# MAR GREGORIOS COLLEGE
# OF ARTS & SCIENCE

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# PG DEPARTMENT OF COMMERCE

**SUBJECT NAME: BUSINESS ETHICS, CORPORATE GOVERNANCE AND SOCIAL RESPONSIBILITY**

**SUBJECT CODE: KDAXB**

**SEMESTER: III**

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**Extra-disciplinary Paper II - Business Ethics, Corporate Governance & SocialResponsibility**

Objective: To develop an understanding among students on ethical issues in business and good governance practices and to impart skills of analysis and capability of making business decisions

**UNIT I** Concept of ethics - sources -- values - codes of conduct - what is an ethical issue? - Ethical theory and its applications to business/morality and ethical theory – Ethical management - love and reverence in work and life - strengthening personal and organizational integrity - the spiritual core of leadership

**UNIT II** Advertising and information disclosures - environmental responsibility - ethics and ecology - employee rights - conflict of interests - work ethics - professional ethics and responsibility

**UNIT III** Corporate Social Responsibility (CSR) - meaning - promoting corporate responsiveness - managing socially responsible business

**UNIT IV** Corporate Governance – Meaning and scope -– Origin- Practices –Shareholders Vs. Stakeholders approach –Board mechanism, Role and duties of the directors-Chairman-Governance committees

**UNIT V** Codes of governance –Birla committee report

**<u>Book References</u>**

1. A M A, "Corporate Governance And Business Ethics", Excel Books
2. Cannon Tom, "Corporate responsibility. A textbook on business ethics, governance,
3. environment: role and responsibilities", Pitman, London
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6. Manual Vela Squez, "Business Ethics Concepts and Cases", Prentice Hall, New Jersey
7. Kenneth Blanchard and Norman Vincent Peale, "The Power of Ethical Management", New York,William Morrow & Co.,
8. Sekhar R C, "Ethical Choices in Business", Response Books
9. Kendall, Nigel, "Corporate Governance", London, Financial Times Pitman Publishing

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UNIT 1

BUSINESS ETHICS AND CORPORATE ETHICS

1.MEANING:

The term ethics was derived from Greek word ETHIKOS which means character. Ethics is a branch of philosophy and is considered as normative science because it isconcerned with norms of human conduct.
Business ethics or corporate ethics or applied ethics is the art and discipline of applyingethical principles to examine and solve ethical dilemmas.
DEFINITION
FOR
ETHICS:
"Ethics is the discipline dealing with what is good and bad and with moral duty andobligations".
- According to WEBSTER..

IMPORTANCE OF BUSINESS ETHICS: A.ATTRACTING CUSTOMERS B.PROTECTION OF CONSUMER RIGHTS C.REDUCED LABOUR TURNOVER D.SOCIAL RESPONSIBILITY
E.REDUCED
TAKEOVER
F.PROMOTES
SOCIALISM:
G.LONG RUN SURVIVAL / SUSTAINABILITY H.RELATION WITH SOCIETY I.CONTROLLING FRAUD
3. FUNCTIONS OFBUSINESS ETHICS A.SOCIAL RESPONSIBILITY

B.TAKE CARE OF STAKEHOLDERS
C.MAINTAIN HONESTY
D.DEMONSTRATAE BEHAVIOURS E.POLITICS AND PROCEDURES
F.COMMUNICATION
G.ENSURE GOOD EFFECT OF POWER

REASONS FOR UNETHICAL PRACTICES IN INDIA:

- Lack of proper education
- Raising in efficiency
- Inefficiency laws
- Consumer exploitation (producers for their own benefit induce impact on illiterate consumers.

SOURCES OF ETHICAL PROBLEMS:

FAILURE OF PERSONAL CHARACTER

CONFLICT OF PERSONAL VALUES AND ORGANIZATIONAL GOALS ORGANISATIONAL GOALS VERSUS SOCIAL VALUES
PERSONAL BELIEFS VERSUS ORGANISATIONAL PRACTICES PRODUCTION AND SALE OF HAZARDOUS BUT POPULAR PRODUCTS
Normative theories of business ethics:

1. Consequentialist theories:-

Consequentialist theories are those which are based on consequences and these include;

a. Egoism theory

b. Utilitarianism theory

a. Egoism theory:-

Ego means self. Egoism theory contends that an act is morally right if and only if it best promotes the

agents (persons, groups or organizations) long-term interests. This may be personal or impersonal. Criticism of Egoism theory:-

❖ Egoism as an ethical theory is not really a moral theory because individuals never try to be objective they are only subjective.

❖ This theory ignores wrong doings.

B.Utilitarianism theory:-(Ethics of Welfare)

There are two names associated with utilitarian philosophy: they are "Jeremy Bentham" and "JohnStuart

Mill"

. Non – Consequentialist theory:-

This theory holds actions whether right or wrong regardless of consequences. It includes;

a. Kantianism theory:- Ethics of duty.

Kantianism theory was developed by Immanuel kant.This theory also referred as "Kant'sTheory: or "Ethics of Duty".

UNIT 2.CORPORATE GOVERNANCE:

Meaning:

Corporate governance is the combination of rules, processes or laws by which businesses are operated, regulated or controlled. The term encompasses the internal and external factors that affect the interests of a company's stakeholders, including shareholders, customers, suppliers, government regulators and management. The board of directors is responsible for creating the framework for corporate governance that best aligns business conduct with objectives.

Definition:

The act of steering, guiding and piloting—describes what boards [should] do when in session. It does not describe and is not a proxy for the board itself, nor any other party or activity outside the boardroom. Regulators (to set rules), proxy advisers (lobbyists on behalf of shareholders and other interests), and shareholder meetings (communications) are all important, but none is corporate governance. -Bruce Weber

Principles of corporate governance:

All shareholders should be treated equally and fairly. Part of this is making sure shareholders are aware

of their rights and how to exercise them.

Legal, contractual and social obligations to non-shareholder stakeholders must be upheld. This includes always communicating pertinent information to employees, investors, vendors and members of the community.

The board of directors must maintain a commitment to ensure accountability, fairness, diversity and transparency within corporate governance. Board members must also possess the adequate skills necessary to review management practices.

Organizations should define a code of conduct for board members and executives, only appointing new individuals if they meet that standard.

All corporate governance policies and procedures should be transparent or disclosed to relevant stakeholders.

Conflict management in corporate governance:

One purpose of corporate governance is to implement a checks and balances system that minimizes conflicts of interest. Conflicts typically arise when two involved parties have opposing opinions on the way the business should be conducted. Since a board of directors is typically a mix of internally and externally involved members, corporate governance is a non-biased way to approach conflict.

Regulation of corporate governance:

Corporate governance has received increased attention because of high-profile scandals involving abuse of corporate power or alleged criminal activity by corporate officers. Therefore, laws and regulations have been passed to address the components of corporate governance.

Sarbanes-Oxley Act: This act was passed after it was found that high-profile companies and their executives were committing fraud. As a result, emphasis was placed on corporate governance as a way to restore faith in public companies.

Gramm-Leach-Bliley Act: This act regulated the ways that financial institutions handled privation information, making it crucial for corporate governance to include how to oversee financialorganizations and stakeholders.

Basel II: This is a business standard that minimizes the financial effect of risky operational decisions. The rights of shareholders are covered under this standard, thus affecting corporate governance.

The four P's of corporate governance are people, process, performance, and purpose.

UNIT 3.CORPORATE GOVERNANCE AND ITS ETHICS.

Concept of governance:

Firms at global level recognising that better corporate governance adds substantial value to their operational performance in the following ways:

It improves strategic thinking at the top by inducting independent directors who bring a wealth ofexperience, and a host of new ideas.

It justifies the management and monitoring of risk that a firm faces globally.

It limits the responsibility of senior management and directors, by carefully articulating the decisionmaking process

It assures the integrity of financial reports.

It has long term reputational effects among main stakeholders, both internally and externally. Objective of corporate governance:
A properly structured Board proficient of taking independent and objective decisions is in place at thehelm of affairs.

The Board is balanced as regards the representation of suitable number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders.

The Board accepts transparent procedures and practices and arrives at decisions on the strength ofadequate information.

The Board has an effective mechanism to understand the concerns of stakeholders.

The Board keeps the shareholders informed of relevant developments impacting the company. The Board effectively and regularly monitors the functioning of the management team.
The Board remains in effective control of the affairs of the company at all times. Elements of good Corporate Governance:
Transparency in Board's processes and independence in the functioning of Boards. The Board should provide effective leadership to the company and management to realize sustained prosperity for all stakeholders. It should provide independent judgment for achieving company's objectives.

Accountability to stakeholders with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong and sustained communication processes.

Impartiality to all stakeholders.

Social, regulatory and environmental concerns.

Clear and explicit legislation and regulations are fundamentals to effective corporate governance.

Good management environment that includes setting up of clear objectives and suitable ethical framework, establishing due processes, clear enunciation of responsibility and accountability, sound business planning, establishing clear boundaries for acceptable behaviour, establishing performance evaluation measures.

Explicitly approved norms of ethical practices and code of conduct are communicated to all the stakeholders, which should be clearly understood and followed by each member of the organization.

The objectives of the corporation must be clearly recognized in a long-term corporate strategy including an annual business plan along with achievable and measurable performance targets and milestones.

A well composed Audit Committee to work as liaison with the management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues.

Risk is an important component of corporate functioning and governance, which should be clearly acknowledged, analysed for taking appropriate corrective measures. In order to deal with such situation, Board should formulate a mechanism for periodic reviews of internal and external risks.

A clear Whistle Blower Policy whereby the employees may without fear report to the management about unprincipled behaviour, actual or suspected frauds or violation of company's code of conduct. There should be some mechanism for adequate safeguard to personnel against victimization that serves as whistle-blowers.

USA Corporate Governance legislation/regulation:

The act primarily:

Increased the responsibility of management to certify accuracy of financial information. Increased penalties for corporate fraud.
Increased necessary independence of auditors.

Increased the formal legal responsibility of corporate boards of directors for the oversight of their corporations' activities, decision-making and accounting.

EU Corporate Governance legislation/regulation: Directors' remuneration
Non-executive director's selection and appointment Auditing

Corporations' commitment and adherence to transparent published statements of Corporate Governance

UNIT 4.

SOCIAL RESPONSIBILITY

What Is Social Responsibility?

Social responsibility means that businesses, in addition to maximizing shareholder value, must act in a manner that benefits society. Social responsibility has become increasingly important to investors and consumers who seek investments that are not just profitable but also contribute to the welfare of society and the environment. However, critics argue that the basic nature of business does not consider society as a stakeholder.

Understanding Social Responsibility:

Social responsibility means that individuals and companies have a duty to act in the best interests of their environment and society as a whole. Social responsibility, as it applies to business, is known as corporate social responsibility (CSR), and is becoming a more prominent area of focus within businesses due to shifting social norms.

The crux of this theory is to enact policies that promote an ethical balance between the dual mandates of striving for profitability and benefiting society as a whole. These policies can be either ones of commission (philanthropy: donations of money, time, or resources) or omission (e.g., "go green" initiatives like reducing greenhouse gases or abiding by EPA regulations to limit pollution).

In general, social responsibility is more effective when a company takes it on voluntarily, as opposed to being required by the government to do so through regulation. Social responsibility can boost company morale, and this is especially true when a company can engage employees with its social causes.

Social Responsibility in Practice:

Social responsibility takes on different meanings within industries and companies. For example, Starbucks Corp. and Ben & Jerry's Homemade Holdings Inc. have blended social responsibility into the core of their operations.

The key ways a company embraces social responsibility include philanthropy, promoting volunteering, and environmental changes. Companies managing their environmental impact might look to reduce their carbon footprint and limit waste. There's also the social responsibility of ethical practices for employees, which can mean offering a fair wage, which arises when there are limited employee protection laws.

UNIT 5 SOCIAL RESPONSIBILITIES AND ITS CRITICISMS:

Criticism of Social Responsibility:

Not everyone believes that businesses should have a social conscience. Economist Milton Friedman stated that "social responsibilities of business are notable for their analytical looseness and lack of rigor." Friedman believed that only individuals can have a sense of social responsibility. Businesses, by their very nature, cannot. Some experts believe that social responsibility defies the very point of being in business: profit above all else.

Historical Perspectives of Social Responsibility:

I. Profit Maximisation
II. Trusteeship Management
III. Quality of Life Management

Social Responsibility of Business: Arguments against Social Responsibility:

Business objectives may broadly be divided into two categories: economic and social. Economic objectives are goals with respect to the marketplace. Social objectives refer to the company's intentions toward its employees, shareholders and the public at large. Traditionally, the primary responsibility of the business firm was to produce and distribute goods and services in return for a profit.

Businesses have performed this function effectively, contributing in a large measure to a tremendous improvement in standards of living everywhere. Despite significant improvements in standards of living in the recent years, society has begun expecting, even demanding, more out of all its institutions. Goals, values, and attitudes in the society are changing to reflect a greater concern for improvements in the quality of life. As business firms operate by public consent, they must satisfy the needs of the society.

Social Responsibility of Business towards Society:

i. Ensuring a fair return on the investment made by shareholders, which is possible when the enterprise earns adequate profit;

ii. Keeping the shareholders informed about the functioning of the organisation;

iii. Strengthening and consolidating the position of enterprise;

iv. Generating adequate funds and reserves for re-investment and also for declaring reasonal by dividend during a lean period;

v. Building up the company's financial independence;

vi. Keeping up the prices of shares; and

vii. Improving the public image of the company. Responsibility Towards Customers:

i. Supplying goods and services at fair and reasonable prices;

ii. Ensuring good quality of such goods and services;

iii. Ensuring after-sales services;

iv. Ensuring only genuine advertisements, and that too in accordance to public morals and culture;

v. Redressing the grievances of customers, if there are any;

vi. Ensuring adequate research and development to improve quality and reduce cost of production ofgoods and services; and

vii. Informing about adverse effects, if any, of the goods and services being sold by the organisation.

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