes donations of property or money to have an impact and improve their brand image. But it isn't involved in the corporate main activities. Corporate social responsibility, on the other hand, is really integrated into the company's activities and identity.

### **Ethics Relating to Environment Protection**

Environmental ethics is a branch of ethics that studies the relation of human beings and the environment and how ethics play a role in this. Environmental ethics believe that humans are a part of society as well as other living creatures, which includes plants and animals. These items are a very important part of the world and are considered to be a functional part of human life.

Therefore, it is essential that every human being respects and honours this and uses morals and ethics when dealing with these creatures.

“In environmental philosophy, environmental ethics is an established field of practical philosophy “which reconstructs the essential types of argumentations that can be made for protecting natural entities and the sustainable use of natural resources.”

The main competing paradigms are anthropocentrism, physio centism (called ecocentrism as well), and theocentric.

Environmental ethics exerts influence on a large range of disciplines including environmental law, environmental sociology, Eco theology, ecological economics, ecology and environmental geography.”

Global warming, global climate change, deforestation, pollution, resource degradation, the threat of extinction is few of the issues from which our planet is suffering.

Environmental ethics are a key feature of environmental studies that establishes the relationship between humans and the earth. With environmental ethics, you can ensure that you are doing your part to keep the environment safe and protected.

Every time that a tree is cut down to make a home or other resources are used, we are using natural resources that are becoming more and more sparse to find. It is essential that you do your part to keep the environment protected and free from danger. It is not as difficult to do as you may think so long as you're willing to make a few simple and easy changes. With the rapid increase in the world's population, the consumption of natural resources has increased several times. This has degraded our planet's ability to provide the services we humans need. The consumption of resources is going at a faster rate than they can naturally replenish.

Environmental ethics builds on scientific understanding by bringing human values, moral principles, and improved decision making into conversation with science. It was Earth Day in 1970 that helped to develop environmental ethics in the US, and soon thereafter, the same ethics were developed in other countries, including Canada and North America. This is important because the ethics of the environment are of major concern these days.

### **What Causes Environmental Pollution**

The acts of humans lead to environmental pollution. The stronger demand for resources is also a factor that contributes to the problem as we all need food and shelter. When these things are so desired and need the natural balance of the environment is disturbed. Engineering developments are resulting in resource depletion and environmental destruction.

There are several environmental issues that have created havoc on our environment and human life. If ignored today, these ill effects are sure to curb human existence in the near future. The major environmental issues include Pollution, Overpopulation, Industrial and Household Waste, Acid Rain, Climate change, Ozone Layer Depletion, Urban Sprawl, Genetic Engineering, Deforestation and Global Warming. These environmental issues have taken a toll on our environment and we've already started seeing some disastrous effects in the form of the effect of health on humans, rise in sea level, depletion of non-renewable resources, melting of glaciers, extinction of species, polluted landfills, toxic dust, decreasing soil fertility, rise in air and water pollution and many more.

Human beings are considered to be the most intelligent species living on earth. This could be why it is the only species on earth that has civilized itself over the decades to a large extent. Today, human beings boast of being superior to all other animals, but what is the use of such great intelligence when environmental ethics are not followed? Cutting down trees is something that many humans do for their own benefit without any concern for the animals, which are dependent on trees for survival. Using fossil fuels erratically, industrialization, pollution, disturbing ecological balance, all these are attributable to human activities.

### **Environmental Ethics and Environmental Philosophy**

Environmental ethics has produced around environmental philosophy. Many scientists have taken up the belief of the philosophical aspect of environmental hazards, thus giving rise to environmental ethics. Currently, environmental ethics has become a major concern for mankind. The industrialization has given way to pollution and ecological imbalance. If an industry is causing such problems, it is not only the duty of that industry but all the human beings to make up for the losses.

But how long an artificial and restored environment will able to sustain?

Will it be able to take the place of natural resources?

Environmentalists are trying to find answers to these difficult questions, and all these together are termed as environmental ethics.

It is the responsibility of all to ensure that environmental ethics are being met. It is somewhat difficult to make adjustments that are necessary to ensure that you are following all environmental ethics. Ethics plays an important role in our society today, and environmental ethics and business ethics must be considered. This has become more prevalent in today's society. Both oil and coal are bad, but not only for the environment, but for all living creatures,

including plants and animals. Both are highly toxic in their natural raw state. They pollute the air and ground and water, and whether or not they are helping to create these natural disasters should be irrelevant. They are both finite and will not last forever, and the sooner we rid ourselves of the need for these two demons, the better.

While oil and coal companies continue to promote their products, and the best yet is clean coal, which is an unethical definition of something that just isn't possible, their ethics come into question, especially environmental ethics.

Most of the world's ills are derived from both of these, with oil spills, mining accidents, fires, and now climate change and global warming. Ensure that you are doing your part and following all environmental ethics that are out there.

### **Types of Environmental Ethics**

With the emergence of several theories, several environmental ethics have emerged. While some protect human beings, others protect plants, animals and other elements of nature. The types include:

Social ecology, which is the study of human beings and their relation to their environment.

Deep ecology promotes that all beings have an intrinsic value.

Ecofeminism is a branch of feminism that helps us look at earth as a woman so that we can respect it in a better way.

### **Role of Business in Environmental Protection**

The environment is everything we depend on. Whether it be the trees that give us oxygen, the land we live upon and the rivers that provide us with water. The environment is crucial for the society and businesses together. We all have a responsibility to conserve and protect the environment. And whether it be governments, businesses, consumers, workers or other members of society, each must contribute to stop the environment from polluting further.

Governments must initiate programs to ban the use of hazardous products such as plastic carry bags. Consumers, workers and society can support environmental protection by not using these hazardous products or other products that are not environmentally friendly.

Business enterprises should take lead in solving environmental issues. It is their responsibility to check the consequences of their actions and also to protect environmental resources. Some initiatives which can be taken by business enterprises for environmental protection are:

A sincere commitment by the top management of the business to cultivate, maintain and develop work culture for environmental protection and pollution prevention.

To ensure that the commitment towards environmental protection is shared by all the employees of all the divisions of the business.

Developing clear-cut policies and programmes for purchasing good quality raw material, using latest technology, using scientific techniques of disposal and waste management and to develop the skills of the employees for the purpose of pollution control.

To adapt to the laws and regulations passed by the government for the prevention of pollution. Participation in government programmes relating to the management of hazardous substances, clearing up of polluted water bodies, plantation of trees and to reduce deforestation.

Assessment of pollution control programmes in terms of costs and benefits to increase the progress with respect to environmental protection.

Also, businesses can arrange workshops and give training material and share technical information and experience with suppliers and customers to get them involved in pollution control programmes.

Promoting green energy that reduces the use of fossil fuels.

### **The Ethics of Consumer Protection**

Consumers are often given a raw deal by way of substandard products, increased prices through market manipulation, failed warranties, poor after-sale services and a host of other unfair trade practices. This is in spite of the fact that the consumer is regarded as the king who through the market forces dictates the quality and quantity of goods, and leaders like Mahatma Gandhi consider him as the sole purpose for which an enterprise exists. Good business ethics should place the customer as one of the important stakeholders and should give the customer his or her due share.

Ethics relate to what is morally right and wrong and businesses have to make ethical decisions. How they treat their customers is part of the wider field of 'business ethics'. Other ethical issues include how businesses deal with their suppliers (Do they pay a fair price? What are the working conditions like in their overseas factories?) and their workers. Many of the practices that consumer protection laws seek to ban are unethical. Giving false information about a product (e.g., claiming eggs to be free range when they are not or stating that a garment is 100% silk when it isn't), putting pressure on a consumer to purchase something or supplying poor-quality goods that break easily are all examples of unethical behaviour on the part of businesses.

Business ethics is a complicated field and, because ethics relate to opinions, there is sometimes disagreement over whether a particular practice is unethical or not.

Marketing in particular can cause disputes in this area. For example, some stores display sweets at the checkout. This is regarded as unethical by some because it encourages 'pester power' (children repeatedly asking parents to buy the sweets for them). As sweets are unhealthy food, this practice can be seen as unethical. However, others argue that people have a choice whether they purchase them or not and it is up to parents to educate their children about healthy foods. Some businesses have tried to reinvent themselves because their marketing has been labelled unethical. McDonald's 'supersize' was once a marketing winner, but with increased worries about people's weight problems, the campaign was dropped. McDonalds now focus a large part of their advertising and product development on healthier meals.

### **Ethics relating to consumer protection**

In order to understand the correlation between consumer rights and business ethics, one looks once again to the Golden Rule. Consumers expect to be treated with courtesy and respect. Therefore, in order to encourage sales, business managers pay close attention to consumer opinion polls, feedback, and attitudes. This has evolved into basic understandings of consumer rights and protections that have been developed through the years in order to encourage a positive relationship between business management and consumer demand.

Whether you're purchasing goods or services, or buying your first car, we as consumers expect honest negotiations in all aspects of our environment. Such expectations may be based on morals and values of common courtesy, but the concept goes much deeper than that. The development of consumer rights and protections in a wide range of industries and fields may be the difference between the success and failure of a business.

For example, topics involving privacy rights, safety, and product reliability are important parts of developing marketing and advertising plans.

Ethical issues surround nearly every aspect of the goal of any business: to increase stocks, backing, reputation, and most importantly, profit. While the pricing of products is an important part of sales and product placement, advertising and marketing are issues that involve a large degree of business ethics.

Consumers demand certain rights, from the expectation of honest and fair practices in the world of banking, to the warranties that cover our appliances and automobiles. We expect to be protected when signing a lease agreement or purchasing a product off a store shelf. We want to be protected against scams and rip-offs and to be able to report such behaviour to the proper authorities.

Nearly every aspect of our daily lifestyles involves some sort of reliance on ethical business practices, whether we realize it or not. We expect to pay a fair price for groceries and gasoline. We expect our privacy to be respected when we visit our doctor's office, and we expect honest and fair practices from mortgage companies and financial institutions.

Our expectations have become so ingrained that many businesses, retailers, and suppliers have had to adapt production and advertising methods to cater to those expectations.

When it comes to advertising and marketing, adherence to basic business ethics is essential for success. Unethical methods of advertising that include deceit, outright lies, or manipulation, may threaten the reputation and success of a manufacturer, a product, or service. Unfortunately, this does not mean that deceit does not occur.

Consumers must remember there's a big difference between deceit and manipulation and persuasion. One of the most common methods of manipulation is through deceit. However, sometimes manipulation is subtler, involving some sort of psychological threat or engendering fear in someone in order to get them to do what you want them to do. Such psychological manipulation instils fear, guilt, or anxiety into some aspect of the business transaction.

This type of marketing is prevalent today, and remains one of the focal points of the practice of business ethics. For example, watch the television on any given evening, and viewers are likely to be inundated with advertisements for everything from aspirin to heart medications. Playing on a person's ignorance or lack of understanding of certain medical conditions is one way that many pharmaceutical companies encourage consumers to purchase their products.

Whether a product is toothpaste or a therapeutic heat patch, consumers are led to believe that one product is better or safer than anyone else's. Indeed, many experts believe that marketing and advertising agencies focus on target populations that are especially susceptible to such manipulation.

And what of manipulation? We all practice it to some degree in our daily lives. Playing on your son's guilt to take out the trash is a form of manipulation. Diet pills targeted toward women with less than perfect bodies are also a form of manipulation. When exactly does manipulation turn into unethical behaviour?

Marketing practices that cater to the fears and anxieties of others can be considered unethical. For example, an auto dealer who pressures a single or divorced woman to purchase all sorts of add-ons when buying a car, including things like extended warranties and theft protection, while playing on her fears of being stranded, is a classic example of unethical behaviour.

## The Right to Be Informed

The Right to Choose  
The Right to Safety  
The Right to Be Heard  
The Right to Have Problems Corrected  
The Right to Consumer Education

### **Social Responsibility & Business Ethics**

A global trend is the greater awareness of good Business Ethics and the performance of organisations against their Social Responsibility obligations. Failing to understand and recognise the importance of these issues may prove to be a business killer, particularly when an organisation gets it wrong. The speed and transparency of modern media are unforgiving. By contrast, greater public expectation and awareness of what is right and wrong, the basic foundation of the ethical principles, enables organisations which demonstrate solid ethical and responsible foundations to strengthen their reputation, and by so doing, increase their market share, improve staff retention and generally, get to feel good about themselves.

### **Social responsibility**

Like individuals, organisations have a responsibility towards the wider impact that decisions taken today will have on generations to come. Short-term gains at the expense of longer-term problems are not acceptable.

Social Responsibility is a crucial part of business ethics. A responsible organisation considers and recognizes the impact that its decisions and activities impact on society and the environment; and behaves in a manner that positively contributes to the sustainable development, health and welfare of society.

It is an expectation than organisations will not exploit people or the environment in the pursuit of profit, behaving and conducting business ethically and with sensitivity towards social, cultural, economic, and environmental issues. This can entail designing products which are recyclable or energy efficient. It can be the adoption of lean manufacturing processes to eliminate waste or sustainably sourcing raw materials.

Revisiting safe working practices and ethically managing supply chains to eliminate abuse are simple steps towards improving social welfare. Organisations that act responsibly and demonstrate social awareness should benefit from the support of the society which it helps to improve.

### **Arguments for and against social responsibility**

#### **Arguments for Social Responsibility**

There are several core ideas about social responsibility of business. Over the period of time, the things have changed too much giving new thoughts and replacing the classical economic view of profit maximization in the business. Based on this feature in the present context, arguments for social responsibility are as follows:

### **Business is a part of society**

Business is a part of society. Society is a system and business are one of its subsystems. Every subsystem of a system functions for the betterment of the whole system and not for its own betterment only. This version applies to business too. Therefore, business is responsible for the society as a whole and profit motive of the business cannot have precedence over other motives of the society.

### **Long-term Self-interest of Business**

Social responsibility is in the long-term self-interest of the business. Existence of any business is because of existence of various social organs like financiers, employees, customers, society as a whole, etc., and not otherwise. Therefore, business should provide satisfaction to all these organs on continuous basis for its continued existence. By discharging social responsibility, the business may provide this satisfaction.

### **Moral Justification**

Social responsibility has moral justification. This moral justification emerges from the fact that if any one takes something from others, he must give something to them in return. On moral ground, this equation must be based on equity so that it continues. A business takes various inputs (money, materials, people, information, etc.) from the society and gives outputs (goods and services) to the society by using various inputs. System of taking inputs and giving outputs works well only if it fulfils social requirements.

### **Creating Better Public Image**

Any business which involves in fulfilling the aspirations of the society creates better image in the public. Creation of this type of image is a source of satisfaction itself for those who operate business. This also helps in increasing the business volume, both in terms of taking inputs and giving outputs.

### **Avoidance of Government Regulations**

Government aims at maintaining equilibrium in the society on long-term basis. For this purpose, it tries to ensure that every organ of society meets social requirements. If any organ fails to do so, government has power to take actions against it. Since business is an organ of the society, government may take actions against those business organizations which involve in activities not meeting social requirements. In order to avoid such actions having long-term negative impact, it is preferable to adopt social responsibility.

### **Maintenance of Society**

For maintaining society, there are legal provisions but these provisions cannot be comprehensive because of social changes on continuous basis. Therefore, the business has to be socially responsible in order to avoid anti-social activities so that society is maintained on continuous basis.

### **Arguments against Social Responsibility**

There are various arguments against social responsibility though most of these are based on classical economics. These arguments are as follows:

#### **Contrary to Basic Function of Business**

The basic function of a business is to provide a product to its customers at a price which is lower than the level of satisfaction provided by the use of the product or, at the most, equal to that. If this relationship is reversed, the product becomes meaningless. Generally, cost of production is a significant factor in determining the product price. Discharge of social responsibility adds to cost, hence product price which may reverse the above equation and business may not remain viable in the long term.

### **Conflict with Profit Motive**

Social responsibility is in conflict with profit motive of business. Undertaking business involves assuming risk. Earning profit is the reward for this risk. If social responsibility is added as an objective of business, it reduces profit margin which is against the concept of profit optimization even if not profit maximization. Thus, social responsibility and profit motive do not proceed in the same direction.

### **Distortion in Resource Allocation**

Social responsibility leads to distortion of resource allocation. Resources in an economic system are allocated on the principle that every resource finds its most optimum utilization. This utilization is best possible without social responsibility and not with it. Thus, social resources may go in waste if the concept of social responsibility is added to business operations.

### **Imposition of Business Values**

Discharging social responsibility involves lot of influence of the business on the society. Therefore, by undertaking social responsibility, a business is likely to impose its own values on the society, thereby replacing the social values with business values. This phenomenon has taken place in many cases. This is highly undesirable from social point of view.

### **Inefficiency in the System**

Social responsibility brings inefficiency in the system. There is no substitute for the power of self-interest to get people to act. Any replacement of self-interest will, therefore, be fatal to the efficiency of the system. Social responsibility tends to replace self-interest of business defined in terms of profit motive to a great extent, thus, making the business as a system inefficient.

### **Operational Problems**

There are certain operational problems in implementing social responsibility. Conceptually as well as operationally, social responsibility is a confusing term. Therefore, managers involved in managing business affairs are not very clear about what they are expected to do under social responsibility. As a result, actions ranging from mere showing lip sympathy to undertaking multi-crore concrete programmes are included in social responsibility.

### **Corporate Social Responsibility and the Triple Bottom Line and Sustainable business**

Another theory of corporate social responsibility is the Triple Bottom Line. Like the CSR theory we just discussed, Triple Bottom Line works on the assumption that the corporation is a member of the moral community, and this gives it social responsibilities. This theory focuses on sustainability, and requires that any company weigh its actions on three independent scales: economic sustainability, social sustainability, and environmental sustainability.

These three tabulations are all aimed at long-term sustainability. Economic sustainability must focus on the long term because this is the nature of a persistent company. A decision which creates an economic boon in the short-term (like the Ford Pinto), but causes long-term harm, would likely reduce this bottom line to such a degree that the action would be untenable.

Social sustainability gives precedence on the balance of economic power in the society. Competition in the business arena is common, and encouraged, behaviour, but maximizing the bottom line in social terms requires that a business foster an environment in which all can succeed. This might seem counterintuitive, but in the big-picture it is better for a whole society to thrive than for one single corporation to thrive alone. This will allow the company to continue to exist, and it will foster good-will between the company and the society that it exists in. The PCB dumping alluded to in above created an environment in which that company could not exist, and it is no longer present in NC.

The requirement of environmental sustainability stems from the recognition that resources are not infinite, and leads to the reasoning that too much degradation will worsen the lives of

ourselves, our children and so on. Members of the moral community ought not cause undue harm to the people around them and the people who will come later, and so these bottom-line values some protection of the environment. The word "some" in the previous statement introduces vagueness in the calculation, but it might be necessary because there is some risk of environmental degradation in many necessary business activities. The question of how much environmental degradation is acceptable is one that must be answered, but it need not be answered in this module. Suffice it to say that this calculation must be made even if it is a rough calculation. Business cannot operate in a world which is poisoned or "used up." Efforts should be made to renew some of the environments that have been harmed in the past, and these environmental harms and gains belong on this bottom line.

The reasoning behind this tripartite theory is that if businesses calculate their gains and losses in this way, they will be more likely to take actions which are to the benefit of both the business and the community. It is easy, when the numbers are large enough, to ignore the social and environmental dimensions of a business decision. This is because the average business decision is made by comparing the expected costs and benefits in terms of dollars and, only then, considering the other dimensions of that decision. In order to combat this order of operations, the Triple Bottom Line requires that a business decision be composed of all of these elements from the beginning. When the data shows each of these dimensions along the same line, and measured with the same metric, it will be much easier to see the impact of a decision and to judge the fittingness of that decision.

### **Relationship between Business Ethics and CSR**

To be implemented successfully, sound ethics policy is required for companies. Therefore, companies that adhere to the highest ethical policy must communicate clearly a strong and contemporary code of ethics to employees who are formally trained in it and invited to deal with ethical challenges.

The unethical and scrupulous practices always necessitate spirituality and ethical support from management. Ethics policy is concerned with providing the assurances essential to all trust-based relationships. It does not regulate only business conduct and personal acts, but also offers an important form of liability limitation. It constitutes implicit organizational promises of performance against the set standards whether inspirational or disciplinary. Because of their inherent concern with ethical norms and policies, these policies can foster legitimate dissent by those who are at odds with the organization's performance against its set standards. Managers and leaders need to understand that ethics and integrity policies that provide a crucial expression of the organization. Managers who want employees to behave ethically must exhibit ethical decision-making practices themselves. "A company's managers play an important role in establishing company's ethical tone. If managers behave as if the only thing that matters is profit, employees are likely to act in a like manner"

Ethical standards necessarily have significant implication for their role as gatekeeper in relation to those standards. On the other hand, training staff and management to be ethical and spiritual is always a difficult task and comes with its limitations and disadvantages and shown in Hence, and according to the vital role that represents ethics for business and for the corporate social responsibility, it is possible to distinguish a relation between business ethics and corporate social responsibility. Moreover, the interpretation of theory in business literature and society considers that both CSR and business ethics are the same. In fact, both corporate social responsibility and business ethics are part of the other, which means that business ethics are part of corporate social responsibility or vice versa. In addition, locating an organization's

“pressure points” that highlight the need for CSR action is recommended. The first pressure point is “The firm’s values and ethics”

The concepts of work ethics and social responsibility are distinct Matches. However, they are often used to refer to the same argument or symbol. The term business ethics is supposed to be “a combination of two very familiar words, business and ethics.”

Reiss in his interview with Rodney Martin, CEO, Voya Financial, a leading company that helps Americans plan, invest and protect their savings; and a 4-time World’s Most Ethical Companies honouree, brings forward his interviewee comment, “Corporate responsibility includes key aspects of a company culture, such as ethics and transparency; diversity, inclusion and equality; environmental sustainability; governance; and volunteerism and philanthropy.”

The call to align business ethics and CSR in practice is mirrored by calls from scholars to better define the conceptual relationship between business ethics and CSR in the aim to better support theory development. While still contested, most scholars interpret business ethics and CSR as having a close relationship. In support of the aforementioned argument, it suggested from an interview with participants at various levels of board and management in petrochemical company which operates in Saudi Arabia, “that the majority of participants consider Corporate Governance (CG), whose aim is to engage the Board of Directors (BOD) in supervising CSR activities and the process of integrating these practices into the company’s operations, is an essential foundation for sustainable CSR activities”. The aforementioned provides a clear support to the relationship under investigation since Corporate Governance enforces transparency and ethical business behaviour as well as CSR.

The normative stakeholder theory in CSR, which draws its philosophy from ethics, affirms that business corporations are “morally” responsible to look after the concerns of a larger group of stakeholders, which could include owners, customers, vendors, employees and community rather than its stockholders i.e., the owners of the business alone. The above is confirmed by stating, “a socially-responsible firm holds a holistic view of itself in relation to its stakeholders and measures its performance via a triple bottom-line: Economic, financial, environmental, and social. CSR seeks a path which advances all the three measures, none at the cost of the others”.

Corporate responsibility to stakeholders is described as a fundamental principle of business ethics, and corporate social responsibility is focused on beneficial outcomes for stakeholders. Broadly, defined work ethics include ethics, integrity and values, while a narrowly defined one focuses primarily on law and compliance. Corporate social responsibility stems primarily from management literature. Besides, while the early focus was on reducing harm to stakeholders, “it seemed to have shifted over time to the idea of” doing good “for society at large

# **Business Ethics in Global Economy**

## Ethics in the context of Global Economy- Relationship between Business Ethics & Business Development- Role of Business Ethics in Building a Civilized Society.

A central idea of the Global Ethic project is the insight that a global economy can only function well within an ethical frame of reference. Then, the responsibility for imbalances and scandals lies not only with market and institutional failure but also with the moral and ethical failure of individuals, which often underlie the repeated failure of markets and institutions anyway. Economic activity must be socially and environmentally responsible and thus sustainable into the future.

### **Impact of Ethics on Global Business**

At first, it may seem relatively easy to identify unethical behaviour. When the topic of business ethics is raised, most people immediately focus on corruption and bribery. While this is a critical result of unethical behaviour, the concept of business ethics and—in the context of this book—global business ethics is much broader. It impacts human resources, social responsibility, and the environment.

The areas of business impacted by global perceptions of ethical, moral, and socially responsible behaviour include the following:

Ethics and management

Ethics and corruption

Corporate social responsibility

Global corporations are increasingly trying to market their products based not only on the desirability of the goods but also on their social and environmental merits. Companies whose practices are considered unethical may find their global performance impacted when people boycott their products. Most corporations understand this risk. However, ethical questions have grown increasingly complicated, and the “correct” or ethical choice has, in some cases, become difficult to define.

### Challenges for Ethics in a Global Context

Polarizations between local and global

Power in the development of global ethics

Defining global ethics

Defining global publics

Unequally shared global risk

The term “business ethics” represents a combination of two very familiar words, namely “business” and “ethics”. The word “business” is usually used to mean “any organization whose objective is to provide goods or services for profit” The word “ethics” refers to what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. “Ethics” also means the continuous effort of studying our own moral beliefs and our moral conduct, striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

Business ethics considers the ethical relationship between businesses and consumers, between businesses and their employees. It also considers the impact of globalisation on the environment, and on society at large.

As in *Understanding Business Ethics*, (Peter A. and Sarah D. Stanwick, 2008), it is said that “Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed”.

According to Garret, “Ethics is the science of judging specifically human ends and the relationship of means to those ends. In some way it is also the art of controlling means so that they will serve specifically human ends”.

### **The importance of business ethics in business development**

A business that behaves in an ethical way as a member of the community will often find that the community offers its support in return, which can also be invaluable to the success of the company. This may be done by assisting with community events, donating funds in support of local charities, or simply behaving honestly in dealings with other local businesses.

Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment itself ultimately. By helping us to understand more about the causes and the consequences of these malpractices, business ethics seeks to improve the human condition.

Business ethics attracts investment

Business ethics promotes benefits to the organization

Business ethics adjusts employees’ behaviour

Business ethics improves public image of the company

Business ethics and socio - economic development

Setting a system of rational ethical principles in behaviour and business is the foundation for business systems to reach sustainable development in the general progress of humanity. Ethics is particularly important for the development and prosperity of a nation.

Businesses can increase sales or increase their reputation because of their ethical behaviour. The goal of a business is not just to earn profit; to be successful in the long run, business organizations need to be ethical in dealing with customers, employees, investors, the community, and society. In a sustainable business, employees at every level should be committed to the ethical standards of the business. And a business manager must be able to clearly define and communicate to the employees what factors and ethical standards are expected to adhere to and what the consequences are for failing to meet those expectations.

The public now more and more expects the private sector to fulfil its ethical and environmental obligations because of its direct and serious impact on the public interest in modern society.

Public opinion expects these enterprises to produce good results in all the balance sheets – financial success, ethics, social justice and sustainable development.

### **Role of Business Ethics in Building a Civilized Society.**

Business ethics are not part of common law or the product of proper legislation. These have evolved from the business activities. Business ethics lay certain moral boundaries and restrictions on the business concern for the welfare of employees and workers of the society.

The notion of businesses for society: ‘‘society is not for business’’ reflects the spirit of business ethics.

Business ethics means to keep the business under the expectations and welfare of society because society provides the place for business so business should be made bound not to violate the basics of society.

The purpose of a business should be contribution in bringing prosperity and harmony in society. An unethical business works under the motive of making money, giving birth to so many destructive factors that may shake the foundations of society.

Unethical business leads to illegitimate practices and illegal actions resultantly the business quarter gathers criminals around it.

Business ethics keeps the businessmen and related business within bounds eliminating pride, imprudence, rudeness, black marketing and blackmailing through illegal use of capital.

Observance of business ethics is compulsory is social stability.

Business ethics are capable of covering all the aspects of business activity, its fundamental achievements is the identification of lust for money through exploitation of employees and putting behind the moralities and human values. The awareness among workers has prevailed and they can struggle to get their rights against the administration and even protesting against the government. The legislation in the legislature under the ethical norms thus the tyrannical measures against the employees has been removed. Society on the whole has the benefit of this change. This has become possible after the long struggle of centuries. The role and contribution of employees in industry and business has been recognized by the employer and they are no longer treated shabbily by their employers. Ethical trends make the employees more responsible and sensible in their duties and resultantly the local, national and international business keep growing smoothly and rapidly.