A Course Material on

Business Ethics, Corporate Social Responsibility and Governance

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UNIT I INTRODUCTION 9
Definition & nature Business ethics, Characteristics, Ethical theories; Causes of unethical behavior; Ethical abuses; Work ethics; Code of conduct; Public good.

UNIT II ETHICS THEORY AND BEYOND 9
Management of Ethics - Ethics analysis [Hosmer model]; Ethical dilemma; Ethics in practice-ethics for managers; Role and function of ethical managers- Comparative ethical behaviour of managers; Code of ethics; Competitiveness, organizational size, profitability and ethics; Cost of ethics in Corporate ethics evaluation. Business and ecological / environmental issues in the Indian context and case studies.

UNIT III LEGAL ASPECTS OF ETHICS 9
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UNIT IV ENVIRONMENTAL ETHICS 9
Economic Environment; Philosophy of economic grow and its implications for business, Main features of Economic Planning with respect to business; Industrial policy and framework of government contract over Business; Role of chamber of commerce and confederation of Indian Industries.

UNIT V CORPORATE SOCIAL RESPONSIBILITY AND GOVERNANCE 9
Definition- Evolution- Need for CSR; Theoretical perspectives; Corporate citizenship; Business practices; Strategies for CSR; Challenges and implementation; Evolution of corporate governance; Governance practices and regulation; Structure and development of boards; Role of capital market and government; Governance ratings; Future of governance- innovative practices; Case studies with lessons learnt.

TOTAL: 45 PERIODS

TEXTBOOKS
1. S.A. Sherlekar, Ethics in Management, Himalaya Publishing House, 2009.
2. William B. Werther and David B. Chandler, Strategic corporate social responsibility, Sage Publications Inc., 2011
3. Robert A.G. Monks and Nell Minow, Corporate governance, John Wiley and Sons, 2011.

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1. W.H. Shaw, Business Ethics, Cengage Learning, 2007.
2. Beeslory, Michel and Evens, Corporate Social Responsibility, Taylor and Francis, 1978.
3.Philip Kotler and Nancy Lee, Corporate social responsibility: doing the most good for company and your cause, Wiley, 2005.
4.Subhabrata Bobby Banerjee, Corporate social responsibility: the good, the bad and the ugly, Edward Elgar Publishing, 2007.
5. Satheesh kumar, Corporate governance, Oxford University, Press, 2010.

BA7402 BUSINESS ETHICS, CORPORATE SOCIAL RESPONSIBILITY AND GOVERNANCE

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UNIT – I - INTRODUCTION OF BUSINESS ETHICS

Unit Structure:

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1.5 Causes of unethical behavior
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1.9 Public good.

Objectives

After reading this unit you should be able to understand:

- The meaning of ethics and business ethics.
- The importance of business ethics.
- The various types of Ethics.
- Code of conduct etc.,

Introduction

Some years ago, one sociologist asked business people, "What does an ethic mean to you?" Among their replies were the following:

"Ethics has to do with what my feelings tell me is right or wrong." "Ethics has to do with my religious beliefs."
"Being ethical is doing what the law requires."
"Ethics consists of the standards of behavior our society accepts." "I don't know what the word means."

1.1 Definition & Nature of business ethics:

The term "ethics" is derived from the Greek word "ethos" which refers to character or customs or accepted behaviors. The Oxford Dictionary states ethics as "the moral principle that governs a person's behaviour or how an activity is conducted". The synonyms of ethics as per Collins Thesaurus are - conscience, moral code, morality, moral philosophy, moral values, principles, rules of conduct, standards.

Ethics refers to well-founded standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues.

Ethics is a set of principles or standards of human conduct that govern the behavior of individuals or organizations. Using these ethical standards, a person or a group of persons or an organization regulate their behavior to distinguish between what is right and what is wrong as perceived by others. It is not a natural science but a creation of the human mind. For this reason, it is not absolute and is open to the influence of time, place and situation.

In bygone times, kings used to keep food testers who ate the food prepared for the king before it was offered to him. This was royal clinical research to find out if the food was poisoned. The practice did not raise eyebrows because the king was regarded as the most important person in the kingdom, and his life was more precious than that of anyone else. It was the ethics of the time.

— Ethics can be defined as the discipline dealing with moral duties and obligation, and explaining what is good or not good for others and for us.

— Ethics is the study of moral decisions that are made by us in the course of performance of our duties.

— Ethics is the study of characteristics of morals and it also deals with the moral choices that are made in relationship with others.

— Ethics is concerned with truth and justice, concerning a variety of aspects like the expectations of society, fair competition, public relations, social responsibilities and corporate behavior.

Business Ethics

Business ethics is a form of applied ethics. In broad sense ethics in business is simply the application moral or ethical norms to business. Business ethics refers to a 'code of conduct' which businessmen are expected to follow while dealing with others. 'Code of conduct' is a set of principles and expectations that are considered binding on any person who is member of a particular group. The alternative names for code of conduct are 'code of ethics' or 'code of practice'.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business.

Businesses must balance their desire to maximize profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules - articulated and implicit, are developed to guide the businesses to earn profits without harming individuals or society as a whole.

The coverage of business ethics is very wide as it deals with norms relating to a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. It reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company.

Business ethics stands for the saneness or purity of purpose that is upheld through carefully designed actual practices of business enterprises. It is an embodiment of conscience concern towards execution of business processes in tune with the nobility of the purpose.

SCOPE OF BUSINESS ETHICS

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company which are discussed below:

Ethics in Compliance

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

Ethics in Finance

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

— In accounting - window dressing, misleading financial analysis.

— Related party transactions not at arm's length

— Insider trading, securities fraud leading to manipulation of the financial markets.

— Executive compensation.

—Bribery, kickbacks, over billing of expenses, facilitation payments.

— Fake reimbursements

Case of unethical practice

Mr. A, is a respected senior officer in the company, he enjoyed all the benefits and perquisites from the company including car with driver, medical facility, reimbursements of certain expenditures.

During the months September, October, December it was observed that his telephonic reimbursements were on a rising note, from Rs. 500 p.m it went up to Rs. 2500 p.m. The matter was reported and was investigated. It was found that Mr. A has made arrangements with the Telephone Company for making a single bill for two telephone numbers at his residence.

Case of unethical practice

A middle level executive, Mr. X, based in Delhi, opts for a 3 day training programme in Bangalore, which happens to be his hometown. He also applies leave for 3 days immediately following the training which is granted to him. Mr. X reaches the venue of the training. On the first day, registers himself, takes the training kit, attends the training for two hours, befriends a dealing officer and arranges to have the presentations etc. sent to him. He does not attend the training programme thereafter.

1.2 Characteristics of Business Ethics:

(i) A Discipline:

Business ethics are the guiding principles of business function. It is the knowledge through which human behaviour is learnt in a business situation.

(ii) Ancient Concept:

Business ethics is an ancient concept. It has it origin with the development of human civilization.

(iii) Personal Dignity:

The principles of ethics develop the personal dignity. Many of the problems of ethics arise due to not giving dignity to individual. All the business decisions should be aimed by giving dignity to the customers, employees, distributors, shareholders and creditors, etc. otherwise they develop in immorality in the business conducts.

(iv) Related to Human Aspect:

Business ethics studies those activities, decisions and behaviors which are concerned with human aspect. It is the function of the business ethics to notify those decisions to customers, owners of business, government, society, competitors and others on good or bad, proper or improper conduct of business.

(v) Study of Goals and Means:

Business ethics is the study of goals and means for the rational selection of sacred objects and their fulfillment. It accepts the principles of "Pure goals inspire for pure means" and "Means justifies the end". It is essential that goals and means should be based on morals.

(vi) Different from Social Responsibility:

Social responsibility mainly relates to the policies and functions of an enterprise, whereas business ethics to the conduct and behaviour of businessmen. But it is a fact that social responsibility of business and its policies is influenced by the business ethics.

(vii) Greater than Law:

Although the law approves various social decisions, but the law is not greater than ethics. Law is usually related to the minimum control of social customs whereas ethics gives importance to individual and social welfare actions.

1.3 Ethics Theories:

Theories

Ethical theories are based on the previously explained ethical principles. They each emphasize different aspects of an ethical dilemma and lead to the most ethically correct resolution according to the guidelines within the ethical theory itself. People usually base their individual choice of ethical theory upon their life experiences.

Deontology

The deontological theory states that people should adhere to their obligations and duties when analyzing an ethical dilemma. This means that a person will follow his or her obligations to another individual or society because upholding one's duty is what is considered ethically correct (1,2). For instance, a deontologist will always keep his promises to a friend and will follow the law. A person who follows this theory will produce very consistent decisions since they will be based on the individual's set duties.

Deontology provides a basis for special duties and obligations to specific people, such as those within one's family. For example, an older brother may have an obligation to protect his little sister when they cross a busy road together. This theory also praises those deontologists who exceed their duties and obligations, which is called "supererogation" (1). For example, if a person hijacked a train full of students and stated that one person would have to die in order for the rest to live, the person who volunteers to die is exceeding his or her duty to the other students and performs an act of supererogation.

Although deontology contains many positive attributes, it also contains its fair number of flaws. One weakness of this theory is that there is no rationale or logical basis for deciding an individual's duties. For instance, businessman may decide that it is his duty to always be on time to meetings. Although this appears to be a noble duty we do not know why the person chose to make this his duty. Perhaps the reason that he has to be at the meeting on time is that he always has to sit in the same chair. A similar scenario unearths two other faults of deontology including the fact that sometimes a person's duties conflict and that deontology is not concerned with the welfare of others. For instance, if the deontologist who must be on time to meetings is running late, how is he supposed to drive? Is the deontologist supposed to speed, breaking his duty to society to uphold the law, or is the deontologist supposed to arrive at his meeting late, breaking his duty to be on time? This scenario of conflicting obligations does not lead us to a clear ethically correct resolution nor does it protect the welfare of others from the deontologist's decision. Since deontology is not based on the context of each situation, it does not provide any guidance when one enters a complex situation in which there are conflicting obligations.

Utilitarianism

The utilitarian ethical theory is founded on the ability to predict the consequences of an action. To a utilitarian, the choice that yields the greatest benefit to the most people is the choice that is ethically correct. One benefit of this ethical theory is that the utilitarian can compare similar predicted solutions and use a point system to determine which choice is more beneficial for more people. This point system provides a logical and rationale argument for each decision and allows a person to use it on a case-by-case.

There are two types of utilitarianism, act utilitarianism and rule utilitarianism. Act utilitarianism adheres exactly to the definition of utilitarianism as described in the above section. In act utilitarianism, a person performs the acts that benefit the most people, regardless of personal feelings or the societal constraints such as laws. Rule utilitarianism, however, takes into account the law and is concerned with fairness. A rule utilitarian seeks to benefit the most people but through the fairest and most just means available. Therefore, added benefits of rule utilitarianism are that it values justice and includes beneficence at the same time.

As with all ethical theories, however, both act and rule utilitarianism contains numerous flaws. Inherent in both are the flaws associated with predicting the future. Although people can use their life experiences to attempt to predict outcomes, no human being can be certain that his predictions will be true. This uncertainty can lead to unexpected results making the utilitarian look unethical as time passes because his choice did not benefit the most people as he predicted (1,2). For example, if a person lights a fire in a fireplace in order to warm his friends, and then the fire burns down the house because the soot in the chimney caught on fire, then the utilitarian now seems to have chosen an unethical decision. The unexpected house fire is judged as unethical because it did not benefit his friends.

Another assumption that a utilitarian must make is that he has the ability to compare the various types of consequences against each other on a similar scale. However, comparing material gains such as money against intangible gains such as happiness is impossible since their qualities differ to such a large extent.

A third failing found in utilitarianism is that it does not allow for the existence of supererogation or heroes. In other words, people are obligated to constantly behave so that the most people benefit regardless of the danger associated with an act (1). For instance, a utilitarian who sacrifices her life to save a train full of people is actually fulfilling an obligation to society rather than performing a selfless and laudable act.

As explained above, act utilitarianism is solely concerned with achieving the maximum good. According to this theory an individual's rights may be infringed upon in order to benefit a greater population. In other words, act utilitarianism is not always concerned with justice, beneficence or autonomy for an individual if oppressing the individual leads to the solution that benefits a majority of people. Another source of instability within act utilitarianism is apparent when a utilitarian faces one set of variable conditions and then suddenly experiences a change in those variables that causes her to change her original decision. This means that an act utilitarian could be nice to you one moment and then dislike you the next moment because the variables have changed, and you are no longer beneficial to the most people.

Rule utilitarianism also contains a source of instability that inhibits its usefulness. In rule utilitarianism, there is the possibility of conflicting rules (1). Let us revisit the example of a person running late for his meeting. While a rule utilitarian who just happens to be a state governor may believe that it is ethically correct to arrive at important meetings on time because the members of the state government will benefit from this decision, he may encounter conflicting ideas about what is ethically correct if he is running late. As a rule utilitarian, he believes that he should follow the law because this benefits an entire society, but at the same time, he believes that it is ethically correct to be on time for his meeting because it is a state government meeting that also benefits the society.

Rights

In the rights ethical theory the rights set forth by a society are protected and given the highest priority. Rights are considered to be ethically correct and valid since a large or ruling population endorses them. Individuals may also bestow rights upon others if they have the ability and resources to do so. For example, a person may say that her friend may borrow the car for the afternoon. The friend who was given the ability to borrow the car now has a right to the car in the afternoon.

A major complication of this theory on a larger scale, however, is that one must decipher what the characteristics of a right are in a society. The society has to determine what rights it wants to uphold and give to its citizens. In order for a society to determine what rights it wants to enact, it must decide what the society's goals and ethical priorities are. Therefore, in order for the rights theory to be useful, it must be used in conjunction with another ethical theory that will consistently explain the goals of the society (1). For example in America people have the right to choose their religion because this right is upheld in the Constitution. One of the goals of the founding fathers' of America was to uphold this right to freedom of religion. However, under Hitler's reign in Germany, the Jews were persecuted for their religion because Hitler decided that Jews were detrimental to Germany's future success. The American government upholds freedom of religion while the Nazi government did not uphold it and, instead, chose to eradicate the Jewish religion and those who practiced it.

Casuist

The casuist ethical theory is one that compares a current ethical dilemma with examples of similar ethical dilemmas and their outcomes. This allows one to determine the severity of the situation and to create the best possible solution according to others' experiences.

One drawback to this ethical theory is that there may not be a set of similar examples for a given ethical dilemma. Perhaps that which is controversial and ethically questionable is new and unexpected. Along the same line of thinking, a casuistical theory also assumes that the results of the current ethical dilemma will be similar to results in the examples. This may not be necessarily true and would greatly hinder the effectiveness of applying this ethical theory.

Virtue

The virtue ethical theory judges a person by his character rather than by an action that may deviate from his normal behavior. It takes the person's morals, reputation and motivation into account when rating an unusual and irregular behavior that is considered unethical. For instance, if a person plagiarized a passage that was later detected by a peer, the peer who knows the person well will understand the person's character and will be able to judge the friend. If the plagiarizer normally follows the rules and has good standing amongst his colleagues, the peer who encounters the plagiarized passage may be able to judge his friend more leniently. Perhaps the researcher had a late night and simply forgot to credit his or her source appropriately. Conversely, a person who has a reputation for scientific misconduct is more likely to be judged harshly for plagiarizing because of his consistent past of unethical behavior

One weakness of this ethical theory is that it does not take into consideration a person's change in moral character. For example, a scientist who may have made mistakes in the past may honestly have the same late night story as the scientist in good standing. Neither of these scientists intentionally plagiarized, but the act was still committed.

1.4 What Are the Causes of Unethical Behavior in the Workplace?

What is an Unethical Behavior?

The Civil Service Commission of Philippines defined an unethical behavior as any behavior prohibited by law. In a dynamic business environment, a “large gray area” exists that makes it difficult and unclear to distinguish what is ethical. An unethical behavior would therefore be defined as one that is not morally honorable or one that is prohibited by the law. Many behaviors will fall in the classification including corruption, mail and wire fraud, discrimination and harassment, insider trading, conflicts of interest, improper use of company assets, bribery and kickbacks, compliance procedures, ethical relations with others, disciplinary action, fraud, illegal business donations, patent infringement and product liability (Barrcus & Near, 1991, 12). Unethical behaviors that stimulated interest in ethics include Watergate events, Lockheed Scandal, the 1972 United States presidential election, illegal business donations and bribery of foreign officials in order to induce business abroad (Carroll, 1978, 5). Today, the most common ones are false communication, collusion, conflicts of interest, gifts and kickbacks, health services providers' unfair practices, insider trading, discrimination and harassment, and embezzlement.

False Communications

False communications fall into various categories. They include falsification of auditor's or controller's report or any form of manipulation that does not tell the whole truth. These include cheating on tax returns or inappropriate depreciation schedule and wrong expenses (Brennan Jr., Valtz, Shallenberger & Stanton, 1961, 164). Feeding the public with wrong report of the organization's business performance to make the organization look good is another common practice. In 2001, Enron gave wrong information about their loss because Ken Lay, the CEO of Enron, was advised by some trusted Enron executives to report only $1.2 billion of the $7 billion in losses because it was felt that the amount could be explained reasonably without doing more damage to the falling stock price of the company (Collins, 2007, 3). Similar to this was the case of Manville Corporation. The top management of the Corporation suppressed, for decades, evidence which proved that asbestos inhalation was killing their employees.

Collusion

Collusion, especially with competitors, to fix prices, is an unfair business practice today. This could be considered stealing from customers. However, there are differences of opinion on whether or not price fixing is stealing from customers (Brennan Jr., Valtz, Shallenberger & Stanton, 1961, 174).

Gifts and Kickbacks

Some organizations do not allow their employees to receive gifts from clients during normal course of business. Those who do, generally provide guide lines on limitations as to the amount an employee can receive as gift. Sometimes a buyer may request for kickbacks or entertainment which, if not provided, may lead to the loss of the customer. An employee frequently receives pressure from the management to behave unethically or to obtain profitable business at any cost, which may include the use of any possible dirty tricks. The employees who desire to be retained or promoted have no choice but to dance to the tune of the management. This is because there were cases of those who refused to behave unethically the way management instructed and were fired or nearly fired (Brennan Jr., Valtz, Shallenberger & Stanton, 1961, 165).

Conflict of Interest

Conflict of interest occurs when ones private interest interferes or appears to interfere in any way with the interest of the organization. According to Sliglitz, it can be argued that there is no conflict of interest because, based on Adam Smith's view, the individuals, when pursuing their own self-interest are actually pursuing the general interest of society (Sliglitz, 2003, 2). Some examples of conflicts of interest are:

- diverting from the organization for personal benefit, a business opportunity,
- using the organization’s assets for personal benefit,
- accepting any valuable thing from the organization’s customers or suppliers, and
- having a financial interest in an organization’s competitor.

Unethical practices in the Health Care Sector

There are three common unethical practices in the Health Care Sector. The first is refusing to provide health care services to the patients who have no medical insurance. Some Health Centers do not admit patients who have no insurance unless they can provide evidence that they have the ability to pay for the health service. The second unethical practice in the health care sector is over treating patients to boost income. The third is doing surgery at surgical centers instead of the hospital so that the doctors do not have to “pull call at any hospital”

Insider Trading

Insider trading is an unethical behavior which occurs when a person who has access to confidential information uses or shares the information for securities trading purposes or any other purpose except the conduct of regular company business. The confidential information of the company are not to be used for achieving personal gain neither are they to be disseminated directly or indirectly, to friends, family members and other outsiders who may in turn trade on or misuse the information.

Discrimination and Harassment

Discrimination involves not providing equal opportunity in employment on merit but on other basis such as race, sex, national origin, age, religion, or any other basis not related to the job. Harassment is a derogatory comment or unwelcome sexual advances (FS Networks, Inc., 2004,

Wrong Doing

A large number of people, including top management, are involved in wrong doing both in the public and in the private sectors. The managers of E.E. Hutton, for example, were found guilty of 2000 mail and wire fraud. Similarly, the supervisors of a defense contractor were accused of falsifying time cards (Gellerman, 1986, 85).

Why People Behave Unethically

Dedicated employees, who are usually honest, sometimes behave unethically because of four rationalizations: that no one will ever find out, that the behavior is not really illegal, that it is in the best interest of the organization, and that the organization will protect them. Although the costs of unethical behavior are hard to measure, they can add, according to research, more than 20% to the cost of doing business. The costs will include low wages, unemployment, and poverty. If top management wants to improve organizational performance, they must stand firm that ethical methods are the only ways business should be done.

Causes of Unethical Behaviors

The study that was commissioned by American Management Association (AMA) and which was conducted by the Human Resource Institute (HRI) using 1121 managers and Human Resource experts as participants, revealed that the leading cause of unethical corporate behavior is "pressure to meet unrealistic business objectives and deadlines." The study also showed that the second leading factor that causes unethical behavior is the desire to further one's career while the third leading factor is the desire to protect one's livelihood (Schwartz, 2006, 1) and (MacDo,
2006, 1).

Job pressure, according to the study, causes employees to engage in unethical behaviors that include cutting corners on quality control, covering up incidents and lying to customers. Ignorance is another major cause of unethical behaviors. The study of (AMA) and (HRI), (MacDo, 2006, 1), revealed that the ignorance that the acts are unethical and not knowing the seriousness of the consequences when caught, are causes of unethical behaviors.
Competition for scarce resources, power or position can cause individuals to engage in unethical behaviors. Hosmer emphasized that an attempt to improve their corporate competitive positions made managers to take immoral actions (Hosmer, 1987, 439). Bazerman and Banaji felt that the cause of the unethical behaviors in organizations is the presence of a "few bad apples" among organizational actors (Bazerman & Banaji , 2004, 111). The primary cause of unethical behaviors can be traced to lack of maintaining the type of consistent leadership that is necessary for running an ethical organization. This exposes the employees to opportunities that make them engage in unethical behaviors.

Recommendations

The National Defense University proposed three ethical responses to unethical behaviors in their "Strategic Leadership and Decision Making:" exit, voice and loyalty. With respect to "exit" it is recommended that if one cannot live with the behavior, or the behavior does not meet one's ethical standards, one should leave. The second response, "voice," is to express discomfort with and opposition to the unethical behavior. The third response, "loyalty," supports the idea of remaining in the organization and trying to change it instead of leaving (National Defense University, 1986, 8).

In order to restore and maintain a culture that upholds honest and ethical behaviors, the organizational leaders must verbally promote ethical environment and relentlessly "walk the talk," by making ethical behavior part of the organization's agenda. They need to establish codes of business conduct to guide employees' behaviors. There should be the establishment of annual business ethics training for the employees and a good whistle blowing mechanism. Since job pressure was identified as major cause of unethical behavior, in order to reduce the pressure, communications and commitment by top management are recommended (McShulskis, 1997,
24).

Conclusion

Today, there is a tremendous loss of confidence in corporate conduct and there is an urgent need to work towards restoring it. Although ethics education seem to produce limited evidence of changing behaviors, the commitment of management to monitor annual ethics education for all employees will produce the desired favorable results. There should be clear communication to the employees of what are honorable and expected behaviors in the organization. They must maintain and stand firm on a clear cut policy that ethical methods are the only way of doing business.

People act unethically for a number of reasons. Unethical behavior is defined as behavior that contravenes rules designed to maintain the fairness and morality of a situation. An example of unethical behavior is a representative of a company taking kickbacks from a salesman for preferential treatment. Behavior like this is motivated by various things.

Kinds of Unethical Behavior in Business

Theft

Theft at work comes in a variety of forms, and oftentimes employees do not view it as unethical behavior, believing no one gets hurt by the action. Employees take home office supplies, use business computers for personal tasks, pad expense accounts and abuse sick time or allotted personal days. Unethical behavior also includes having another employee punch a time card, or not punching out for lunch hours or other nonapproved time off. Though these may seem like minor infractions, they eventually have an impact on the bottom line of the company, which then hurts all employees. Theft also affects employee morale and is disheartening to those who choose to behave ethically.

Vendor Relationships

Businesses that buy from and sell products to other businesses are sometimes subject to unethical behavior. The practice of accepting gifts from a vendor in exchange for increased purchasing is not only unethical, it may have legal repercussions. The same can be said for offering customer kickbacks to increase his purchasing habits. Ethics policies often contain guidelines for giving or accepting gifts with vendors or other business associates, such as a cap on the value of the gift. Other businesses strictly forbid giving gifts or any other item with monetary value. This is a safeguard to prevent any perception of unethical behavior.

Bending the Rules

Bending the rules in a business situation is often the result of a psychological stimulus. If an employee is asked to perform an unethical task by a supervisor or manager, he may do it because his allegiance to authority is greater than his need to abide by the rules. Turning the other way to avoid trouble for another employee is still unethical, even though the motivation may be empathetic. For example, knowing that a coworker is having issues outside work justifies watching him leave early each day without reporting it. Withholding information that can change an outcome also falls under the umbrella of unethical behavior, even if the perpetrator believes he is doing what is in the best interest of the business. For example, if a poor earnings report is withheld until after a stockholder meeting.

Environmental issues

Unethical behavior by companies, such as releasing pollutants into the air, can affect cities, towns, waterways and masses of people. Though accidents can occur, the release of harmful toxins into the environment due to lax safety standards, improper maintenance of equipment or other preventable reasons is unethical. If a business willingly continues production of a product knowing inherent environmental risks exist, it can certainly be categorized as unethical behavior.

Wages and Working Conditions

Other unethical practices include not paying workers a fair wage, employing children under the legal working age and unsafe or unsanitary working conditions. Any practices that are not in compliance with fair labor standards and federal working guidelines fall into this category.

1.5 Work ethics

Work ethic is a value based on hard work and diligence. It is also a belief in the moral benefit of work and its ability to enhance character.

Workers exhibiting a good work ethic in theory would be selected for better positions, more responsibility and ultimately promotion. Workers who fail to exhibit a good work ethic may be regarded as failing to provide fair value for the wage the employer is paying them and should not be promoted or placed in positions of greater responsibility.

Five Characteristics of a Good Work Ethics

Reliability

Reliability goes hand in hand with a good work ethic. If individuals with a good work ethic say they are going to attend a work function or arrive at a certain time, they do, as they value punctuality. Individuals with a strong work ethic often want to appear dependable, showing their employers that they are workers to whom they can turn. Because of this, they put effort into portraying -- and proving -- this dependability by being reliable and performing consistently.

Dedication

Those with a good work ethic are dedicated to their jobs and will do anything they can to ensure that they perform well. Often this dedication leads them to change jobs less frequently, as they become committed to the positions in which they work and are not eager to abandon these posts. They also often put in extra hours beyond what is expected, making it easy for their employers to see that they are workers who go beyond the rest of the workforce and truly dedicate themselves to their positions.

Productivity

Because they work at a consistently fast pace, individuals with a good work ethic are often highly productive. They commonly get large amounts of work done more quickly than others who lack their work ethic, as they don't quit until they've completed the tasks with which they were presented. This high level of productivity is also due, at least in part, to the fact that these individuals want to appear to be strong workers. The more productive they are, the more beneficial to the company they appear to those managing them.

Cooperation

Cooperative work can be highly beneficial in the business environment, something that individuals with a strong work ethic know well. Because they recognize the usefulness of cooperative practices -- such as teamwork -- they often put an extensive amount of effort into working well with others. These individuals commonly respect their bosses enough to work with any individuals with whom they are paired in a productive and polite manner, even if they do not enjoy working with the individuals in question.

Character

Those with a good work ethic often also possess generally strong character. This means they are self-disciplined, pushing themselves to complete work tasks instead of requiring others to intervene. They are also often very honest and trustworthy, as they view these traits as befitting the high-quality employees they seek to become. To demonstrate their strong character, these workers embody these positive traits daily, likely distinguishing themselves from the rest.

1.6 Code of conduct

Code of conduct or what is popularly known as Code of Business Conduct contains standards of business conduct that must guide actions of the Board and senior management of the Company.

The Code may include the following:

(a) Company Values.

(b) Avoidance of conflict of interest.

(c) Accurate and timely disclosure in reports and documents that the company files before Government agencies, as well as in Company's other communications.

(d) Compliance of applicable laws, rules and regulations including Insider Trading Regulations.

(e) Maintaining confidentiality of Company affairs.

(f) Non-competition with Company and maintaining fair dealings with the Company.

(g) Standards of business conduct for Company's customers, communities, suppliers, shareholders, competitors, employees.

(h) Prohibition of Directors and senior management from taking corporate opportunities for themselves or their families.

(i) Review of the adequacy of the Code annually by the Board.

(j) No authority of waiver of the Code for anyone should be given.

The Code of Conduct for each Company summarises its philosophy of doing business.

Although the exact details of this code are a matter of discretion, the following principles have been found to occur in most of the companies:

— Use of company's assets;

— Avoidance of actions involving conflict of interest;

— Avoidance of compromising on commercial relationship;

— Avoidance of unlawful agreements;

— Avoidance of offering or receiving monetary or other inducements;

— Maintenance of confidentiality;

— Collection of information from legitimate sources only.

— Safety at workplace

— Maintaining and Managing Records

— Free and Fair competition

— Disciplinary actions

To create a code of ethics, an organization must define its most important guiding values, formulate behavioral standards to illustrate the application of those values to the roles and responsibilities of the persons affected, review the existing procedures for guidance and direction as to how those values and standards are typically applied, and establish the systems and processes to ensure that the code is implemented and effective. Codes of ethics are not easily created from boilerplate. Ideally, the development of a code will be a process in which Boards and senior management actively debate and decide core values, roles, responsibilities, expectations, and behavioral standards.

Model Code of Business Conduct & Ethics

Commitment to ethical professional conduct is a MUST for every employee of the company in all of its businesses/units/subsidiaries. This code, consisting of imperatives formulated as statements of personal responsibility, identifies the elements of such a commitment. It contains many, but not all issues, employees are likely to face.

The code is intended to serve as a basis for ethical decision-making in the conduct of professional work. It may also serve as a basis for judging the merit of a formal complaint pertaining to violation of professional ethical standards.

It is understood that some words and phrases in a code of ethics and conduct document are subject to varying interpretations and that any ethical principle may conflict with other ethical principles in specific situations. Questions related to ethical conflicts can best be answered by thoughtful consideration of fundamental principles rather than reliance on detailed regulations. In case of conflict, the decision of the Board shall be final.

Applicability

This code is applicable to the Board Members and all employees in and above Officers level (hereinafter collectively referred to as "Employee(s)").

All employees must read and understand this code and ensure to abide by it in their day-to-day activities.

General Moral Imperatives

Contribute to society and human well being

This principle concerning the quality of life of all people, affirms an obligation to protect fundamental human rights and to respect the diversity of all cultures. We must attempt to ensure that the products of our efforts will be used in socially responsible ways, will meet social needs and will avoid harmful effects to health and welfare of others. In addition to a safe social environment, human well-being includes a safe natural environment. Therefore, all of us who are accountable for the design, development, manufacture and promotion of company's products, must be alert to, and make others aware of, any potential damage to the local or global environment.

Avoid harm to others

"Harm" means injury or negative consequences, such as loss of property, property damage or unwanted health and environmental impacts. This principle prohibits use of men, material and technology in ways that result in harm to our consumers, employees and the general public. Well-intended actions, including those that accomplish assigned duties, may lead to harm unexpectedly. In such an event, the responsible person or persons are obligated to undo or mitigate the negative consequences as much as possible.

Be honest and trustworthy

Honesty is an essential component of trust. Without trust an organization cannot function effectively. All of us are expected not to make deliberately false or deceptive claims about our products/systems, but instead provide full disclosure of all pertinent limitations and problems.

Be fair and take action not to discriminate

The values of equality, tolerance, respect for others, and the principles of equal justice govern this imperative. Discrimination on the basis of race, sex, religion, age, disability, national origin, or other such factors is an explicit violation of this code.

Practice integrity in our inter-personal relationships

In our relationships with colleagues, we should treat them with respect and in good faith. In the same way we ourselves would expect them to treat us. The principle to be adopted to guard against loose talk or in its worst form-character assassination is not to say anything behind one's back and never utter something, which cannot be put in writing.

Honor confidentiality

The principle of honesty extends to issues of confidentiality of information. The ethical concern is to respect all obligations of confidentiality to all stakeholders unless discharged from such obligations by requirements of the law or other principles of this code.We therefore, will maintain the confidentiality of all material non-public information about company's business and affairs.

Professional Responsibilities

- Live the Company's Values-each day.

We must live the Company's Values-each day. For quick reference our core values are:

- ***Ownership***

  This is our company. We accept personal responsibility and accountability to meet business needs.

- ***Passion for winning***

  We all are leaders in our area of responsibility with a deep commitment to deliver results. We are determined to be the best at doing what matters most.

- ***Passion deveopment***

  People are our most important asset. We add value through result driven training and we encourage & reward excellence.

- ***Consumer focus***

  We have superior understanding of consumer needs and develop products to fulfill them better.

- ***Teamwork***

  We work together on the principle of mutual trust and transparency in a boundary less organization. We are intellectually honest in advocating proposals, including recognizing risks.

- ***Innovation***

  Continuous innovation in products and process is the basis of our success.

Integrity

We are committed to the achievement of business success with integrity. We are honest with consumers, business partners and each other.

Strive to achieve the highest quality, effectiveness and dignity in both the processes and products of professional work

Excellence is perhaps the most important obligation of a professional. We must strive to achieve the highest quality, effectiveness and dignity in all that we are responsible for each day.

Acquire and maintain professional competence

Excellence depends on individuals who take responsibility for acquiring and maintaining professional competence. We must participate in setting standards for appropriate levels of competence, and strive to achieve those standards.

Know and respect existing laws

We must obey existing local, state, national, and international laws unless there is a compelling ethical basis not to do so. We should also obey the policies, procedures, rules and regulations of the company. Violation of a law or regulation may be ethical when that law or rule has inadequate moral basis or when it conflicts with another law judged to be more important. If one decides to violate a law or rule because it is viewed as unethical, or for any other reason, one must fully accept responsibility for one's actions and for the consequences.

Accept and provide appropriate professional review

Quality professional work depends on professional reviewing and critiquing. Whenever appropriate, individual members should seek and utilize peer review as well as provide critical review of the work of theirs.

Manage personnel and resources to enhance the equality of working life

Organizational leaders are responsible for ensuring that a conductive environment is created for fellow employees to enable them delivering their best. We all, therefore, are responsible for ensuring human dignity of all our colleagues, ensuring their personal and professional development and enhancing the quality of working life.

Deal with the Media tactfully

We should guard against being misquoted and finding ourselves compromised. Our role as individuals is always to be tactful and to avoid comment and to pass enquiries to those who are authorized to respond to them.

Be upright and avoid any inducements

Neither directly nor through family and other connections indirectly, should we solicit any personal fee, commission or other form of remuneration arising out of transactions involving Company. This includes gifts or other benefits of significant value, which might be extended at times, to influence business-especially during bulk purchase of commodities for the organization or awarding a contract to an agency etc. We are likely to be offered various gifts by vendors/parties/agencies and people associated with Company under different wraps or generally on personal celebrations or functions or religious festivals etc.

Our flow of communication is not rigid and people are free to express themselves at all levels. However, this informality should not be misunderstood. What it means is that though there is a free exchange of opinions in the process of arriving at a decision, but after the debate is over and a policy consensus has been established, all are expected to adhere and abide by it, even when in certain instances we may not agree with it individually. In some cases policies act as a guide to action, in others they are designed to put a constraint on action. We all must learn to recognise the difference and appreciate why we need to observe them.

Conduct ourselves in a manner that reflects credit to the Company

All of us are expected to conduct ourselves, both on and off-duty, in a manner that reflects credit to the company. The sum total of our personal attitude and behaviour has a bearing on the standing of Company and the way in which it is perceived within the organization and by the public at large.

Be accountable to our stakeholders

All of those whom we serve, be it our customers, without whom we will not be in business, our shareholders, who have an important stake in our business and the employees, who have a vested interest in making it all happen-are our stakeholders. And we must keep in mind at all times that we are accountable to our stakeholders.

"Inside information" gained from the Company or otherwise must not be used for personal gains. We undertake to comply with the Company's Code of Conduct for Prevention of Insider Trading.

Identify, mitigate and manage business risks

It is our responsibility to follow our institutionalized Company's Risk Management Framework to identify the business risks that surround our function or area of operation and to assist in the company-wide process of managing such risks, so that Company may achieve its wider business objectives. All of us should continuously ask ourselves "What can go wrong and what am I doing to prevent it from going wrong."

Protect Company's properties

We all are perceived as Trustees of Company's properties, funds and other assets. We owe fiduciary duty to each stakeholder, as their agent, for protecting the Company's assets. We, therefore, must safeguard and protect the Company's assets against any misappropriation, loss, damage, theft, etc.

by putting in place proper internal control systems and procedures and effectively insuring the same against any probable fire, burglary, fidelity and any other risk.

Compliance with the Code

As employees of Company, we will upheld and promote the principles of this code

The future of the organization depends on both technical and ethical excellence. Not only is it important for employees to adhere to the principles expressed in this Code, each employee should encourage and support adherence by other employees.

Treat violations of this code as inconsistent association with the organization

Adherence of professionals to a code of ethics is largely a voluntary matter. However, if any of us do not follow this code by engaging in process misconduct, the matter would be reviewed by the Board and its decision shall be final. The Company reserves the right to take appropriate action against the guilty employee.

Miscellaneous

Continual updation of code

This code is subject to continuous review and updation in line with any changes in law, changes in company's philosophy, vision, business plans or otherwise as may be deemed necessary by the board.

Credo

Most Companies skip the important part of developing the company's **credo**. A good credo gives the company a reason to exist; it develops the spirit of employees motivating them at all times. It is a statement of common values that allows employees to understand the importance of the stakeholders and services provided. It is the force which makes them work together to achieve a consistent high standard.

Sam Walton, founder of **Wal-Mart**, established the "Three Basic Beliefs" as his company's credo. These are:

- Respect for the Individual
- Service to our Customers
- Strive for Excellence

Johnson & Johnson

The overarching philosophy that guides business in Johnson & Johnson is their Credo termed as 'Our Credo', a deeply held set of values that has served as the strategic and moral compass for generations of Johnson & Johnson leaders and employees.

The Credo challenges Johnson & Johnson to put the needs and well-being of the people we serve first. It also speaks to the responsibilities it has to its employees, to the communities in which the company lives and works and the world community, and to its shareholders. Johnson and Johnson believes that its Credo is a blueprint for long-term growth and sustainability that's as relevant today as when it was written.

SAIL

Credo of SAIL talks about stakeholder respect, and ethical practices to be followed in the company:

We build lasting relationships with customers based on trust and mutual benefit. We uphold highest ethical standards in conduct of our business.

We create and nurture a culture that supports flexibility, learning and is proactive to change.

We chart a challenging career for employees with opportunities for advancement and rewards.

We value the opportunity and responsibility to make a meaningful difference in people's lives.

Mr. X sends a report of the training as soon as he returns. His reporting officer summons him and asks him where he was during the training. At first, Mr. X reacts in a defensive manner that he was at the training. The reporting officer then tells him that the organization in order to extend the training to other employees had got in touch with the programme organizers requesting them for a one to one meeting with Mr. X already present and were informed of the absence. When confronted with this, Mr. X had to admit that he had not attended the training programme.

Ethics in Marketing

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing. The issue of marketing ethics is not limited to the kind of products alone. It also deals with how such products are delivered to the customers. The ethical issues confronted in this area include:

— Pricing: price fixing, price discrimination, price skimming.

— Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.

— Misleading advertisements.

— Contents of advertisements.

— Use of decision

— Children and marketing.

— Surrogate advertising: Many liquor firms carry advertisements of products like apple juice, soda water etc.

— Black markets, grey markets.

Ethics in Production

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

— Defective, addictive and inherently dangerous products and

—Ethical relations between the company and the environment include pollution, environmental ethics, carbon emissions trading — Ethical problems arising out of new technologies for eg.

Genetically modified food — Product testing ethics.

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

More and more companies recognize the link between business ethics and financial performance. Companies displaying a "clear commitment to ethical conduct" consistently outperform companies that do not display ethical conduct.

1.7 Public Good:

1. Attracting and retaining talent

People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to taking care of its employees will be rewarded with employees being equally dedicated in taking care of the organization. The ethical climate matter to the employees. Ethical organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of the co-employees. In such a work environment, employees can expect to be treated with respect and consideration for their colleagues and superiors. It cultivates strong teamwork and productivity and support employee growth. Retaining talented people is as big a challenge as getting them in the first place. Work is a means to an end for them, not an end in itself. The relationship they have with their employer must be a mutual, win-win one, in which their loyalty should not be taken for granted. Talented people will invest their energy and talent only in organizations with values and beliefs that match their own. In order to achieve this match, managers need to build cultures, compensation and benefits packages, and career paths that reflect and foster certain shared values and beliefs.

2. Investor Loyalty

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits. Relationship with any stakeholder, including investors, based on dependability, trust and commitment results in sustained loyalty.

3. Customer satisfaction

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases/orders and enduring relationship of mutual respect is essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its belief in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration. Such companies are also guided by their ethics to survive a critical situation. Preferred values are identified ensuring that organizational behaviors are aligned with those values. An organization with a strong ethical environment places its customers' interests as foremost. Ethical conduct towards customers builds a strong competitive position. It promotes a strong public image.

4. Regulators

Business should act ethically not only to benefit itself and its reputation but also all the key stakeholders.

Regulators eye companies functioning ethically as responsible citizens. The regulator need not always monitor the functioning of the ethically sound company. The company earns profits and reputational gains if it acts within the confines of business ethics.

To summarize, companies that are responsive to employees' needs have lower turnover in staff.

— Shareholders invest their money into a company and expect a certain level of return from that money in the form of dividends and/or capital growth.

— Customers pay for goods, give their loyalty and enhance a company's reputation in return for goods or services that meet their needs.

— Employees provide their time, skills and energy in return for salary, bonus, career progression, learning.

CONCLUSION

In making ethics work in an organization it is important that there is synergy between vision statement, mission statement, core values, general business principles and code of ethics. A commitment by corporate management to follow an ethical code of conduct confers a variety of benefits. An effective ethics program requires continual reinforcement of strong values. Organizations are challenged with how to make its employees live and imbibe the organization codes and values. To ensure the right ethical climate, a right combination of spirit and structure is required.

Corporate Ethics is much needed to stress the importance of sustainability, social development, stakeholders, consumer satisfaction and service orientation in place of profit orientation. Ethics point out what is good and what is bad, so also what is right or wrong. It brings to the notice of the business community the importance of honesty, sincerity and fairness which makes them alert and socially conscious. This also expedites a better relation between business and the society. It reconciles conflicting interest of various sections of the society such as workers, shareholders, consumers, distributors, suppliers, competitors and government.

UNIT –II - ETHICS THEORY AND BEYOND

Unit Structure:

2.1 Management of Ethics
2.2 Ethics analysis [Hosmer model]
2.3 Ethical dilemma
2.4 Ethics in practice
2.5 ethics for managers
2.6 Role and function of ethical managers
2.7 Comparative ethical behaviour of managers
2.8 Code of ethics
2.9 Competitiveness
2.10 Organizational size
2.11 Profitability and ethics
2.12 Cost of ethics in Corporate ethics evaluation
2.13 Business and ecological / environmental issues in the Indian context and case studies.

2.1 Management of Ethics

Management of Ethics -

Organizational ethics is the ethics of an organization, and it is how an organization responds to an internal or external stimulus. Organizational ethics is interdependent with the organizational culture. Although, it is akin to both organizational behavior (OB) and industrial and organizational psychology as well as business ethics on the micro and macro levels, organizational ethics is neither OB or I/O psychology, nor is it solely business ethics (which includes corporate governance and corporate ethics). Organizational ethics express the values of an organization to its employees and/or other entities irrespective of governmental and/or regulatory laws.

The Foreign Corrupt Practices Act (FCPA) restricts the United States business firms from engaging in bribery and other illegal practices internationally. There are laws that have the same type of prohibition for European companies which create a disadvantage competitively for both European and U.S. firms. Such laws are not a restricting element to organizations that have highly elevated ethical behavior as part of their values. Organizations that lack ethical practices as a mandatory basis of their business structure and corporate culture, have commonly been found to fail due to the absence of business ethics. Corporate downfalls would include, but are not limited to, the recent Enron and WorldCom scandals, are two primary examples of unethical business practices concerning questionable accounting transactions.

Employees, the community, and corresponding industries. Ethical business practices of organizations has resulted in a solid financial bottom-line. This has been seen through greater sales and increased revenue by companies retaining talented personnel and attracting newly skilled employees. More importantly, an ethical organization will have the ability to retain employees that are experienced and knowledgeable (generally referred to as human capital). This human capital results in less employee turnover, less training time for new employees, and greater output regarding services (or production of goods).

2.2 Ethics Analysis (Hosmer Model)

Manager's Decision Checklist

1. What are the best economic alternatives?
2. What are the legal alternatives?
3. Does a given decision result in greater benefits than damages for society as a whole, not just for our organization as part of that society?
4. Is the decision self-serving, or would we be willing to have everyone else take the same action when faced with the same circumstances?
5. We understand the need for social cooperation; will our decision increase or decrease the willingness of others to contribute?
6. We recognize the importance of personal freedom; will our decision increase or decrease the libery of others to act?
7. Lastly, we know that the universe is large and infinite, while we are small and our lives are short; is our personal improvement that important, measured against the immensity of that other scale?

The Nature of Ethics in Management

"Right" and "proper" and "fair" are ethical terms. They express a judgment about our behavior towards other people that is felt to be just. We believe that there are right and wrong ways to behave towards others, proper and improper actions, fair and unfair decisions. These beliefs are our moral standards of behavior. They reflect our sense of obligation to other people, our sense that it is better to help rather than to harm other people.

Moral problems are truly managerial dilemmas. They represent a conflict between an organization's economic performance (measured by revenues, costs and profits) and its social performance (stated in terms of obligations to persons both within and outside the organization).

Characteristics of Moral Problems in Management

1. Most ethical decisions have extended consequences.
2. Most ethical decisions have multiple alternatives.
3. Most ethical decisions have mixed outcomes.
4. Most ethical decisions have uncertain consequences.
5. Most ethical decisions have personal implications.

2.3 Analysis of Ethical Problems in Management

Economic Analysis (Pareto Optimality)

Ethics are not relevant in business, beyond the normal standards not to lie, cheat, or steal. All that is necessary is to maintain price-competitive markets and recognize the full costs of production in those prices, and then the market system will ensure that scarce resources are used to optimally satisfy consumer needs. A firm that is optimally satisfying consumer needs, to the limit of the available resources, is operating most efficiently and most profitably. Consequently, business managers should act to maximize profits, while following legal requirements of no conclusion and equal opportunity and adhering to personal standards of truthfulness and honesty. Profit Maximization leads automatically from the satisfaction of individual consumer wants to the generation of maximum social benefits. Profit maximization is the only moral standard needed for management.

If we look at microeconomic theory as an ethical system of belief, explaining our responsibility to others within the company and within the society - to employees, customers, suppliers, distributors, and residents of the local area - then is simply falls apart because of the unlikely assumptions about human nature and human worth.

Legal Analysis

The law can be defined as a consistent set of universal rules that are widely published, generally accepted, and usually enforced. These rules describe the ways in which people are required to act in their relationships with others within a society. They are requirements to act in a given way, not just expectations or suggestions or petitions to act in that way.

The law is a guide to managerial decisions and actions, but it is not enough. And certainly, the absence of a law is not enough to excuse some of those decisions and actions.

Ethical Analysis

Philosophic analysis, based on rational thought processes. The view is that a manager should always act in accordance with either a single principle of behavior or a single statement of belief that is "right" and "proper" and "just" in and by itself. This is "moral reasoning": logically working from a first principle through to a decision on the duties we owe to others.

Philosophy is the study of thought and conduct. Normative philosophy is the study of proper thought and conduct; that is, how we should behave.

Morality refers to the standards of behavior by which people are judged, and particularly to the standards of behavior by which people are judged in their relationships with others. Ethics, on the other hand, encompasses the system of beliefs that supports a particular view of morality. The difference between morality and ethics is easy to remember if one speaks of moral standards of behavior and ethical systems of belief.

Ethical Relativism - Are there objective universal principles upon which one can construct an ethical system of belief that is applicable to all groups in all cultures at all times? Fortunately there is one principle that does seem to exist across all groups, cultures, and times and that does form part of every ethical system; that is the belief that members of a group do bear some form of responsibility for the well-being of other members of that group.

Five Major Systems with Relevance to Managerial Decisions

Managers should use ALL FIVE systems to think through the consequences of our actions on multiple dimensions.

Eternal Law - Moral standards are given in an Eternal Law, which is revealed in Scripture or apparent in nature and then interpreted by religious leaders or humanist philosophers; the belief is that everyone should act in accordance with the interpretation. (Too many interpretations.)

Utilitarianism: A Teleological Theory - Moral standards are applied to the outcome of an action or decision; the principle is that everyone should act to generate the greatest benefits for the largest number of people. Differs from the economic concept of cost/benefit analysis in that the distribution of the costs and benefits has to be included as well. (Utilitarianism fails because we can probably all agree that there are some actions that are simply wrong, despite great apparent net benefits for a huge majority.)

Universalism: A Deontological Theory - The reverse of teleological theory. Moral standards are appliedto the intent of an action or decision; the principle is that everyone should act to ensure that similar decisions would be reached by others, given similar circumstances. (Immoral acts can be justified by persons who are prone to self-deception or self-importance, and there is no scale to judge between "wills".

Distributive Justice - Moral standards are based upon the primacy of a single value, which is justice. Everyone should act to ensure a more equitable distribution of benefits, for this promotes individual self-respect, which is essential for social cooperation. (Dependent upon acceptance of the proposition that an equitable distribution of benefits ensures social cooperation.)

Contributive Liberty - Moral standards are based upon the primacy of a single value, which is liberty. Everyone should act to ensure greater freedom of choice, for this promotes market exchange, which is essential for social productivity. (Dependent upon the acceptance of the proposition that a market system of exchange ensures social productivity.)

2.3 ETHICAL DILEMMA

Managers are responsible for upholding the ethical code and helping others to do so as well.

Outline the role managers must play in implementing internal ethical standards and aligning the organization with external standards

- Managers hold positions of authority that make them accountable for the ethical conduct of those who report to them.
- Managers monitor the behavior of employees in accordance with the organization's expectations of appropriate behavior, and they have a duty to respond quickly and appropriately to minimize the impact of suspected ethical violations.
- Managers may be responsible for creating and/or implementing changes to the ethical codes or guidelines of an organization.
- Managers may also be subject to a particular code of professional ethics, depending on their position and training. Fiduciary duty is an example that applies to some managerial roles.

The role of ethics

Morality and ethics

Morality refers to the social norms and values that guide both individuals and their interaction with their fellow human beings and communities, and with their environment. In all of these types of interaction there are important values at stake; rules and norms that are to protect these values; duties implied in social roles and positions that can foster these values and further these rules; and human virtues or capabilities that enable us to act accordingly. These moral factors are usually interwoven with religious practices and social power structures.

Ethics is a systematic and critical analysis of morality, of the moral factors that guide human conduct in a particular society or practice. As fisheries represent an interaction between humans and the aquatic ecosystem, fisheries ethics deals with the values, rules, duties and virtues of relevance to both human and ecosystem well-being, providing a critical normative analysis of the moral issues at stake in that sector of human activities.

When actual moral values, rules and duties are subjected to ethical analysis, their relation to basic human interests shared by people, regardless of their cultural setting, is particularly important. Moral values may change, and moral reasoning asks whether the practices that are traditionally and factually legitimated by religion, law or politics are indeed worthy of recognition. Indeed, the development of ethics in the past century has been characterized by a tendency to revalue and overthrow the moral conventions that have guided the interaction between the sexes, between human beings and animals and between human beings and their environment. A more recent task of ethics is to resist those tendencies of globalization, marketization and technologization that erode both biodiversity and valuable aspects of cultural identity - and may even have effects that threaten human rights. Although these tendencies are often presented as value-neutral, they carry with them hidden assumptions that are potential sources of inequity and abuse.

Human interests

implies material well-being, as well as the conservation of a productive ecosystem, and relates to fisheries as a provision of food and livelihood.

ı, or human self-determination, relates to access to fishing resources, fishers' self-control and other life options related to fisheries.

elates to the distribution of the benefits of fishing and to the ownership of scarce resources.

In attempting to identify which traditional and innovative practices are worthy of recognition, a moral argument asks whether - and how - actual moral factors further the well-being of human and non-human creatures. Moral reasoning always relates to the basic interests of humans and other sentient beings and to the value of the environment that sustains both human and non-human life.

An ethical analysis can play an important part in identifying human and nonhuman interests and the value of the ecosystem as a whole. It also asks how these values and interests may be threatened or undermined and how they may be furthered or protected. Ecosystem well-being is of crucial importance both in itself and for basic human interests and long-term social benefits. In this document, the main focus is on the way in which fishing policies and practices affect the living conditions, interests and well-being of fishers and fishing communities, as well as the well-being of the ecosystem. This is in keeping with sustainable development, the dominant concept of environmental ethics, enshrined in the FAO concept of responsible fisheries.

Basic human interests

A major aspect of an ethical analysis of fisheries must be to clarify the human interests and social benefits that can be considered necessary conditions for leading a decent human life. Basic human interests are related to the main tasks that humans need to undertake in life in order to satisfy their needs and lead their lives in coexistence with others. In line with classical ethical thought, these interests can be divided into three main categories: (i) Welfare: People need basic goods to survive and care for their offspring; (ii) Freedom: People seek to regulate their own affairs and realize their life plans in accordance with their own or culturally defined values; (iii) Justice: People need to find ways to share social benefits and burdens and facilitate peaceful coexistence.

In this context, moral analysis aims to show, for example, how the human interests in welfare, freedom and justice are relevant and how they relate to social benefits in the management of fisheries.

These basic interests are intricately connected to the capabilities necessary for leading a decent human life and, thus, to the vulnerabilities against which people must be protected. They constitute the moral values that moral reasoning aims to defend, e.g. by framing fundamental principles that serve to guide our moral interaction and to protect basic moral interests.

At the most general level, the related vulnerabilities against which people must be protected are: poverty, domination and injustice.

2.4 ETHICS IN PRACTICE:

Although different ethical theories may have different priority principles and reasoning behind them, a consensus has been forming about the main principles of bioethics:[1]

- Human dignity, human rights and justice, which refers to the duty to promote universal respect for the human person. In the context of fisheries, this principle relates, for example, to fishers' self-determination, access to fishing resources and the right to food. It is best represented by a rights-based approach in ethics that emphasizes the protection of the personal domain of each individual. It may require, however, the establishment of individual or community rights, the exact nature of which will depend on local conditions.
- Beneficence, which concerns human welfare, reducing the harms and optimizing the benefits of social practices. In the context of fisheries, this principle needs to be observed when the effects of policies and practices upon the livelihoods of fishing communities are evaluated. The principle relates to working conditions (safety on board), as well as food quality and safety. The issue of

genetically modified organisms should also be addressed in this context (FAO, 2001b). This principle invites an ethical approach to fisheries that puts consequences to general welfare in focus.

- Cultural diversity, pluralism and tolerance, which relates to the need to take different value systems into account within the limits of other moral principles. The pressing moral issues in fisheries take different shapes across different cultures, and it is an important moral demand that people themselves define how their interests are best served in a particular cultural setting. This principle squares well with dialogical ethics, which stresses the actual participation of those concerned.
- Solidarity, equity and cooperation, which refers to the importance of collaborative action, sharing scientific and other forms of knowledge, and nondiscrimination. In the context of fisheries, this principle underpins the moral imperative to eradicate poverty in developing countries and ensure equity within fisheries and between sectors. It also requires transparent policies and stresses the need to reduce the gap between producers and consumers. This principle is relevant at the level of policy as well as at the individual level of virtues and professional duties to further trust and tolerance among stakeholders.
- Responsibility for the biosphere, which concerns the interconnections of all life forms and the protection of biodiversity. This principle stresses that ecosystem well-being is a sine qua non condition of sustainable fisheries providing for the needs of future generations, as well as for the lives of those who currently rely on the natural environment and are responsible for its use. This principle combines ethical reasoning based on rights and on consequences for human welfare, as well as on individual virtues and duties to respect the environment.

2.5 ETHICS FOR MANAGERS:

In a broad construction of the ethical role of the manager, managing and leading can be said to be inherently ethics-laden tasks because every managerial decision affects either people or the natural environment in some way—and those effects or impacts need to be taken into consideration as decisions are made. A narrower construction of the ethical role of the manager is that managers should serve only the interests of the shareholder; that is, their sole ethical task is to meet the fiduciary obligation to maximize shareholder wealth that is embedded in the law, predominantly that of the United States, although this point of view is increasingly accepted in other parts of the world. Even in this narrow view, however, although not always recognized explicitly, ethics are at the core of management practice.

The ethical role of managers is broadened beyond fiduciary responsibility when consideration is given to the multiple stakeholders who constitute the organization being managed and to nature, on which human civilization depends for its survival. Business decisions affect both stakeholders and nature; therefore, a logical conclusion is that those decisions have ethical content inherently and that managerial decisions, behaviors, and actions are therefore inherently ethical in nature. Whenever there are impacts due to a decision, behavior, or action that a leader or manager makes, there are ethical aspects to that decision or situation. While some skeptics claim that business ethics is an oxymoron, the reality is that decisions and actions have consequences, and that reality implies some degree of ethics, high or low. Thus, ethics and the managerial role cannot realistically be teased apart.

Ethical Leadership

The ethical role of managers, or what the business ethicist Linda Treviño and her colleagues call ethical leadership, is a combination of being a moral person and being a moral manager. Being a moral person rests on a combination of key traits such as integrity, honesty, and trustworthiness. Integrity involves not only forthrightness and honesty or truthfulness but also consideration for the soundness of the whole entity that one manages as well as of the society in which the organization is located. Integrity also means firm adherence to a code, such as an ethical code of conduct. Thus, being a moral person suggests that the individual has integrity and can be trusted.

In addition to these traits, being a moral person also involves behaviors such as doing the right thing, concern for people, being open, and standards of personal integrity. The essence of ethics, of course, is doing the right thing, especially under difficult circumstances, and that involves being able to reason well about what the right thing to do actually is. To be able to reason well about a difficult ethical situation, a person needs to be open to learning from multiple sources about the situation while taking care not to harm people and actually attempting to treat people well in the decision-making process or when decisions are being implemented. To be able to make good decisions ethically, an individual needs to have thoughtfully developed his or her personal set of standards or values, a personal code of conduct or integrity. Personal standards allow an individual to think through a decision with a clear rationale in mind.

When decisions involving ethical considerations need to be made, Treviño and her colleagues argue, the moral person sticks to her or his core values, tries to be objective and fair, exhibits concern for society and the welfare of those in society, and follows ethical decision-making rules. But being a moral person is not the only requirement for becoming a moral leader. Moral leadership also includes being a moral manager, which involves recognition that the leader or manager serves as a role model for others in all his or her duties. It also means providing rewards and discipline around the ethical and unethical decisions made by others, so that a clear message is sent about what behaviors are and are not acceptable in the organization or situation. In addition, moral management means communicating openly, explicitly, and frequently about ethics and values.

One question that frequently arises in considering the ethics of management is whether individuals can be considered moral leaders or managers in their work lives if they act unethically in their personal lives or vice versa. Considering that an individual's character is reflected in all his or her decisions and actions, such an inconsistency would reflect badly on the individual as a whole. The branch of ethical theory called virtue ethics explores this relationship in depth.

2.6 ROLE & FUNCTIONS OF ETHICAL MANAGERS:

Managers in both large and small enterprises face difficult ethical situations daily as they attempt to do their jobs. Since management decisions inherently involve ethical considerations, however, it is important that managers recognize the ethical elements that are embedded in their day-to-day job functions. They need to be able to reason through ethical decisions, just as they would reason through any managerial problem facing them. Many times, ethics-laden situations involve issues that are clearly right or wrong when judged by the manager's or organization's values or code of conduct. Furthermore, most managerial decisions and actions are legal, although there are occasions when a certain decision would clearly go beyond legal boundaries and be illegal. Assuming that the law itself is just, these decisions are not really ethically problematic in that what to do to make an ethically sound decision is quite clear. In these cases, making a decision to break the law or to do something that disagrees with a code of conduct or set of values is clearly unethical. It is not difficult to know what the right thing to do is in such situations.

Ethical decision-making problems arise for managers and leaders when decisions involve a moral conflict—that is, a moral situation in which a person must choose between at least two equally bad choices, or when there are multiple ethical considerations, some of which conflict with each other. In such circumstances, which are common in business, the manager has to be able to think through the consequences and ethical implications of the decision thoroughly and mindfully so that the best possible decision can be made given the constraints, implications, and ethical considerations. If the decision itself cannot be reframed as a situation in which all parties can benefit—that is, a win-win situation—then the manager needs a decision-making framework to help.

To help managers think through ethical moral conflicts, the business ethicists Gerald Cavanagh and his colleagues have developed a decision-making framework that relies on the ideas of philosophers and ethicists and applies those ideas to business decisions. This approach combines four methods of ethical reasoning rights and duties, utilitarianism, justice, and the ethics of care—into a framework that helps managers and leaders step through a logical thinking process to sort out the ethical dimensions of a difficult and inherently conflictual situation.

Rights and Duties

Rights are justifiable claims or entitlements, frequently based on the law or other authoritative documents, such as treaties and international declarations that allow people to pursue their own interests. Rights can be viewed as the positive things that people are allowed to do, but they come with an obverse side as well, in the form of duties or obligations that go along with the rights. For example, in democracies, one right is the ability to vote. Along with that right comes the duty to exercise that right by actually voting. In many countries, employees are granted certain rights, such as the right to safe working conditions or a minimum wage, and employers have corresponding duties to ensure that these conditions are met. These rights are based on laws and regulations. Other rights are based on moral grounds and are frequently written into international treaties, such as the United Nations Declaration of Human Rights and the Natural Environment. Such rights include respect for human dignity, which enables communities, organizations, and societies to thrive. In using Cavanagh's ethical decision-making framework to assess a moral conflict, one question that needs to be asked involves rights and duties: Would this decision respect the rights and duties of the individuals involved?

Utilitarianism

A second way of reasoning through a moral conflict involves using utilitarian analysis, or assessment of the greatest good of the greatest number. This type of cost-benefit analysis is a very common management approach, but as the framework suggests, it may not be a sufficient basis by itself to make an ethical decision in a moral conflict. In a utilitarian analysis, the harms and benefits of a decision to the different parties that would be affected by the decision are evaluated, with some sort of weight given to the various harms and benefits that assesses their degree. Most utilitarian analysis focuses on the good of the group or collective as a whole over that of any given individual, unless the most serious harm is to the individual—for example, if the decision would be fatal to the individual. Putting the collective, which can include an organization's interest, over that of the individual avoids the problem of self-interest. A second question in the ethical decision-making framework for managers, then, would be as follows: Who will be affected by the decision and to what extent will the various parties affected by this decision be harmed or benefited?

Justice

Principles of justice are a third way for managers to reason about ethical decisions. Just decisions require fairness, equity, and impartiality on the part of decision makers, particularly with respect to the ultimate burdens and benefits that will accrue from the decision. The philosopher John Rawls has discussed the justice criterion in terms of a concept of what he terms distributive justice, which invites decision makers to make a decision behind a veil of ignorance that suggests that they do not know where in the system they will be after the decision is made. This veil-of-ignorance consideration forces managers to take into account the fairness of the decision to any party that will be affected. Similarly, the philosopher Immanuel Kant suggests that justice can be taken into account using the concept of “categorical imperative”; that is, one should only act a given way or make a given decision if the decision maker can agree that it would be all right if any person in a similar situation acted that way. Alternatively, one can think of the categorical imperative as asking the decision maker whether this action or decision would be all right if it became a universal law. In considering justice, then, decision makers have to ask, How does this decision square with the canons of justice?

Ethic of Care

In addition to assessing a moral conflict from the perspective discussed above, ethical managers and leaders also need to look at the impact of a decision on the network of relationships that will be affected. This perspective is called the ethic of care. Based on feminist writings, the ethic of care proposes that one's moral responsibilities vary according to how closely one is linked to other people. That is, if a person is very close to another person, say, a family member, there will be more moral responsibility for ensuring the well-being of the family member than the well-being of an unrelated person. In an organizational context, using an ethic of care, more consideration might be given to the impact of a decision on long-term employees, who are more tightly connected to the organization and its goals, than to its impact on newly hired employees.

2.7 COMPARATIVE ETHICAL BEHAVIOUR OF MANAGERS:

Managers, according to Gerald Cavanagh, can use a combination of ways of moral reasoning based on rights, justice, utility, and care when they face a moral conflict and when these different ways of reasoning conflict, as they often do. To decide effectively, managers need to take several factors into consideration as they weigh decisions based on the principles of rights, justice, utility, or care. For example, they can consider whether there are overriding factors in the decision. If a decision might result in the death of a person made one way and the unemployment of a group of persons made another way, then the overriding factor might be the life-death decision. There are, however, no clear rules for making such decisions, and the judgment of the decision maker is needed to determine which of the relevant factors should carry the most weight.

Another consideration is whether one criterion is more important in a particular situation than others. For example, if the rights of a whole group of people are to be overrun by a decision, that factor might override the fact that one or two individuals would not be treated fairly when the decision is made. Similarly, a consideration might be whether there are incapacitating factors (such as force or violence) that would come into play in making the decision—for instance, to stop a strike, which might violate a person's right to strike but forestall the destruction and injury if the strike turned violent. The decision can be considered ethical when there is no intent to make an unethical decision, when a bad effect is simply a by-product, and when the good outcome is sufficiently good that it outweighs the bad.

Other decision-making aids for managers include thinking about whether they would want their decision made public—for example, to appear on the front page of a newspaper or on television. If they are uncomfortable with such transparency, it would be well to apply an ethical analysis to the decision. For managers operating in different countries around the world, it is useful to remember that virtually every nation of the world has at its core some version of the Golden Rule: Do unto others as you would have others do unto you. By keeping some of these principles in mind, managers can avoid the problem of relativism in their decision making. Relativism suggests that a decision is all right if it is apparently culturally acceptable, irrespective of the consequences or harms.

Moral Development

The ethical decision making framework for managers relies on reasoning using the principles of rights, justice, utility, and care. It presupposes that managerial decision makers have the capacity to reason from principles in making an ethical decision. Unfortunately, not everyone reasons from moral principles in making ethical decisions. A good deal of research on individual development suggests that people develop their cognitive reasoning skills over time and to different levels, generally termed preconvention, conventional, and post conventional.

Research on moral reasoning in men by Lawrence Kohlberg and on women by Carol Gilligan indicates that moral reasoning passes through similar stages, lagging behind cognitive development, which must come first. At the preconvention stage of development, the rationale for ethical decision making is rewards and punishments or self-interest. Most managers have passed beyond the preconvention stage to the conventional stage of development. In the early stages of conventional reasoning, individuals use their peer group as a reference
point for determining what is right and wrong. At the later stages of conventional reasoning, individuals focus on the rules, regulations, and norms of society as bases for their ethical decisions. Only at the post conventional stages of development, which only about 20% of adults reach, does reasoning from principles emerge.

Reasoning from moral principles is a relatively high-level or post conventional skill. The fact that only about 20% of adults reach the post conventional level of development highlights the need for ethical leaders and managers who are able to reason not just from society's or their peer group's norms but also from core principles such as those discussed above so that decisions can be made with multiple stakeholders' needs and interests in mind. Some of the needed principles are laid out in organizational or more generalized codes of conduct, which can also help managers in their decision-making roles.

2.8 CODES OF ETHICS:

Most large corporations today have developed codes of conduct internally, which are intended to provide guidance for managers confronting ethical situations and moral conflicts. Such codes of conduct need to be supplemented by internal systems, such as reward and information systems, promotion and hiring practices, recognition systems, and organizational culture and communication systems, that support their implementation.

Strong top management commitment to and communication about values and ethical conduct is a core element of ethical leadership from the top of the organization. Ethical leadership is essential to managers and employees at all levels of the enterprise when they are faced with difficult ethical decisions and moral conflicts. Codes of conduct alone can seldom be sufficient for managers to come to good decisions unless they are supported by these other aspects of the organization.

In addition to company or organizational codes of conduct, many of which have been developed internally by companies to articulate their own value systems, a number of codes and principles have emerged globally to help managers think about their ethical responsibilities. Some of these are quite spare and lay out fundamental principles, based on globally agreed on documents signed by many nations, such as the United Nations Global Compact with its 10 core principles or the OECD Guidelines for Multinational Enterprises. Others are more elaborate and have been developed by business groups or multi sector alliances to help guide business decision making. Again, as with internal codes of conduct, these principles are helpful guides but cannot address every unique situation. As a result, codes need to be supported by the organization's managerial decision making, its culture, its reward systems, and the communication that exists about ethical practices within the firm.

Managers and Ethics in Organizations

Many managers find it difficult to speak about and sometimes even recognize ethical issues, a difficulty that the management theorists James Waters and Frederick Bird called the moral muteness of managers. Recognizing that management is an inherently ethical task and that the practices of the company embody a set of values or ethics, the management scholar Jeanne Liedtka suggests that there does exist a set of ethically based management practices that can help managers lead their companies effectively and so that they are competitive. By examining numerous organizational improvement initiatives, she determined that they shared common practices and common sets of values that could help an organization achieve its goals most effectively.

The ethics of effective and competitive business practices identified by Jeanne Liedtka include creating a shared sense of meaning, vision, and purpose that connect the employees to the organization and are underpinned by valuing the community without subordinating the individual and seeing the community's purpose as flowing from the individuals involved. A second characteristic that ethical leadership can provide is developing in employees a systems perspective, which is linked to the post conventional stages of cognitive and moral reasoning discussed above, so that a value of serving other community members and related entities in the broader ecosystem emerges. Another theme is that of emphasizing business processes rather than hierarchy and structure, which is based on valuing work itself intrinsically and focusing on both ends and means in decision making, not just the ends. Localized decision making, particularly around work processes, provides a value of responsibility for individual actions, and using information within the system is supported by values of truth telling, integrity, and honesty, the characteristics of moral persons, as well as transparency about and access to needed information.

Organizations with these types of ethically based approaches also focus on development for both employees and the organization as a whole, which means valuing individuals as ends, not as means to ends (a key ethical principle), and focusing on learning and growth. Such approaches also encourage dialogue and related freedom of expression with a commitment to seek common ground when there are differences of opinion. Ethical leaders can also foster the capacity of others and themselves to take multiple perspectives simultaneously—in other words, to move toward post conventional levels of reasoning so that they can understand other points of view and make better decisions. The final element that managers can think about in their roles as ethical leaders is creating a sense of commitment and ownership among organizational members by emphasizing promise keeping, instilling a sense of urgency about the tasks of the enterprise, and encouraging engagement rather than detachment among organizational members.

2.9 COMPETITIVENESS:

Any organization, public or private, large or small, faces internal and external uncertainties that affect its ability to achieve its objectives. The effect of uncertainty on an organization's objectives is "risk." Risk management, commonly known in the business community as enterprise risk management (ERM), can provide for the structured and explicit consideration of all forms of uncertainty in making any decision. The overarching principle of ERM is that it must produce value for the organization. It is the culture, processes and structures that is directed towards taking advantage of potential opportunities while managing potential adverse effects.

Corporations face the task of managing their risk exposures while remaining profitable and competitive at the same time. Managing risks is not a new challenge, yet it may get overlooked due to several reasons. The challenges and demands of contemporary markets, customer expectations, regulatory authorities, employees and shareholders present organizations with an interesting array of contradictions.

Risk management can enhance the environment for identifying and capitalizing on opportunities to create value and protect established value. Efficient managers who undertake risk, use a variety of risk management solutions that transcends through traditional insurance risk transfer products.

The rapidly changing global economy has created an expanding array of risks to be managed to ensure the viability and success of an enterprise. Historically, the practice of risk management has been confined to the traditionally insurable risks such as loss from fire, earthquakes, wind, flood, legal liability and other relatively straightforward potential causes of loss. Solutions involving the purchase of insurance were emphasized, with focus on type of coverage, adequacy of limits and cost of risk transfer. Over the last thirty years, most major corporations have evolved a much more sophisticated view of risk management, encompassing traditional risk management concerns and adding new issues arising from the changing internal and external environments within which they work. Now, it is understood that every aspect of a company's operational and financial activity contains the potential for risk that can negatively and meaningfully affect the success and viability of the organization.

Risk basically refers to the variations in the outcomes that could occur over a specified period in a given situation. If only one outcome is possible, the variation and hence the risk is zero. If many outcomes are possible, the risk is not zero. The greater the variation, the greater the risk.

Risk may also be defined as the possibility that an event will occur and adversely affect the achievement of the Company's objectives and goals. A business risk is the threat that an event or action will adversely affect an organization's ability to achieve its business objectives/targets. Business risk arises as much from Risk Management and Internal Control **199** possibility that opportunities will not be realized as much from the fact that certain threats could well materialize and that errors could well be made.

Risks may be broadly classified under the following heads:

(a) *Industry & Services Risks:*

These risks can be broadly categorized as follows, namely:

→ Economic risks such as dependence on one product, one process, one client, one industry, etc. in the short and long term.

→ Services risks

→ Market structure

→ Business dynamics

→ Competition risks affecting tariffs prices, costs, revenues and customer preferences

→ Customer relations risks

→ Reputational risk

(b) Management and Operations Risks:

These risks relate broadly to the company's organisation and management such as planning, monitoring, and reporting systems in the day to day management process namely:

→ Risks to Property

→ Clear and well defined work processes

→ Changes in Technology/upgradation

→ R&D risks

→ Agency Network Risks

→ Personnel risks such as labour turnover risks involving replacement risks, training risks, cost risks, skill risks etc. There are also unrest risks due to strikes and lockouts. These risks affect the company's business and earnings.

→ Enviromental and Pollution Control regulations, etc.

→ Locational benefits near metros, railway stations, ports, cities, etc.

(c) Market Risks:

These risks relate to market conditions namely:

→ Raw material rates

→ Quantities, quality, suppliers, lead time, interest rates risks and forex risks namely, fluctuation risks and interest rate risk in respect of foreign exchange transactions.

(d) Political Risks:

These risks relate to political uncertainties namely:

→ Elections

→ War risks

→ Country/Area risks

→ Insurance risks like fire, strikes, riots and civil commotion, marine risks, cargo risks, etc.

→ Fiscal/Monetary Policy Risks including Taxation risks.

(e) Credit Risks:

These risks relate to commercial operations namely:

→ Creditworthiness risks

→ Risks in settlement of dues by clients

→ Provisions for doubtful and bad debts

(f) Liquidity Risks:

These are financial risk factors namely:

→ Financial solvency and liquidity risks

→ Borrowing limits, delays

→ Cash/Reserve management risks

→ Tax risks.

(g) Disaster Risks:

These risks relate to disasters from following factors:

→ Natural risks like fires, floods, earthquakes, etc.

→ Man-made risks arising under the Factories Act, Mines Act, etc.

→ Risk of failure of effective Disaster Management plans formulated by the company.

(h) Systems Risks:

These risks relate to the company's systems namely:

→ System capacities

→ System reliability

→ Obsolescence risks

→ Data Integrity risks

2.10 ORGANIZATION SIZE:

An organization's structure is important to the study of business ethics. In a Centralized organization, decision-making authority is concentrated in the hands of top-level managers, and little authority is delegated to lower levels. Responsibility, both internal and external, rests with top management. This structure is especially suited for organizations that make high-risk decisions and whose lower-level managers are not highly skilled in decision making. It is also suitable for organizations in which production processes are routine and efficiency is of primary importance.

These organizations are usually extremely bureaucratic, and the division of labour is typically very well defined. Each worker knows his or her job and what is specifically expected, and each has a clear understanding of how to carry out assigned tasks. Centralized organizations stress formal rules, policies, and procedures, backed up with elaborate control systems. Their codes of ethics may specify the techniques to be used for decision making.

Because of their top-down approach and the distance between employee and decision maker, centralized organizational structures can lead to unethical acts. If the centralized organization is very bureaucratic, some employees may behave according to "the letter of the law" rather than the spirit.

In a decentralized organization, decision-making authority is delegated as far down the chain of command as possible. Such organizations have relatively few formal rules, and coordination and control are usually informal and personal. They focus instead on increasing the flow of information. As a result, one of the main strengths of decentralized organizations is their adaptability and early recognition of external change. With

greater flexibility, managers can react quickly to changes in their ethical environment. Weakness of decentralized organizations is the difficulty they have in responding quickly to changes in policy and procedures established by top management. In addition, independent profit centers within a decentralized organization may deviate from organizational objectives.

2.11 PROFITABILITY & ETHICS:

In the fallout from Enron and others, many investors are paying closer attention to a company's ethics, as well as their profits. These investors realize that a corporate focus on profits alone with little regard to ethical standards, conduct and enforcement—may result in short-term revenue gain, but long-term profitability may be limited. In cases like Enron, long-term viability is limited too.

Consider this balance between profits and ethics to be "ethical profitability." Well-balanced companies not only consistently reward owners, investors and employees with profitable performance, they also genuinely focus on these five key areas:

Leadership by example

The chasm between managing and managing well is wide and deep. To manage is to merely lead employees. To manage well is to lead employees effectively, ethically and without arrogance. Company owners, executives and managers must set the highest examples of attitude and conduct for their employees. "Do what I say, not what I do," is a parental anachronism with no value in management.

Company-wide ethical awareness

Most employees, when not at work, practice personal ethics in areas such as caring for others, being kind and honest, and not harming others. Do these same people, when they arrive at work, maintain their personal guidelines? In-the-office ethical behavior includes demonstrating trustworthiness to managers and coworkers, respecting privacy and avoiding conflicts of interest. Ethics knows no time clock.

Occasional classes can help, by reminding employees of the simplicity of determining ethical behavior. In a nutshell, examine questionable action and speech, and determine if it's harmful to yourself or another. If it is, avoid that behavior. Employees with any sort of religious background will recognize this ethic of reciprocity as familiar. The Bible's Golden Rule is a good example.

Strong management of revenue generation and reporting

Corporate temptation to stretch ethical behavior in revenue generation and reporting is universal. From excessive cost-cutting to expand short-term market-share, to outright lies about revenue to positively affect stock price, it's easy to see why an otherwise intelligent, educated corporate officer can end up behind bars for condoning such behavior.

To overcome these temptations, revenue-related managers must establish and maintain a firm stance on ethical marketing, advertising, selling and reporting. This requires regular dissemination and enforcement of codes of conduct.

High level of internal trust

The level of trust within a company should reflect the level of trust the company solicits from customers. If customers are encouraged to put their complete trust in the product or service, then company teams must do the same with each other. Management must guide this internal process.

An increase in trust is a reduction in risk and uncertainty, which in turn will keep the revenue generation process flowing smoothly. Another advantage of running a high-trust organization is improved internal flexibility and creativity. Instead of being constantly monitored, the person to whom a task is assigned can accomplish it the best way possible. The outcome is never in doubt because of the trust the team shares.

Formal and active compliance program

Ethical profitability is far more than merely operating within the boundaries of the law. Legal compliance limits unethical behavior, but it does not define ethical behavior. An organizational ethics doctrine does have legal benefits. Properly written, published and disseminated ethical codes will reduce corporate risk if an employee creates a criminal or civil problem because of poor ethical behavior. (Even federal sentencing guidelines recommend lower fines if such violations occur contrary to the existence and enforcement of compliance codes.)

The true test of ethical profitability is whether or not the company is a positive example to its employees, to its customers and even to other companies. Such companies practice the truest form of leadership-by-example. They reach for a higher bar.

2.12 COST OF ETHICS IN CORPORATE ETHICS EVALUATION:

Operating in an ethical way may incur additional costs to a business when compared with other retailers and companies who may not do business in the same way. For example, Primark bears the cost of carrying out all audits. Then there are its costs associated with working with ethical partners. An example of this is Primark"s partnership with Nari Uddug Kendra (NUK). This is an organisation supporting women's rights and health in Bangladesh. See more information and read an interview with NUK on the Primark website.

NUK has more than 20 years experience in addressing women's rights and labour issues in the ready-made garment sector in Bangladesh. Through this partnership, Primark seeks to identify and address key issues around equal rights, opportunities for growth and career enhancement, as well as training needs within some of its key suppliers in Bangladesh. NUK's expertise in this area helps Primark provide employees and middle management at factories with more intensive support and training on ethical issues.

Costs to Primark of working in an ethical way include:

- the employment of the global Ethical Trade team
- training its buyers on all ethical trade issues
- managing and paying for external audits
- helping suppliers put right issues raised by audits, through training and support from the Primark Ethical Trade team.

However, rather than seeing these activities as costs, Primark believes that they enable the business to operate in a sustainable and well-managed way. Through its remediation programme, Primark's team of ethical managers work with factories to help them find ways of putting issues right and developing sustainable practices. This provides a benefit to the supplier but also in the long term to Primark, who gains from having suppliers all working to its standards.

Transparency in business

Transparency is an important part of this process. Transparency means the business is open to people seeing how it manages its relationships with suppliers. In turn, suppliers" practices also need to be transparent. The alternative would be for an organization to ignore ethical behaviour. However, this would rapidly lead to a decline in brand reputation and consumers could move to purchasing from competing retailers behaving more ethically. Operating in the 'right way' is therefore not just appropriate for ethical reasons, but is also good business practice.

2.13 BUSINESS & ECOLOGICAL ENVIRONMENT IN INDIAN CONTEXT:

A satellite picture, taken in 2004, shows thick haze and smoke along the Ganges Basin in northern India. Major sources of aerosols in this area are believed to be smoke from biomass burning in the northwest part of India, and air pollution from large cities in northern India. Dust from deserts in Pakistan and the Middle East may also contribute to the mix of aerosols.

There are many environmental issues in India. Air pollution, water pollution, garbage, and pollution of the natural environment are all challenges for India. The situation was worse between

1947 through 1995. According to data collection and environment assessment studies of World Bank experts, between 1995 through 2010, India has made one of the fastest progresses in the world, in addressing its environmental issues and improving its environmental quality. Still, India has a long way to go to reach environmental quality similar to those enjoyed in developed economies. Pollution remains a major challenge and opportunity for India.

Environmental issues are one of the primary causes of disease, health issues and long term livelihood impact for India.

Major issues

Floods are a significant environmental issue for India. It causes soil erosion, destruction of wetlands and wide migration of solid wastes.

Major environmental issues are forest and agricultural degradation of land, resource depletion (water, mineral, forest, sand, rocks etc.), environmental degradation, public health, loss of biodiversity, loss of resilience in ecosystems, livelihood security for the poor.

The major sources of pollution in India include the rampant burning of fuel wood and biomass such as dried waste from livestock as the primary source of energy, lack of organized garbage and waste removal services, lack of sewage treatment operations, lack of flood control and monsoon water drainage system, diversion of consumer waste into rivers, cremation practices near major rivers, government mandated protection of highly polluting old public transport, and continued operation by Indian government of government owned, high emission plants built between 1950 to 1980.

Air pollution, poor management of waste, growing water scarcity, falling groundwater tables, water pollution, preservation and quality of forests, biodiversity loss, and land/soil degradation are some of the major environmental issues India faces today.

India's population growth adds pressure to environmental issues and its resources.

Population growth and environmental quality

There is a long history of study and debate about the interactions between population growth and the environment. According to a British thinker Malthus, for example, a growing population exerts pressure on agricultural land, causing environmental degradation, and forcing the cultivation of land of poorer as well as poorer quality. This environmental degradation ultimately reduces agricultural yields and food availability, causes famines and diseases and death, thereby reducing the rate of population growth.

Population growth, because it can place increased pressure on the assimilative capacity of the environment, is also seen as a major cause of air, water, and solid-waste pollution. The result, Malthus theorized, is an equilibrium population that enjoys low levels of both income and environmental quality. Malthus suggested positive and preventative forced control of human population, along with abolition of poor laws.

Malthus theory, published between 1798 and 1826, has been analyzed and criticized ever since. The American thinker Henry George, for example, observed with his characteristic piquancy in dismissing Malthus: "Both the jay hawk and the man eat chickens; but the more Jayhawks, the fewer chickens, while the more men, the more chickens." Similarly, the American economist Julian Lincoln Simon criticized Malthus's theory. He noted that the facts of human history have proven the predictions of Malthus and of the Neo-Malthusians to be flawed. Massive geometric population growth in the 20th century did not result in a Malthusian catastrophe. The possible reasons include: increase in human knowledge, rapid increases in productivity, innovation and application of knowledge, general improvements in farming methods (industrial agriculture), mechanization of work (tractors), the introduction of high-yield varieties of wheat and other plants (Green Revolution), the use of pesticides to control crop pests.

More recent scholarly articles concede that whilst there is no question that population growth may contribute to environmental degradation, its effects can be modified by economic growth and modern technology. Research in environmental economics has uncovered a relationship between environmental quality, measured by ambient concentrations of air pollutants and per capita income. This so-called environmental Kuznets curve shows environmental quality worsening up until about $5,000 of per capita income on purchasing parity basis, and improving thereafter. The key requirement, for this to be true, is continued adoption of technology and scientific management of resources, continued increases in productivity in every economic sector, entrepreneurial innovation and economic expansion.

UNIT –III - LEGAL ASPECTS OF ETHICS

Unit Structure:

3.0 Objectives
3.1 Political – legal environment
3.2 Provisions of the Indian constitution pertaining to Business
3.3 Political setup – major characteristics and their implications for business
3.4 Prominent features of MRTP & FERA
3.5 Social – cultural environment and their impact on business operations
3.6 Salient features of Indian culture and values.

3.0 Objectives

After reading this unit you should be able to understand:

- The Political and legal environment of our country
- The features of MRTP and FERA.
- The salient features of Indian culture and values.

3.1 Politics and Legal Environmental Ethics

Some ethical commitments of policy makers--and their intersections with environmental problems.

Policy cannot be value-neutral. If people didn't have different views of things, interests (economic and otherwise), values, and conceptions of "the good," we would have no conflicts and no decisions would require balancing competing "goods."

- One basic idea of politics is that it is far preferable to resolve these conflicts without violence. If we resort to that, then we end up being ruled by the most powerful. Power does not reliably correlate with being intelligent, wise, fair, just, consistent, open-minded and open-hearted, compassionate, or trustworthy. Yet these are the characteristics of rulers who can create the conditions in which human life can flourish, and problems be solved well. So politics is a commitment to the use of reason, and conflict resolution that allows life to continue.
- Political science has a long long history of thought and disagreement on how politics should be organized. Plato at one point wished for "philosopher kings"--wise people with absolute power. Authoritarian regimes are not usually so enlightened, however. Democratic theory, fearing the corruption power may bring, holds that legitimate power is that which receives the consent of the governed. (Modern intellectual descendants of Plato, for their part, bemoan the depth to which the 'tyrrany of the majority' can sink. Modern communitarian theory looks beyond institutional

governance to the fabric of the community as what is most important in civic life. Still others seek to found government on the developmental potentials of humans--an important point, since education and other positive forces have a lot to do with the quality of person, and thus society.

- Benjamin makes the point that our politicians must balance their roles as "trustee" and "delegate." As delegates they "represent directly the wishes and interests of their constituencies," but as trustees, they must "use their judgment in making what they regard as the best decisions on particular matters even if in certain cases this means taking a position different from the majority of their constituents" (p. 143 in readings). This indicates that politicians should not look only to opinion polls in their decisions, but should also seek to be informed. Their judgment in the "trustee" role is very likely to be essential in environmental cases.
- But note, too, in Benjamin's discussion of Cuomo's response to Meehan, that "The political question--the question of how best in certain circumstances in a pluralistic society to translate personal conviction into public policy--is not fully settled by what one regards as the correct answer to the moral question" (p. 146). Later: "A competent politician... is one who manages to retain an independent moral identity while also, in the interests of the integrity of the community as a whole... acknowledging the positions of those whose world views point in a different direction" (149).

- Political theorists (such as Heilbroner, and Ophuls) have argued that the "consent of the governed," especially when combined with an expansionist-industrialist political economy (whether capitalist or socialist), fails in the real world of ecological limits. Both authors are also critical of the environmental records of authoritarian regimes as well. Whether one agrees with their prognoses or not, one thing is clear: environmental policy must incorporate scientific knowledge into many decisions. Science is what tells us (within sometimes large degrees of uncertainty) where the limits are, and can help us predict the outcomes of different policy options.
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    - One principle that follows from the role of science is that *learning* must be paramount in environmental policy. We need to track our management attempts and constantly adjust based on what we find out. This approach is often called "adaptive management."
    - But as mentioned in concepts in ethics, "is" does not justify "ought." The way things in fact are, tells us nothing about how they should be. (This point does not, however, ultimately hold absolutely--a difficult issue in metaethics that stems from any ethical theory's basis in unprovable assumptions about the nature of reality.) In the general argument underlying any environmental policy proposal, there are usually empirical premises, derived from science. They pertain to what causes what; based on them we can expect certain results from certain actions. But which results *ought* we to choose? Science doesn't tell that. So, policy proposals also have ethical premises, which answer that question. Thus, anyone dealing with policy should be able to articulate,

compare, select, justify, defend, and critique the ethical assumptions of policy choices. Not all of these are substantive environmental questions, but some must be.

- Some ethical premises of specific areas of environmental policies are contained in other portions of this course. Briefly, a few of the important dimensions are:
  - Which humans matter in environmental ethics? Only those with the resource to know the risks and hire lawyers and lobbyists, or all people? Only those in our nation, or beyond? Only ones alive now or others in the future?
  - What environmental obligations do we owe other humans? Is there a 'right' to a healthy environment? One that can provide for a full range of needs? Of opportunities too? An enjoyable one? How do we define these in specific policy areas?
  - Do only humans have ultimate value? Nonhuman animals? Any organism? Populations? Species? Not unitary things of any sort, but instead communities? Systems? How can any of these units be defined, and our obligations toward them justified? How do we deal with the many conflicts that arise when we grant any nonhumans moral standing?
  - How do we deal with uncertainty and complexity of natural systems? Does this have implications for the burden of proof? For what we protect and how thoroughly we protect it?
  - How do we think of environmental obligations? In cost-benefit terms? In some other way? How do we balance competing interests?
- Much of environmental policy boils down not to concrete solutions, but to formulating, maintaining and correcting *processes* which create solutions when values conflict ineluctably. What procedures should be used to resolve specific conflicts? The law in general, and especially administrative law, is full of such procedures for the many many kinds of conflicts present in society. See the page on ethical decisions; the second part lists some key values which such procedures should embody.
- Some in policy positions are politically elected, others are not. Either way, such positions carry responsibilities of any civil service career. These include a commitment not only to serve constituents, but to act as wisely and responsibly as possible. All such positions, because of the decision-making powers they include, carry potential for corruption and abuse. Ethical public service means self-policing, and supporting reasonable systematic checks, against such corruption. See information from groups like Common Cause, that work on campaign finance reform.
- Political work, in its very nature, thrusts participants into controversies. It is often up to them to work out compromises on very difficult issues. See the Benjamin reading on the multiple senses of compromise. Benjamin argues that compromise, as in a less-than-wished for "splitting the differnce" between 2 irreconcilable principles or interests, does not have to mean one compromises one's integrity. He points to supervening values that must be called into play in such situations: the value on working together nonviolently, on preserving the possibility of working together on another issue later, on reducing polarization and stasis in society and government. These, he argues, are among the most important values when others conflict utterly.

3.2 Provisions of the Indian Constitution

Provisions of the Indian Constitution that are applicable to the business are summarized below

The Constitution is a comprehensive one consisting of various provisions that affect every citizen of India.

Certain provisions of the Indian Constitution are applicable to the business which ware summarized under the following headings:

I. Preamble of Constitution and Business:
The Indian Constitution starts with a preamble, which outlines the main objectives of the Constitution. It may be noted that though the preamble is not a part of the Constitution and is not justifiable, yet its significance cannot be denied.

It serves as a key to the Constitution. Whenever the judiciary is in doubt about any particular provision of the Constitution it refers to the preamble to find out the real intentions of the framers of the Constitution. The preamble reads:

"We, The People of India, have solemnly resolved to constitute India into a Sovereign, Socialist, and Secular Democratic Republic and to secure to all its citizens:

Justice, Social, economic and political; Liberty of thought, expression, belief, faith and worship; Equality of status and of opportunity; and to promote among them all Fraternity assuring the dignity of the individual and the unity and integrity of the nation;

In our Constituent Assembly this Twenty-Sixth day of November 1949, we do hereby Adopt, Enact and Give to ourselves this Constitution."

A perusal of the preamble shows that it intends India to be a Sovereign, Socialist, Secular, and Democratic Republic. It means that like other states India is a sovereign state and is free to conduct its internal as well as external relations as it deems desirable.

The terms 'Socialist' and 'Secular' were added by the Forty Second Amendment and assert that the government must adopt socialistic policies to ensure decent life for all Indian citizens. The inclusion of word 'Secular' likewise emphasises that the state must abstain from giving preferential treatment to any religion.

Democratic government implies the Government is to be carried on by the elected representatives of the people, and the Government stays in office as long as it enjoys the confidence of their elected representatives. Republic implies that the highest executive authority in India shall vest in a person directly elected by the people. In other words, there is no place for monarchical or feudal system in India.

Economic Importance:
The preamble of the Indian Constitution guarantees to its every citizen:

(i) Economic Justice:

The Indian Constitution laid down social, economic and political justice to every citizen in the country. It is, therefore, the duly of the business organizations to provide social, economic and political justice to every citizen.

(ii) Liberty of Thought, Expression, Belief, Faith and Worship:

This has been accepted in our constitution that every citizen has liberty of thought, expression, belief, faith and worship. According to this concept every business, organization should have liberty of thought, expression etc., with everyone.

(iii) Equality of Status and of Opportunity:

According to this concept every businessman should believe and give equal opportunity to others. This can be achieved through eradication of poverty. This does not mean winning gap between the poor and rich.

II. Fundamental Rights and Business:

The Indian Constitution incorporates a list of Fundamental Rights and guarantees their inviolability by executive and legislative authorities. Part III (Articles 12-35) deals with the Fundamental Rights granted to individuals. These rights were finalised by the committee of the Constituent Assembly headed by Sardar Vallabhbhai Patel.

The fundamental rights are superior to ordinary laws; they can be altered only through constitutional amendments. Originally, the fundamental Rights were seven but in 1978, through the 44th amendment of the constitution, the right to property was removed from the list of fundamental rights.

The six types of fundamental rights of the constitution are as follows:

(1) Right to Equality (Articles 14 to 18):

Articles 14 to 18 deal with right to equality. The Constitution clearly provides that the state shall not deny to any person equality before law or the equal protection of law within the territory of India. It cannot discriminate against any citizen on grounds of religion, race, caste, sex, and place of birth or any of them.

It means that every citizen has access to shops, public restaurants, hotels, places of public entertainment etc., and is free to use wells, tanks, roads and places of public resort maintained at state funds.

In the employment aspects, the appointment to offices under the state also equal opportunity shall be provided to all the citizens, and no person shall be denied employment on grounds of religion, race, caste, sex, descent, and place of birth, residence or any of them.

Again, to make the right to equality a reality; untouchability has been abolished and its practice in any form has been made an offence punishable in accordance with law. According to this articles the business should provide equality before law, social equality and economic equality.

(2) Right to Freedom (Articles 19 to 22):

Articles 19 to 22 enumerates certain positive rights conferred by the Constitution in order to promote the ideal of liberty promised in the preamble. Six fundamental rights in the nature of 'freedom' are guaranteed to the citizens in the article (originally there were seven, but now right to property is deleted).

The six Freedoms are as follows:

(i) Freedom of speech and expression.

(ii) Freedom of peaceful assembly without arms.

(iii) Freedom of association.
(iv) Freedom of movement throughout the territory of India.
(v) Freedom to reside or settle any part of the territory.
(vi) Freedom to practise any profession, or to carry on any occupation, trade or business.
The right to freedom is also applied equally in business. The businessmen can express their problems freely to the government and can get a solution to it. Similarly, every citizen has the right to choose any business or profession and can form unions, and conduct meetings.

(3) Right against Exploitation (Articles 23 to 24):
Articles 23 to 24 deal with the right against exploitation and seek to prevent exploitation of weaker sections of society by unscrupulous persons as well as the state. Article 23 prohibits traffic in human beings, involuntary work without payment and other forms of forced labour. Article 24 prohibits the employment of children below 14 years of age in factories and hazardous occupations, employing women employees in night shifts in factories etc.

Economic Importance:
The economic importance of right against exploitation is
(i) The government takes necessary steps to remove bonded labour.
(ii) The Factories Act helps to prevent exploitation of women and children employees.
(iii) The owner of the factories are guided to make provision for safety and welfare of the workers and they compulsorily appoint a labour welfare officer, it in the factory 500 01 more workers are employed.

(4) Right to Freedom of Religion (Articles 25 to 28):
Articles 25 to 28 deal with the right to freedom of religion. Subject to public order, morality, health etc., the citizens enjoy freedom of conscience and are free to profess, practise and propagate any religion.
However, the state can regulate or restrict the economic, financial, political or other secular activities associated with religious practices. No citizen can be compelled to pay any taxes the proceeds of which are to be spent for the promotion or maintenance of any particular religion or religious domination.

Economic Importance:
The Economic importance of the right to freedom of religion is
(i) The government cannot spend tax money for the development of any religion.
(ii) Nobody can be compelled to pay tax for the welfare of any specific religion.
(iii) No one shall be forced to transfer of property or any agreement of a business nature in the name of a particular religion.

(5) Cultural and Educational Rights (Articles 29 to 30):
Article 29 stipulates that the State shall not impose upon it any culture other than the community s own culture. A minority community has the right to preserve its culture and religious interests. Article 30 confers upon a minority community the right to establish and administer educational institutions of its choice.
A notable feature of the educational and cultural right is that unlike other fundamental rights, it is not subject to any restriction, except that the State can make special provisions for the advancement of any socially and educationally backward classes of citizens.

Economic Importance:

The economic importances of cultural and educational rights are:

(i) The state does not discriminate to give economic assistance to the minority institutions.

(ii) The aided institution cannot refuse admission to any of the citizens on the ground that he belongs to a particular caste, religion, language or region.

(6) Right to Constitutional Remedies (Article 32):

This right has been described by Dr. Ambedkar as the ‘heart and soul of the Constitution. In tact the mere declaration of fundamental rights is useless unless effective remedies are available for their enforcement. This has been ensured under Article 32 which grants the right to move the Supreme Court by appropriate proceedings for the enforcement of the rights conferred by the Constitution.

Clause (2) of Article 32 confers power on the supreme court to issue appropriate directions or orders to writs, including writs in the name of habeas corpus, mandamas, prohibition, quo-warrant and certiorari for the enforcement of any of the rights conferred by Part III of the constitution.

Thus, the fundamental rights enumerated in the constitution guarantee a number of economic and social lights to the citizens. At the same time the state has the power to impose reasonable restrictions on such rights in the interest of the people.

3.3 Political Setup – Major characteristics & their implications for business

Directive Principles of State Policy:

The Directive Principles of State Policy which have been enshrined in Part IV of the Constitution aim at realizing the high ideals of justice, liberty, equality and fraternity as outlined in the preamble to the constitution. There are ideas which are to inspire the state to work for the common good of the people and establish social and economic democracy in the country.

The phrase ‘Directive Principles of State Policy’ means the principles which the states should keep in mind while framing the laws and formulating policy. Articles 39 to 51 contain the various directive principles. These principles are amalgamation of socialistic, Gandhian and liberal principles.

Economic Importance:

The economic importance of Directive Principles of State Policy is:

(i) To provide adequate means of livelihood for all the citizens.

(ii) To secure equal pay for work to both men and women.

(iii) To protect the workers, especially children.

(iv) To regulate the economic system of the country that it does not lead to concentration of wealth and means of production.

(v) To make provision for securing right to work, to education and to public assistance in cases of unemployment, old age, sickness and similar other cases.

(vi) To ensure a decent standard of living and facilities of leisure for all workers.

The main objective of the above noted directive principles are to enable the individual to lead a good and satisfying life. All the provisions of directive principles of state policy guide the government policies towards the business and other economic and social activities.

The government also so far enacted a number of acts and laws, policies and rules keeping in view the directive principles, which are directly related with the business operations. The various Acts like FERA, Factories Act. MRTP Act, Minimum Wages Act, Industrial (Development and Regulation) Act, Industrial policy, etc., are based on the Directive Principles of the Constitution.

The government, through these acts and regulations, protects the interests of working men, women and children, prevents concentration of economic power, and promotes and protects the interest of small and cottage industries.

Explain the meaning, relevance and features of the Competition Act, 2002.

In 1969 Govt. has passed an act and it had given the name monopoly and restrictive trade practices (MRTP). It became popular with the name of MRTP 1969. This act has many provisions to control the monopoly and to promote the competition. It has defined RTP and also explained the powers of MRTP commission. But its scope was very narrow and Govt. of India has made new act called competition act 2002. On the place of MRTP ACT 1969 after this MRTP act 1969 was fully repealed.

Explanation of Competition Act 2002

Competition Act 2002 states that Indian traders must not do any activity for promoting monopoly. If they will do any activity in the form of production, distribution, price fixation for increasing monopoly and this will be against this act and will be void. This act is very helpful for increasing good competition in Indian economy.

Under this act following are restricted practice and these practices are stopped by this act.

1. **Price fixing**: If two or more supplier fixes the same price for supply the goods then it will be restricted practice.
2. **Bid ragging**: If two or more supplier exchange sensitive information of bid, then it will also be restricted practice and against competition.
3. **Re-sale price fixation**: If a producer sells the goods to the distributors on the condition that he will not sell any other price which is not fixed by producer.
4. **Exclusive dealing**: This is also restricted practice. If a distributor purchases the goods on the condition that supplier will not supply the goods any other distributor.

Above all activities promote monopoly so under competition act these are void and action of competition commission will not entertain by civil court.

3.4 Prominent features of MRTP and FERA

FEATURES OF MRTP

Establishment of Competition Commission Under this law

Govt. of India appoints the chairman and other member of competition commission. Competition act 2002 gives the rules and regulation regarding establishment and functions of this commission.

Qualification of chairperson of Competition commission

He or she should be Judge of high court + 15 years or more experience in the field of international trade , commerce , economics , law , finance , business and industry .

Function of Competition commission:

1. To stop activity and practice which are promoting monopoly.
2. To promote the competition.
3. To protect the interest of consumers.

Conclusion

India is doing all work for safeguarding the interest of consumer and this law is one of the important pillar in this way.

FEATURES OF FERA

The **Foreign Exchange Regulation Act** (FERA) was legislation passed by the Indian Parliament in 1973 by the government of Indira Gandhi and came into force with effect from January 1, 1974. FERA imposed stringent regulations on certain kinds of payments, the dealings in foreign exchange and securities and the transactions which had an indirect impact on the foreign exchange and the import and export of currency. The bill was formulated with the aim of regulating payments and foreign exchange

- Regulated in India by the Foreign Exchange Regulation Act (FERA),1973.
- Consisted of 81 sections.
- FERA Emphasized strict exchange control.
- Control everything that was specified, relating to foreign exchange.
- Law violators were treated as criminal offenders.
- Aimed at minimizing dealings in foreign exchange and foreign securities.

FERA was introduced at a time when foreign exchange (Forex) reserves of the country were low, Forex being a scarce commodity. FERA therefore proceeded on the presumption that all foreign exchange earned by Indian residents rightfully belonged to the Government of India and had to be collected and surrendered to the Reserve bank of India (RBI). FERA primarily prohibited all transactions, except one’s permitted by RBI.

OBJECTIVES :

- To regulate certain payments.
- To regulate dealings in foreign exchange and securities.
- To regulate transactions, indirectly affecting foreign exchange.
- To regulate the import and export of currency.
- To conserve precious foreign exchange.
- The proper utilization of foreign exchange so as to promote the economic development of the country.

3.5 Socio-Cultural Environment and their Impact on Business Operations

Businesses do not exist in a vacuum, and even the most successful business must be aware of changes in the cultures and societies in which it does business. As society and culture change, businesses must adapt to stay ahead of their competitors and stay relevant in the minds of their consumers.

Changing Preferences

A major socio-cultural factor influencing businesses and business decisions is changing consumer preferences. What was popular and fashionable 20 years ago may not be popular today or 10 years down the road. Different styles and priorities can undermine long successful products and services. For example, a clothing company must constantly be aware of changing preferences when creating new products or it will quickly become outdated.

Demographics

Changes in demographics are also a significant factor in the business world. As populations age, for example, markets for popular music and fashions may shrink while markets for luxury goods and health products may increase. Additionally, changes in the proportion of genders and different racial, religious and ethnic groups within a society may also have a significant impact on the way a company does business.

Advertising Techniques

Advertising is perhaps the area of business most closely in touch with socio-cultural changes. Advertising often seeks to be hip and trendsetting, and to do this, advertising agencies and departments cannot lose track of the pulse of the societies in which they engage in business. Changes in morals, values and fashions must all be considered when creating outward facing advertising.

Internal Environment

In addition to a company's interactions with the market and its customers, socio-cultural factors also impact a company's internal decision-making process. For example, changing gender roles and increasing emphasis on family life have led to increased respect for maternity and even paternity leave with organizations. Additionally, attitudes towards racial discrimination and sexual harassment have changed drastically over the years as a result of socio-cultural change.

3.6 Salient features of Indian Culture and values

CHARACTERISTICS OF INDIAN CULTURE

Many things can be included while describing the distinguishing characteristics of Indian culture. But it is a fact that India is an amalgamation of various thoughts and ideologies. It is very vast and varied culture rich in knowledge, devotion deeds, emotions and feeling. It is the broad mindedness of Indian culture that it assimilated all those characteristic features without any hesitation to which it was exposed from various other cultures and moulded them in own way.

India did not believe in invasion or war to propagate its culture, religion, ideology or any other thing. It treated all living creatures with same equality and compassion.

Features of Indian Culture:

1. Longevity and continuity
2. Unity in diversity
3. Tolerance
4. Amalgamation of Spirituality and Materialism

VALUES OF INDIAN CULTURE

In recent years, many scholars and experts engaging in studies of cultural values have emerged in China. As a result, quite a few dissertations and works analyzing the values of Chinese and Western cultures have been published. However, those dealing with Indian cultural values are less, not to mention those that expound Indian culture and its values systematically and comprehensively and conduct comparative research about them in international cultural research. So I want to explore this topic to the best of my knowledge in order to receive advice from experts and colleagues.

According to knowledge about cultural values, the patterns, factors and traits of specific values are determined in many aspects such as politics, morality, religion, nation, equality, justice, truth, goodness and beauty. However, they can still be generalized into three major aspects. As Tugalenov, a scholar of the former Soviet Union, put it in his book On the Values of Life and Culture, all the cultural values can be classified into three categories: material values, social and political values and spiritual values. In the following paragraphs, I will use these three criteria to advance my study of the values of Indian culture.

Material Values

The material value on which Indian culture puts emphasis is the perfect devotion/commitment of humans. Though enjoyment of material values is a part of Indian cultural values, it is only a part and cannot represent the ultimate goal the Indian cultural values pursue, that is, to realize the perfect devotion of humans. Most Indians brought up by the traditional Indian culture care less about the possession and enjoyment of material values: thus there exists a strong national mentality of helping those in distress and aiding those in peril. In India as well as in other countries, it's not surprising to find that a rich person, even a very wealthy one, hands over his fortune for the good of social welfare.

Social and Political Values

The social and political values of Indian culture are that humans should intend to create a harmonious environment, using the eternal law of the cosmos to normalize their own conducts in order to reach the ultimate stage of oneness with Brahman-atman. On the one hand, India attaches some importance to pragmatic interests and desires. On the other hand, more importantly, it spares no efforts to promote that everyone should persevere in his life and undertake the obligations of his family and his nation for the prosperity of the society and the wellbeing of his posterity rather than personal pursuits and gains. People must follow law and submit to it, complying with the social rules and morals prescribed by the eternal law, which is more than mere civil law and covers a whole range of meanings such as the task and justice of man, human relations and the social order. So the Indian traditional cultural values strongly emphasize that only by dedicating oneself selflessly to the society can his behaviors truly accord with the social and political values and can a harmonious environment be created.

Spiritual Values

The ultimate goal that the spiritual values of Indian culture pursue is to realize the oneness of Brahman-atman, which is the only way for final salvation. India is a religious country. As early as the Vedic era, Indians had a strong belief that some kind of individual personality existed after death, which was considered to be the primitive soul of a human. This belief developed into the thought of heaven at the end of this era. It was said in Atharva Veda that the soul of the dead could reside in heaven, earth and midair, but heaven is the most ideal place. While it was believed in Rig Veda that those people eligible to enter the heaven were sadhus who conducted ascetic practices, soldiers who gave up their lives on the battlefield and devotees who didn't hesitate to sacrifice their properties to Brahman could also enter heaven.

Then the conception of ‘karma" began to emerge in Atharva Veda, which claimed that man must hold responsibility towards both the good karma and the evil karma on his own, and evil deeds must be punished accordingly. Based on this concept, the idea of the round of death and rebirth came into being. Evildoers must be punished, either being sent to the hell or being transmigrated into such humble things as pig, dog and muck, while those who did good would be rewarded by paradise. It was in the Upanishad era that such issues as the time limit of punishment and reward, soul and salvation were developed and clarified further.

The appearance of the Upanishads had a positive significance to a certain extent because the text was founded on the three major guiding principles of Brahmanism. It was the result of the efforts of some Brahmanic scholars who aspired to seek advanced thoughts to interpret the ultimate meanings of the 'forest treatises', part of the Vedas. These treatises included philosophic thoughts, so they were also called Vedanta philosophy. After it was finalized, the Vedanta philosophy claimed that the dominant in heaven, earth and midair was Brahman.

Though invisible and unrevealed as it was, it would appear in every place at any time. The material world and everything in it were just its illusion. Individual soul was essentially one with Brahman. This was the thinking of "the identity of Brahman-atman". Therefore, Hinduism sees the self-realization of the identity of Brahman-atman as the loftiest goal of reaching salvation. But because of "karma" man can't experience and recognize the atman. "Affected by Karma, the atman is unable to return to Brahman to identify with it after death. So man has to suffer from the round of death and rebirth or be reincarnated into a bird, a beast, a worm and a fish." For that matter, Indians consider life to be painful and that they must strive hard to find the way to reach salvation and the identity of Brahma-atman so that the suffering from the round of death and rebirth can be exempted, 'escaped from'. In order to achieve this goal, new paths had been put forward in the Bhagavad Gita, the classic work of Hinduism. They were the path of behavior, the path of devotion and the path of knowledge.

Path of Behavior. The believers must abide by the moral norms strictly, devoting themselves to the gods. Actions derive from freedom, so Hinduism encourages people to participate in all kinds of working practices, to love their jobs and to dedicate themselves to their jobs, which quite differs from the Buddhist way of salvation by quitting jobs to eliminate the cause of "karma".

Path of Wisdom. The path of wisdom is very popular among Indians today. To most intellectuals, they feel subconsciously the urgency to master knowledge and open the door of wisdom not only for the sake of finding a favorable living and working condition, but also for approaching God and identifying with him.

Path of Devotion. If a Hindu loves a god and submits to him piously in the extreme, this is also a way of gaining the god's favor and reaching salvation. It is an effective way to identify with a god to cherish the god in heart, to do everything for god and to read the name of god silently every minute.

'Nonviolent' Thinking in Indian Cultural Values

Nonviolence is the goal and state the Indian cultural values seek to achieve. According to Vedanta philosophy, everything in the world is self deriving from Self, so it should be friendly and equally disposed to others. Everything's true nature is divine and has the true, good and beautiful moral conduct, so people should be kind to and love each other. Moreover, the spirit of friendliness and love ought to be extended to beasts and birds, flowers and plants. Thus, killing is forbidden.

UNIT IV

Environmental ethics

Environmental ethics is the part of environmental philosophy which considers extending the traditional boundaries of ethics from solely including humans to including the non-human world. It exerts influence on a large range of disciplines including environmental law, environmental sociology, ecotheology, ecological economics, ecology and environmental geography.
There are many ethical decisions that human beings make with respect to the environment. For example:

- Should we continue to clear cut forests for the sake of human consumption?
- Why should we continue to propagate our species, and life itself?
- Should we continue to make gasoline powered vehicles?
- What environmental obligations do we need to keep for future generations?
- Is it right for humans to knowingly cause the extinction of a species for the convenience of humanity?
- How should we best use and conserve the space environment to secure and expand life?

The academic field of environmental ethics grew up in response to the work of scientists such as Rachel Carson and events such as the first Earth Day in 1970, when environmentalists started urging philosophers to consider the philosophical aspects of environmental problems. Two papers published in Science had a crucial impact:

The first international academic journals in this field emerged from North America in the late 1970s and early 1980s – the US-based journal Environmental Ethics in 1979 and the Canadian based journal The Trumpeter: Journal of Ecosophy in 1983. The first British based journal of this kind, Environmental Values, was launched in 1992.

4.1 ECONOMIC ENVIRONMENT:

There have been a number of scholars who've tried to categorize the various ways the natural environment is valued. Alan Marshall and Michael Smith are two examples of this, as cited by Peter Vardy in "The Puzzle of Ethics". For Marshall, three general ethical approaches have emerged over the last 40 years. Marshall uses the following terms to describe them: Libertarian Extension, the Ecologic Extension and Conservation Ethics.

Libertarian extension

Marshall's Libertarian extension echoes a civil liberty approach (i.e. a commitment to extend equal rights to all members of a community). In environmentalism, though, the community is generally thought to consist of non-humans as well as humans.

Andrew Brennan was an advocate of ecologic humanism (eco-humanism), the argument that all ontological entities, animate and in-animate, can be given ethical worth purely on the basis that they exist. The work of Arne Noses and his collaborator Sessions also falls under the libertarian extension, although they preferred the term "deep ecology". Deep ecology is the argument for the intrinsic value or inherent worth of the environment – the view that it is valuable in itself. Their argument, incidentally, falls under both the libertarian extension and the ecologic extension.

Ecologic extension

Alan Marshall's category of ecologic extension places emphasis not on human rights but on the recognition of the fundamental interdependence of all biological (and some abiological) entities and their essential diversity. Whereas Libertarian Extension can be thought of as flowing from a political reflection of the natural world, Ecologic Extension is best thought of as a scientific reflection of the natural world. Ecological Extension is roughly the same classification of Smith's eco-holism, and it argues for the intrinsic value inherent in collective ecological entities like ecosystems or the global environment as a whole entity. Holmes Rolston, among others, has taken this approach.

Conservation ethics

Marshall's category of 'conservation ethics' is an extension of use-value into the non-human biological world. It focuses only on the worth of the environment in terms of its utility or usefulness to humans. It contrasts the intrinsic value ideas of 'deep ecology', hence is often referred to as 'shallow ecology', and generally argues for the preservation of the environment on the basis that it has extrinsic value – instrumental to the welfare of human beings. Conservation is therefore a means to an end and purely concerned with mankind and inter-generational considerations. It could be argued that it is this ethic that formed the underlying arguments proposed by Governments at the Kyoto summit in 1997 and three agreements reached in Rio in 1992

Humanist theories

Following the bio-centric and eco-holist theory distinctions, Michael Smith further classifies Humanist theories as those that require a set of criteria for moral status and ethical worth, such as sentience. This applies to the work of Peter Singer who advocated a hierarchy of value similar to the one devised by Aristotle which relies on the ability to reason. This was Singer's solution to the problem that arises when attempting to determine the interests of a non-sentient entity such as a garden weed.

Applied theology

The Christian world view sees the universe as created by God, and humankind accountable to God for the use of the resources entrusted to humankind. Ultimate values are seen in the light of being valuable to God. This applies both in breadth of scope - caring for people (Matthew 25) and environmental issues, e.g. environmental health (Deuteronomy 22.8; 23.12-14) - and dynamic motivation, the love of Christ controlling (2 Corinthians 5.14f) and dealing with the underlying spiritual disease of sin, which shows itself in selfishness and thoughtlessness. In many countries this relationship of accountability is symbolised at harvest thanksgiving. (B.T. Adeney: Global Ethics in New Dictionary of Christian Ethics and Pastoral Theology 1995 Leicester)

Anthropocentrism

Anthropocentrism simply places humans at the centre of the universe; the human race must always be its own primary concern. It has become customary in the Western tradition to consider only our species when considering the environmental ethics of a situation. Therefore, everything else in existence should be evaluated in terms of its utility for us, thus committing specialism. All environmental studies should include an assessment of the intrinsic value of non-human beings. In fact, based on this very assumption, a philosophical article has explored recently the possibility of humans' willing extinction as a gesture toward other beings. The authors refer to the idea as a thought experiment that should not be understood as a call for action.

A recent view relates anthropocentrism to the future of life. Biotic ethics are based on the human identity as part of gene/protein organic life whose effective purpose is self-propagation. This implies a human purpose to secure and propagate life. Humans are central because only we can secure life beyond the duration of the Sun, possibly for trillions of eons.] Biotic ethics values life itself, as embodied in biological structures and processes. Humans are special because we can secure the future of life on cosmological scales. In particular, humans can continue sentient life that enjoys its existence, adding further motivation to propagate life. Humans can secure the future of life, and this future can give human existence a cosmic purpose.

4.2 PHILOSOPHY OF ECONOMIC GROW & IT'S IMPLICATIONS FOR BUSINESS

Introduction: What is Economics?

Both the definition and the precise domain of economics are subjects of controversy within philosophy of economics. At first glance, the difficulties in defining economics may not appear serious. Economics is, after all, concerned with aspects of the production, exchange, distribution, and consumption of commodities. But this claim and the terms it contains are vague; and it is arguable that economics is relevant to a great deal more. It helps to approach the question, "What is economics?" historically, before turning to comments on contemporary features of the discipline.

The emergence of economics and of economies

Philosophical reflection on economics is ancient, but the conception of the economy as a distinct object of study dates back only to the 18th century. Aristotle addresses some problems that most would recognize as pertaining to economics mainly as problems concerning how to manage a household. Scholastic philosophers addressed ethical questions concerning economic behavior, and they condemned usury — that is, the taking of interest on money. With the increasing importance of trade and of nation-states in the early modern period, 'mercantilist' philosophers and pamphleteers were largely concerned with the balance of trade and the regulation of the currency. There was an increasing recognition of the complexities of the financial management of the state and of the possibility that the way that the state taxed and acted influenced the production of wealth.

In the Twentieth Century, economists stripped this general theory of rationality of its hedonistic clothing (Pareto 1909, Hicks and Allen 1934). Rather than supposing that all consumption choices can be ranked by how much they promote an agent's happiness, economists focused on the ranking itself. All that they suppose concerning evaluations is that agents are able consistently to rank the alternatives they face. This is equivalent to supposing first that rankings are complete — that is, for any two alternatives x and y that the agent may evaluate or choose, either the agent ranks x above y (prefers x to y), or the agent prefers y to x, or the agent is indifferent. Second, economists suppose that agent's rankings of alternatives (preferences) are transitive. To say that an agent's preferences are transitive is to claim that if the agent prefers x to y and y to z, then the agent prefers x to z, with similar claims concerning indifference and
An Essay on the Nature and Significance of Economic Science, Lionel Robbins defined economics as "the science which studies human behavior as a relationship between ends and scarce means which have alternative uses" (1932, p. 15). According to Robbins, economics is not concerned with production, exchange, distribution, or consumption as such. It is instead concerned with an aspect of all human action. Although Robbins' definition helps one to understand efforts to apply economic concepts, models, and techniques to other subject matters such as the analysis of voting behavior and legislation, it seems evident that economics maintains its connection to a traditional domain.

Contemporary economics and its several schools

Contemporary economics is extremely diverse. There are many schools and many branches. Even so-called "orthodox" or "mainstream" economics has many variants. Some mainstream economics is highly theoretical, though most of it is applied and relies on only rather rudimentary theory. Both theoretical and applied work can be distinguished as microeconomics or macroeconomics. Microeconomics focuses on relations among individuals (though firms and households often count as honorary individuals and little is said about the demand of particular individuals for specific commodities as opposed to aggregate demand for those commodities). Individuals have complete and transitive preferences that govern their choices. Consumers prefer more commodities to fewer and have "diminishing marginal rates of substitution" — i. e. they will pay less for units of a commodity when they already have lots of it than when they have little of it. Firms attempt to maximize profits in the face of diminishing returns: holding fixed all the inputs into production except one, output increases when there is more of the remaining input, but at a diminishing rate.

Economists idealize and suppose that in competitive markets, firms and individuals cannot influence prices, but economists are also interested in strategic interactions, in which the rational choices of separate individuals are interdependent. Game theory, which is devoted to the study of strategic interactions, is of growing importance both in theoretical and applied microeconomics. Economists model the outcome of the profit-maximizing activities of firms and the attempts of consumers to best satisfy their preferences as an **equilibrium** in which there is no excess demand on any market. What this means is that anyone who wants to buy anything at the going market price is able to do so. There is no excess demand, and unless a good is free, there is no excess supply.

Macroeconomics grapples with the relations among economic aggregates, such as relations between the money supply and the rate of interest or the rate of growth, focusing especially on problems concerning the business cycle and the influence of monetary and fiscal policy on economic outcomes. Many mainstream economists would like to unify macroeconomics and microeconomics, but few economists are satisfied with the attempts that have been made to do so, especially via so called "representative agents" (Kirman 1992, Hoover 2001a). Econometrics is a third main branch of economics, devoted to the empirical estimation, elaboration, and to some extent testing of specific microeconomic and macroeconomic models (but see summers 1991 and Hoover 1994). Macroeconomics is immediately relevant to economic policy and hence (and unsurprisingly) subjects to much more heated (and politically-charged) controversy than microeconomics or econometrics.

Six central methodological problems

Although the different branches and schools of economics raise a wide variety of epistemological and ontological issues concerning economics, six problems have been central to methodological reflection (in this philosophical sense) concerning economics:

Positive versus normative economics

Policy makers look to economics to guide policy, and it seems inevitable that even the most esoteric issues in theoretical economics may bear on some people's material interests. The extent to which economics bears on and may be influenced by normative concerns raises methodological questions about the relationships between a **positive** science concerning "facts" and a normative inquiry into values and what ought to be. Most economists and methodologists believe that there is a reasonably clear distinction between facts and values, between what is and what ought to be, and they believe that most of economics should be regarded as a positive science that helps policy makers choose means to accomplish their ends, though it does not bear on the choice of ends itself.

This view is questionable for several reasons (Mongin 2006, Hausman and McPherson 2006). First economists have to interpret and articulate the incomplete specifications of goals and constraints provided by policy makers (Machlup 1969b). Second, economic "science" is a human activity, and like all human activities, it is governed by values. Those values need not be the same as the values that influence economic policy, but it is debatable whether the values that govern the activity of economists can be sharply distinguished from the values that govern policy makers. Third, much of economics is built around a normative theory of rationality. One can question whether the values implicit in such theories are sharply distinguishable from the values that govern policies. For example, it may be difficult to hold a maximizing view of individual rationality, while at the same time insisting that social policy should resist maximizing growth, wealth, or welfare in the name of freedom, rights, or equality. Fourth, people's views of what is right and wrong are, as a matter of fact, influenced by their beliefs about how people in fact behave. There is evidence that studying theory that depicts individuals as self-interested leads people to regard self-interested behavior more favorably and to become more self-interested (Marwell and Ames 1981, Frank **et al.** 1993).

Reasons versus causes

Orthodox theoretical microeconomics is as much a theory of rational choices as it a theory that explains and predicts economic outcomes. Since virtually all economic theories that discuss individual choices take individuals as acting for reasons, and thus in some way rational, questions about the role that views of rationality and reasons should play in economics are of general importance. Economists are typically concerned with the aggregate results of individual choices rather than with particular individuals, but their theories in fact offer both causal explanations for why individuals choose as they do and accounts of the reasons for their choices. See also the entry on Methodological Individualism.

Explanations in terms of reasons have several features that distinguish them from explanations in terms of causes. Reasons justify the actions they explain, and indeed so called "external reasons" (Williams 1981) only justify action, without purporting to explain it. Reasons can be evaluated, and they are responsive to criticism. Reasons, unlike causes, must be intelligible to those for whom they are reasons.

Social scientific naturalism

Of all the social sciences, economics most closely resembles the natural sciences. Economic theories have been axiomatized, and articles and books of economics are full of theorems. Of all the social sciences, only economics boasts an ersatz Nobel Prize. Economics is thus a test case for those concerned with the extent of the similarities between the natural and social sciences. Those who have wondered whether social sciences must differ fundamentally from the natural sciences seem to have been concerned mainly with three questions:

(i) Are there fundamental differences between the structure or concepts of theories and explanations in the natural and social sciences? Some of these issues were already mentioned in the discussion above of reasons versus causes.

(ii) Are there fundamental differences in goals? Philosophers and economists have argued that in addition to or instead of the predictive and explanatory goals of the natural sciences, the social sciences should aim at providing us with **understanding**. Weber and others have argued that the social sciences should provide us with an understanding "from the inside", that we should be able to empathize with the reactions of the agents and to find what happens "understandable" (Weber 1904, Knight 1935, Machlup 1969a). This (and the closely related recognition that explanations cite reasons rather than just causes) seems to introduce an element of subjectivity into the social sciences that is not found in the natural sciences.

(iii) Owing to the importance of human choices (or perhaps free will), are social phenomena too “irregular” to be captured within a framework of laws and theories? Given human free will, perhaps human behavior is intrinsically unpredictable and not subject to any laws. But there is, in fact, much regularity in human action, and given the enormous causal complexity characterizing some natural systems, the natural sciences must cope with many irregularities, too.

Abstraction, idealization, and ceteris paribus clauses in economics

Economics raises questions concerning the legitimacy of severe abstraction and idealization. For example, mainstream economic models often stipulate that everyone is perfectly rational and has perfect information or that commodities are infinitely divisible. Such claims are exaggerations, and they are clearly false. Other schools of economics may not employ idealizations that are this extreme, but there is no way to do economics if one is not willing to simplify drastically and abstract from many complications. How much simplification, idealization, abstraction or “isolation” (Mäki 2006) is legitimate?

In addition, because economists attempt to study economic phenomena as constituting a separate domain, influenced only by a small number of causal factors, the claims of economics are true only **ceteris paribus** — that is, they are true only if there are no interferences or disturbing causes. What are **ceteris paribus** clauses, and when if ever are they legitimate in science? Questions concerning **ceteris paribus** clauses are closely related to questions concerning simplifications and idealizations, since one way to simplify is to suppose that the various disturbing causes or interferences are inactive and to explore the consequences of some small number of causal factors. These issues and the related question of how well supported economics is by the evidence has been **the** central questions in economic methodology. They will be discussed further below in Section 3 and elsewhere.

Causation in economics and econometrics

Many important generalizations in economics are causal claims. For example, the law of demand asserts that a price increase will (ceteris paribus) diminish the quantity demanded. (It does not merely assert an inverse relationship between price and demand. When demand increases for some other reason, such as a change in tastes, price increases.) Econometricians have also been deeply concerned with the possibilities of determining causal relations from statistical evidence and with the relevance of causal relations to the possibility of consistent estimation of parameter values. Since concerns about the consequences of alternative policies are so central to economics, causal inquiry is unavoidable.

Before the 1930s, economists were generally willing to use causal language explicitly and literally, despite some concerns that there might be a conflict between causal analysis of economic changes and “comparative statics” treatments of equilibrium states. Some economists were also worried that thinking in terms of causes was not compatible with recognizing the multiplicity and mutuality of determination in economic equilibrium. In the anti-metaphysical intellectual environment of the 1930s and 1940s (of which logical positivism was at least symptomatic), any mention of causation became highly suspicious, and economists commonly pretended to avoid causal concepts. The consequence was that they ceased to reflect carefully on the causal concepts that they continued implicitly to invoke (Hausman 1983, 1990, Helm 1984, Runde 1998). For example, rather than formulating the law of demand in terms of the causal consequences of price changes for quantity demanded, economists tried to confine themselves to discussing the mathematical function relating price and quantity demanded. There were important exceptions

(Haavelmo 1944, Simon 1953, Wold 1954), and during the past generation, this state of affairs has changed dramatically.

For example, in his Causality in Macroeconomics (2001b) Kevin Hoover develops feasible methods for investigating large scale causal questions, such as whether changes in the money supply (M) cause changes in the rate of inflation P or accommodate changes in P that are otherwise caused. If changes in M cause changes in P, then the conditional distribution of P on M should remain stable with exogenous changes in M, but should change with exogenous changes in P. Hoover argues that historical investigation, backed by statistical inquiry, can justify the conclusion that some particular changes in M or P have been exogenous. One can then determine the causal direction by examining the stability of the conditional distributions. Econometricians have made vital contributions to the contemporary revival of philosophical interest in the notion of causation. In addition to Hoover's work, see for example Geweke (1982), Granger (1969, 1980), Cartwright (1989), Sims (1977), Zellner and Aigner (1988), Pearl (2000), Spirtes, Glymour and Scheines (2001).

One apparently secure way to determine causal relations is via randomized controlled experiments. If the experimenter’s sorts subjects randomly into experimental and control groups and varies just one factor, then unless by bad luck the two groups differ in some unknown way, changes in the outcomes given the common features of the control and treatment groups should be due to the difference in the one factor. This makes randomized controlled trials very attractive, though no panacea, since the treatment and control groups may not be representative of the population in which policy-makers hope to apply the causal conclusions, and the causal consequences of the intervention might differ across different subgroups within the control and treatment groups (Worrall 2007).

Structure and strategy of economics: paradigms and research programmes

In the wake of the work of Kuhn (1970) and Lakatos (1970), philosophers are much more aware of and interested in the larger theoretical structures that unify and guide research within particular research traditions. Since many theoretical projects or approaches in economics are systematically unified, they pose questions about what guides research, and many economists have applied the work of Kuhn or Lakatos in the attempt to shed light on the overall structure of economics (Baumberg 1977, Blaug 1976, de Marchi and Blaug 1991, Bronfenbrenner 1971, Coats 1969, Dillard 1978, Hands 1985b, Hausman 1992, ch. 6, Hutchison 1978, Latsis 1976, Jalladeau 1978, Kunin and Weaver 1971, Stanfield 1974, Weintraub 1985, Worland 1972). Whether these applications have been successful is controversial, but the comparison of the structure of economics to Kuhn's and Lakatos' schema has at least served to highlight distinctive features of economics. For example, asking what the “positive heuristic” of mainstream economics consists in permits one to see that mainstream models typically attempt to demonstrate that an economic equilibrium will obtain, and thus that mainstream models are unified in more than just their common assumptions. Since the success of research projects in economics is controversial, understanding their global structure and strategy may clarify their drawbacks as well as their advantages.

Inexactness, ceteris paribus clauses, and “unrealistic assumptions”

As mentioned in the previous section, the most important methodological issue concerning economics involves the very considerable simplification, idealization, and abstraction that characterizes economic theory and the consequent doubts these features of economics raise concerning whether economics is well supported. Claims such as, “Agents prefer larger commodity bundles to smaller commodity bundles,” raise serious questions, because if they are interpreted as universal generalizations, they are false. Can a science rest on false generalizations? If these claims are not universal generalizations, then what is their logical form? And how can claims that appear in this way to be false or approximate be tested and confirmed or disconfirmed? These problems have bedeviled economists and economic methodologists from the first methodological reflections to the present day.

Classical economics and the method a priori

The first extended reflections on economic methodology appear in the work of Nassau Senior (1836) and John Stuart Mill (1836). Their essays must be understood against the background of the economic theory of their times. Like Smith's economics (to which it owed a great deal) and modern economics, the “classical” economics of the middle decades of the 19th century traced economic regularities to the choices of individuals facing social and natural constraints. But, as compared to Smith, more reliance was placed on severely simplified models.

David Ricardo's Principles of Political Economy (1817) draws a portrait in which wages above the subsistence level lead to increases in the population, which in turn require more intensive agriculture or cultivation of inferior land. The extension of cultivation leads to lower profits and higher rents; and the whole tale of economic development leads to a gloomy stationary state in which profits are too low to command any net investment, wages return to subsistence levels, and only the landlords are affluent.

Fortunately for the world, but unfortunately for economic theorists at the time, the data consistently contradicted the trends the theory predicted (de Marchi 1970). Yet the theory continued to hold sway for more than half a century and the consistently unfavorable data were explained away as due to various “disturbing causes.” It is consequently not surprising that Senior's and Mill's accounts of the method of economics emphasize the relative autonomy of theory.

Friedman and the defense of “unrealistic assumptions”

Although some contemporary philosophers have argued that Mill's method a priori is largely defensible (Bhaskar 1978, Cartwright 1989, and Hausman 1992), by the middle of the Twentieth Century Mill's views appeared too many economists out of step with contemporary philosophy of science. Without studying Mill's text carefully, it was easy for economists to misunderstand his terminology and to regard his method a priori as opposed to empiricism. Others took seriously Mill's view that the basic principles of economics should be empirically established and found evidence to cast doubt on some of the basic principles, particularly the view that firms attempt to maximize profits (Hall and Hitch 1938, Lester 1946, 1947). Methodologists who were well-informed about contemporary developments in philosophy of science, such as Terence Hutchison (1938), denounced “pure theory” in economics as unscientific.

Philosophically reflective economists proposed several ways to replace the old-fashioned Millian view with a more up-to-date methodology that would continue to justify much of current practice (see particularly Machlup 1955, 1960 and Koopmans 1957). By far the most influential of these was Milton Friedman's contribution in his 1953 essay, “The Methodology of Positive Economics.” This essay has had an enormous influence, far more than any other work on methodology.

Friedman begins his essay by distinguishing in a conventional way between positive and normative economics and conjecturing that policy disputes are typically really disputes about the consequences of alternatives and can thus be resolved by progress in positive economics. Turning to positive economics, Friedman asserts (without argument) that correct prediction concerning phenomena not yet observed is the ultimate goal of all positive sciences. He holds a practical view of science and looks to science for predictions that will guide policy.

Since it is difficult and often impossible to carry out experiments and since the uncontrolled phenomena economists observe are difficult to interpret (owing to the same causal complexity that bothered Mill), it is hard to judge whether a particular theory is a good basis for predictions or not. Consequently, Friedman argues, economists have supposed that they could test theories by the realism of their "assumptions" rather than by the accuracy of their predictions. Friedman argues at length that this is a grave mistake. Theories may be of great predictive value even though their assumptions are extremely "unrealistic." The realism of a theory's assumptions is, he maintains, irrelevant to its predictive value. It does not matter whether the assumption that firms maximize profits is realistic. Theories should be appraised exclusively in terms of the accuracy of their predictions. What matters is whether the theory of the firm makes correct and significant predictions.

As critics have pointed out (and almost all commentators have been critical), Friedman refers to several different things as "assumptions" of a theory and means several different things by speaking of assumptions as "unrealistic" (Brunner 1969). Since Friedman aims his criticism to those who investigate empirically whether firms in fact attempt to maximize profits, he must take "assumptions" to include central economic generalizations, such as "Firms attempt to maximize profits," and by "unrealistic," he must mean, among other things, "false." In arguing that it is a mistake to appraise theories in terms of the realism of assumptions, Friedman is arguing at least that it is a mistake to appraise theories by investigating whether their central generalizations are true or false.

It would seem that this interpretation would render Friedman's views inconsistent, because in testing whether firms attempt to maximize profits, one is checking whether predictions of theory concerning the behavior of firms are true or false. An "assumption" such as "firms maximize profits" is itself a prediction. But there is a further wrinkle. Friedman is not concerned with every prediction of economic theories. In Friedman's view, "theory is to be judged by its predictive power **for the class of phenomena which it is intended to explain"** (1953, p. 8). Economists are interested in only some of the implications of economic theories. Other predictions, such as those concerning the results of surveys of managers, are irrelevant to policy. What matters is whether economic theories are successful at predicting the phenomena that economists are interested in. In other words, Friedman believes that economic theories should be appraised in terms of their predictions concerning prices and quantities exchanged on markets. In his view, what matters is "narrow predictive success" (Hausman 2008a), not overall predictive adequacy.

So economists can simply ignore the disquieting findings of surveys. They can ignore the fact that people do not always prefer larger bundles of commodities to smaller bundles of commodities. They need not be troubled that some of their models suppose that all agents know the prices of all present and future commodities in all markets. All that matters is whether the predictions concerning market phenomena turn out to be correct. And since anomalous market outcomes could be due to any number of uncontrolled causal factors, while experiments are difficult to carry out, it turns out that economists need not worry about ever encountering evidence that would disconfirm fundamental theory. Detailed models may be confirmed or disconfirmed, but fundamental theory is safe. In this way one can understand how Friedman's methodology, which appears to justify the eclectic and pragmatic view that economists should use any model that appears to "work" regardless of how absurd or unreasonable its assumptions might appear, has been deployed in service of a rigid theoretical orthodoxy.

Rational choice theory

Insofar as economics explains and predicts phenomena as consequences of individual choices, which are they explained in terms of reasons, it must depict agents as to some extent rational. Rationality, like reasons, involves evaluation, and just as one can assess the rationality of individual choices, so one can assess the rationality of social choices and examine how they are and ought to be related to the preferences and judgments of individuals. In addition, there are intricate questions concerning rationality in strategic situations in which outcomes depend on the choices of multiple individuals. Since rationality is a central concept in branches of philosophy such as action theory, epistemology, ethics, and philosophy of mind, studies of rationality frequently cross the boundaries between economics and philosophy.

Individual rationality

The barebones theory of rationality discussed above in Section 1.1 takes an agent's preferences (rankings of objects of choice) to be rational if they are complete and transitive, and it takes the agent's choice to be rational if the agent does not prefer any feasible alternative to what he or she chooses. Such a theory of rationality is clearly too weak, because it says nothing about belief or what rationality implies when agents do not know (with certainty) everything relevant to their choices. But it may also be too strong, since, as Isaac Levi in particular has argued (1986), there is nothing irrational about having incomplete preferences in situations involving uncertainty. Sometimes it is rational to suspend judgment and to defer ranking alternatives that are not well understood. On the other hand, transitivity is a plausible condition, and the so-called "money pump" argument demonstrates that if one's preferences are intransitive and one is willing to make exchanges, then one can be exploited. (Suppose an agent A prefers X to Y, Y to Z and Z to X, and that A will pay some small amount of money $P to exchange Y for X, Z for Y, and X for Z. That means that, starting with Z, A will pay $P for Y, then $P again for X, then $P again for Z and so on. Agents are not this stupid. They will instead refuse to trade or adjust their preferences to eliminate the intransitivity (but see Schick 1986).

On the other hand, there is considerable experimental evidence that people's preferences are not in fact transitive. Such evidence does not establish that transitivity is not a requirement of rationality. It may show instead that people are sometimes irrational. In the case of so-called "preference reversals," for example, it seems plausible that people in fact make irrational choices (Lichtenstein and Slovic 1971, Tversky and Thaler 1990). Evidence of persistent violations of transitivity is disquieting, since standards of rationality should not be impossibly high.

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Collective rationality and social choice

Although societies are very different from individuals, they evaluate alternatives and make choices, which may be rational or irrational. It is not, however, obvious, what principles of rationality should govern the choices and evaluations of society. Transitivity is one plausible condition. It seems that a society that chooses X when faced with the alternatives X or Y, Y when faced with the alternatives Y or Z and Z when faced with the alternatives X or Z either has had a change of heart or is choosing irrationally. Yet, purported irrationalities such as these can easily arise from standard mechanisms that aim to link social choices and individual preferences. Suppose there are three individuals in the society. Individual One ranks the alternatives X, Y, Z. Individual Two ranks them Y, Z, X. Individual Three ranks them Z, X, Y. If decisions are made by pairwise majority voting, X will be chosen from the pair (X, Y), Y will be chosen from (Y, Z), and Z will be chosen from (X, Z). Clearly this is unsettling, but is possible cycles in social choices irrational?
Similar problems affect what one might call the logical coherence of social judgments (List and Pettit 2002). Suppose society consists of three individuals who make the following judgments concerning the truth or falsity of the propositions P and Q and that social judgment follows the majority.

	P	if P then Q	Q
Individual 1	true	true	true
Individual 2	false	true	false
Individual 3	true	false	false
Society	true	true	false

The judgments of each of the individuals are consistent with the principles of logic, while social judgments violate them. How important is it that social judgments be consistent with the principles of logic?

Although social choice theory in this way bears on questions of social rationality, most work in social choice theory explores the consequences of principles of rationality coupled with explicitly **ethical** constraints. The seminal contribution is Kenneth Arrow's impossibility theorem (1963, 1967). Arrow assumes that both individual preferences and social choices are complete and transitive and (as completeness implies) that the method of making social choices issues in some choice for any possible profile of individual preferences. In addition, he imposes a weak unanimity condition: if everybody prefers X to Y, then Y must not be chosen. Third, he requires that there be no dictator whose preferences determine social choices irrespective of the preferences of anybody else. Lastly, he imposes the condition that the social choice between X and Y should depend on how individuals rank X and Y and on nothing else. Arrow then proved the surprising result that no method of relating social choices and individual preferences can satisfy all these conditions!

In the sixty years since Arrow wrote, there has been a plethora of work in social choice theory, a good deal of which is arguably of great importance to ethics. For example, John Harsanyi proved that if individual preferences and social evaluations both satisfy the axioms of expected utility theory (with shared or objective probabilities) and a stronger unanimity condition is imposed, then social evaluations are determined by a weighted sum of individual utilities (1955, 1977a). Matthew Adler (2012) has recently extended an approach like Harsanyi's to demonstrate that a form of weighted utilitarianism, which prioritizes the interests of those who are worse off, uniquely satisfies a longer list of rational and ethical constraints. When there are instead disagreements in probability assignments, there is an impossibility result: the unanimity condition implies that social evaluations will not satisfy the axioms of expected utility theory (Hammond 1983, Seidenfeld, et al. 1989, Mongin 1995). For further discussion of social choice theory and the relevance of utility theory to social evaluation, see Sen (1970) and for recent reappraisals Fleurbaey (2007) and Adler (2012).

Game theory

When outcomes depend on what several agents do, one agent's best choice may depend on what other agents choose. Although the principles of rationality governing individual choice still apply, arguably there are further principles of rationality governing expectations of the actions of others (and of their expectations concerning your actions and expectations, and so forth). Game theory occupies an increasingly important role within economics itself, and it is also relevant both to inquiries concerning rationality and inquiries concerning ethics. For further discussion see the entries on Game Theory, Game Theory and Ethics, and Evolutionary Game Theory.

Economics and ethics

As discussed above in Section 2.1 most economists distinguish between positive and normative economics, and most would argue that economics is mainly relevant to policy because of the (positive) information it provides concerning the consequences of policy. Yet the same economists also offer their advice concerning how to fix the economy. In addition, there is a whole field of normative economics.

Economic outcomes, institutions, and processes may be better or worse in several different ways. Some outcomes may make people better off. Other outcomes may be less unequal. Others may restrict individual freedom more severely. Economists typically evaluate outcomes exclusively in terms of welfare. This does not imply that they believe that only welfare is of moral importance. They focus on welfare, because they believe that economics provides a particularly apt set of tools to address questions of welfare and because they believe or hope that questions about welfare can be separated from questions about equality, freedom, or justice. As sketched below, economists have had some things to say about other dimensions of moral appraisal, but welfare takes center stage. Indeed normative economics is often called "welfare economics."

Welfare

One central question of moral philosophy has been to determine what things are intrinsically good for human beings. This is a central question, because all plausible moral views assign an important place to individual welfare or well-being. This is obviously true of utilitarianism (which hold that what is right maximizes total or average welfare), but even non-utilitarian views must be concerned with welfare, if they recognize the virtue of benevolence, or if they are concerned with the interests of individuals or with avoiding harm to individuals.

There are many ways to think about well-being, and the prevailing view among economists themselves has shifted from hedonism (which takes the good to be a mental state such as pleasure or happiness) to the view that welfare can be measured by the satisfaction of preferences.

Efficiency

Because the identification of welfare with preference satisfaction makes it questionable whether one can make interpersonal welfare comparisons, few economists defend a utilitarian view of policy as maximizing total or average welfare. (Harsanyi is one exception, for another see Ng 1983). Economists have instead explored the possibility of making welfare evaluations of economic processes, institutions, outcomes, and policies without making interpersonal comparisons. Consider two economic outcomes S and R, and suppose that some people prefer S to R and that nobody prefers R to S. In that case S is "Pareto superior" to R, or S is a "Pareto improvement" over R. Without making any interpersonal comparisons, one can conclude that people's preferences are better satisfied in S than in R. If there is no state of affairs that is Pareto superior to S, then economists say that S is "Pareto optimal" or "Pareto efficient." Efficiency here is efficiency with respect to satisfying preferences rather than minimizing the number of inputs needed to produce a unit of output or some other technical notion (Legrand 1991). If a state of affairs is not Pareto efficient, then society is missing an opportunity costlessly to satisfy some people's preferences better. A Pareto efficient state of affairs avoids this failure, but it has no other obvious virtues. For example, suppose nobody is satiated and people care only about how much food they get. Consider two distributions of food. In the first, millions are starving but no food is wasted. In the second, nobody is starving, but some food is wasted. The first is Pareto efficient, while the second is not.

Other directions in normative economics

Although welfare economics and concerns about efficiency dominate normative economics, they do not exhaust the subject, and in collaboration with philosophers, economists have made various important contributions to contemporary work in ethics and normative social and political philosophy. Section 5.2 and Section 5.3 gave some hint of the contributions of social choice theory and game theory. In addition economists and philosophers have been working on the problem of providing a formal characterization of freedom so as to bring tools of economic analysis to bear (Pattanaik and Xu 1990, Sen 1988, 1990, 1991, Carter 1999). Others have developed formal characterizations of equality of resources, opportunity, and outcomes and have analyzed the conditions under which it is possible to separate individual and social responsibility for inequalities (Pazner and Schmeidler 1974, Varian 1974, 1975, Roemer 1986b, 1987, Fleurbaey 1995, 2008). John Roemer has put contemporary economic modeling to work to offer precise characterizations of exploitation (1982). Amartya Sen and Martha Nussbaum have not only developed novel interpretations of the proper concerns of normative economics in terms of capabilities (Sen 1992, Nussbaum and Sen 1993, Nussbaum 2000), which Sen has linked to characterizations of egalitarianism and to operational measures of deprivation (1999). There are many lively interactions between normative economics and moral philosophy. See also the entries on Libertarianism, Paternalism, Egalitarianism, and Economic Justice.

Conclusions

The frontiers between economics and philosophy concerned with methodology, rationality, ethics and normative social and political philosophy are buzzing with activity. This activity is diverse and concerned with very different questions. Although many of these are related, philosophy of economics is not a single unified enterprise. It is a collection of separate inquiries linked to one another by connections among the questions and by the dominating influence of mainstream economic models and techniques.

Main Features of a Planned Economy If we have a look at the planned economies, say, Russian, Chinese or even Indian economy, we shall discover some characteristics. The formulation of the plan and its implementation call for a certain type of economic and administrative organization and a certain type of endeavor and set-up. It is only natural, therefore, that the planned economies reveal some common features.

Existence of a Central Planning Authority

4.3 MAIN FEATURES OF A ECONOMIC PLANNING WITH RESPECT TO BUSINESS

Main Features of a Planned Economy If we have a look at the planned economies, say, Russian, Chinese or even Indian economy, we shall discover some characteristics. The formulation of the plan and its implementation call for a certain type of economic and administrative organization and a certain type of endeavor and set-up. It is only natural, therefore, that the planned economies reveal some common features.

1. Existence of a Central Planning Authority. All countries launching on economic planning have at the top of economic affairs a Planning Commission or a Central Planning Authority, e.g., Gosplan in the U.S.S.R. and a Planning Commission in India. Planning has no meaning unless it is centrally planned.

Planning by individual industries or organization will simply constitute plans and no planning.

2. **Laying Down Objectives**. Planning to be fruitful must keep steadily in view certain broad objectives which have to be realized. In the absence of such objectives planning will be merely a leap in the dark. Planning is not a policy of drift and the economic endeavor under planning has not to be haphazard.

Certain very desirable objectives are laid down beforehand. The usual objectives are the maximization of national income, rapid industrialization providing full employment, achieving a socialistic pattern, achieving self- sufficiency, etc. Of course, the objectives will be laid down in the context of the economic situation.

3. **Fixed targets**- Allied with the laying down of the objectives is the fixing of targets. The objectives indicate the directions in which the economy is to move and targets are fixed for the realization of those objectives. Targets are fixed for each industry and for each sector of major industries, transport, and communication, for imports and exports, and also in the field of education and public health. Fixing of targets enables the Planning Commission to determine the success or failure of each component part of the economy.
4. **Controls**- A planned economy has of necessity to be subjected to a variety of controls. The working of a free market economy has to be modified and controlled in the interest of overall planned development. Thus, in a planned economy we have price controls, control on the distribution of essential goods and scarce raw materials, through fair price shops, co-operative stores, import control, export control, exchange control, control of capital issues, licensing of factories, etc. Laissez-faire is dead and gone in all planned economies and extensive State control takes its place.
5. **Co-ordination.** Economic planning has to be comprehensive and not isolated and piecemeal. All economic efforts aiming at accelerated economic development must be properly coordinated. Without co-ordination a country will land itself into chaos and economic mess.
6. **Growing Public Sector**. Another important feature of a planned economy is the vital role played by the public sector and its growing importance. Private sector cannot be expected to sink capital in enterprises in which the return is long-delayed and is uncertain. The State as the custodian of national interest must step in where private enterprise is shy and is found wanting. The public sector really provides the essential framework for spreading out the planned economic activity.

Better regional balance, more even distribution of economic power, greater economic stability, greater employment, fuller utilization of resources, greater security for the workers, elimination of recurring business cycles are some other features of a planned economy.

4.3 MAIN FEATURES OF ECONOMIC PLANNING WITH RESPECT TO BUSINESS:

The past half century has witnessed the emergence of a large literature devoted to economic methodology. That literature explores many methodological approaches and applies its conclusions to many schools and branches of economics. Much of the literature focuses on the fundamental theory of mainstream economics — the theory of the equilibria resulting from constrained rational individual choice, but macroeconomics has recently attracted increasing interest (Backhouse??). Since 1985, there has been a journal **Economic and Philosophy** devoted specifically to philosophy of economics, and since 1994 there has also been a **Journal of Economic Methodology.** This section will sample some of the methodological work of the past two decades.

Popperian approaches

Karl Popper's philosophy of science has been influential among economists, as among other scientists. Popper defends what he calls a falsificationist methodology (1968, 1969). Scientists should formulate theories that are “logically falsifiable” — that is, inconsistent with some possible observation reports. “All crows are black” is logically falsifiable, since it is inconsistent with (and would be falsified by) an observation report of a red crow. Popper insists on falsifiability on the grounds that unfalsifiable claims that rule out no observations are uninformative. They provide no guidance concerning what to expect. Second, Popper maintains that scientists should subject theories to harsh test and should be willing to reject them when they fail the tests. Third, scientists should regard theories as at best interesting conjectures. Passing a test does not confirm a theory or provide scientists with reason to believe it. It only justifies continuing to employ it (since it has not yet been falsified) and devoting increased efforts to attempting to falsify it (since it has thus far survived testing). Popper has also written in defense of what he calls "situational logic" (which is basically rational choice theory) as the correct method for the social sciences (1967, 1976). There appear to be serious tensions between Popper's falsifications and his defense of situational logic, and his discussion of situational logic has not been as influential as his falsifications.

The Rhetoric of Economics

One radical reaction to the difficulties of justifying the reliance on severe simplifications is to deny that economics passes methodological muster. Alexander Rosenberg (1992) maintains that economics can only make imprecise generic predictions, and it cannot make progress, because it is built around folk psychology, which is a mediocre theory of human behavior and which (owing to the irreducibility of intentional notions) cannot be improved. Complex economic theories are valuable only as applied mathematics, not as empirical theory. Since economics does not show the same consistent progress as the natural sciences, one cannot dismiss Rosenberg's suggestion that economics is an empirical dead end. But his view that it has made no progress and that it does not permit quantitative predictions is hard to accept. For example, contemporary economists are much better at pricing stock options than economists were even a generation ago.

An equally radical but opposite reaction is Deirdre McCloskey's, who denies that there are any non-trivial methodological standards that economics must meet (1985, 1994). In her view, the only relevant and significant criteria for assessing the practices and products of a discipline are those accepted by the practitioners. Apart from a few general standards such as honesty and a willingness to listen to criticisms, the only justifiable criteria for any conversation are those of the participants. Economists can thus dismiss arrogant pretensions of philosophers to judge economic discourse. Whatever a group of respected economists takes to be good economics is automatically good economics. Philosophical standards of empirical success are just so much hot air. Those who are interested in understanding the character of economics and in contributing to its improvement should eschew methodology and study instead the "rhetoric" of economics — that is, the means of argument and persuasion that succeed among economists.

McCloskey's studies of the rhetoric of economics have been valuable and influential (1985, esp. ch. 5–7), but much of her work consists not of such studies but of philosophical critiques of economic methodology.

These are more problematic, because the position sketched in the previous paragraph is hard to defend and potentially self-defeating. It is hard to defend, because epistemological standards for good science have already infected the conversation of economists. The standards of predictive success which lead one to have qualms about economics are already standards that many economists accept. The only way to escape these doubts is to surrender the standards that gave rise to them. But McCloskey's position undermines any principled argument for a change in standards. Furthermore, as Alexander Rosenberg has argued (1988), it seems that economists would doom themselves to irrelevance if they were to surrender standards of predictive success, for it is upon such standards that policy decisions are made.

McCloskey does not, in fact, want to preclude all criticisms that economists are sometimes persuaded when they should not be or are not persuaded when they should be. For she herself criticizes the bad habit some economists have of conflating statistical significance with economic importance (1985, ch. 9). Sometimes McCloskey characterizes rhetoric descriptively as the study of what in fact persuades, but sometimes she characterizes it normatively as the study of what ought to persuade (1985, ch. 2). And if rhetoric is the study of what ought rationally to persuade, then it is methodology, not an alternative to methodology. Questions about whether economics is a successful empirical science cannot be conjured away.

Realism in economic methodology

Economic methodologist have paid little attention to debates within philosophy of science between realists and anti-realists (van Fraassen 1980, Boyd 1984), because economic theories rarely postulate the existence of unobservable entities or properties, apart from variants of “everyday unobservables,” such as beliefs and desires. Methodologists have, on the other hand, vigorously debated the goals of economics, but those who argue that the ultimate goals are predictive (such as Milton Friedman) do so because of their interest in policy, not because they seek to avoid or resolve epistemological and semantic puzzles concerning references to unobservables.

Nevertheless there are two important recent realist programs in economic methodology. The first, developed mainly by Uskali Mäki, is devoted to exploring the varieties of realism implicit in the methodological statements and theoretical enterprises of economists (see Mäki 1990a, b, c, 2007). The second, which is espoused by Tony Lawson and his co-workers, mainly at Cambridge University, derives from the work of Roy Bhaskar (1978) (see Lawson 1997, Bhaskar **et al**. 1998, and Fleetwood 1999). In Lawson's view, one can trace many of the inadequacies of mainstream economics (of which he is a critic) to an insufficient concern with ontology. In attempting to identify regularities on the surface of the phenomena, mainstream economists are doomed to failure. Economic phenomena are in fact influenced by a large number of different causal factors, and one can achieve scientific knowledge only of the underlying mechanisms and tendencies, whose operation can be glimpsed intermittently and obscurely in observable relations. Mäki's and Lawson's programs obviously have little to do with one another, though Mäki (like Mill, Cartwright, and Hausman) shares Lawson's and Bhaskar's concern with underlying causal mechanisms. See also the entry on Scientific Realism.

Economic methodology and social studies of science

Throughout its history, economics has been the subject of sociological as well as methodological scrutiny. Many sociological discussions of economics, like Marx's critique of classical political economy, have been concerned to identify ideological distortions and thereby to criticize particular aspects of economic theory and economic policy. Since every political program finds economists who testify to its economic virtues, there is a never-ending source of material for such critiques. For example, in the wake of the near collapse of the international financial system in 2008, American economists who argued for austerity were mostly Republicans, while those who defended efforts to increase aggregate demand were mostly Democrats.

The influence of contemporary sociology of science and social studies of science, coupled with the difficulties methodologists have had making sense of and rationalizing the conduct of economics, have led to a sociological turn within methodological reflection itself. Rather than showing that there is good evidence supporting developments in economic theory or that those developments have other broadly epistemic virtues, methodologists and historians such as D. Wade Hands (2001); Hands and Mirowski 1998), Philip Mirowski (2002), and E. Roy Weintraub (1991) have argued that these changes reflect a wide variety of non-rational factors, from changes in funding for theoretical economics, political commitments, personal rivalries, attachments to metaphors, or mathematical interests.

4.4 INDUSTRIAL POLICY & FRAMEWORK OF GOVERNMENT CONTRACT OVER BUSINESS:

Detailed contemporary studies

The above survey of approaches to the fundamental problems of appraising economic theory is far from complete. For example, there have been substantial efforts to apply structuralist views of scientific theories (Sneed 1971, Stegmüller 1976, 1979) to economics (Stegmüller et al. 1981, Hamminga 1983, Hands 1985c, Balzer and Hamminga 1989). The above discussion does at least document the diversity and disagreements concerning how to interpret and appraise economic theories. It is not surprising that there is no consensus among those writing on economic methodology concerning the overall empirical appraisal of specific approaches in economics, including mainstream microeconomics, macroeconomics, and econometrics. When practitioners cannot agree, it is questionable whether those who know more philosophy but less economics will be able to settle the matter. Since the debates continue, those who reflect on economic methodology should have a continuing part to play.

Meanwhile, there are many other more specific methodological questions to address, and it is a sign of the maturity of the sub discipline that a large and increasing percentage of work on economic methodology addresses more specific questions. There is plethora of work, as a perusal of any recent issue of the **Journal of Economic Methodology** or **Economics and Philosophy** will confirm. Some of the range of issues currently under discussion was mentioned above in Section 2. Here is a list of three of the many areas of current interest:

1. Although more concerned with the content of economics than with its methodology, the recent explosion of work on feminist economics is shot through with methodological (and sociological) self-reflection. The fact that a larger percentage of economists are men than is true of any of the other social sciences and indeed than several of the natural sciences raises methodological questions about whether there is something particularly masculine about the discipline. Important texts are Ferber and Nelson (1993, 2003), Nelson (1995, 1996, 2001), Barker and Kuiper 2003. Since 1995, there has been a journal, **Feminist Economics**, which pulls together much of this work.

2. A century ago economists talked of their work in terms of "principles," "laws," and "theories." Nowadays the standard intellectual tool or form is a "model." Is this just a change in terminological fashion, or does the concern with models signal a methodological shift? What are models? These questions have been discussed by Cartwright 1989, 1999, Godfrey Smith 2006, Grüne-Yanoff 2009, Hausman 1992, Kuorikoski and Lehtinen 2009, Mäki, ed. 1991, Mäki 2009a, 2009b, Morgan 2001, 2004, Morgan and Morrison 1999, Rappaport 1998, Sugden 2000, 2009, and Weisberg 2007.

3. During the past generation, experimental work in economics has expanded rapidly. This work has many different objectives (see Roth 1988) and apparently holds out the prospect of bridging the gulf between economic theory and empirical evidence. Some of it casts light on the way in which methodological commitments influence the extent to which economists heed empirical evidence. For example, in the case of preference reversals, discussed briefly below in Section 5.1, economists devoted considerable attention to the experimental findings and conceded that they disconfirmed central principles of economics. But economists were generally unwilling to pay serious attention to the theories proposed by psychologists that predicted the phenomena before they were observed. The reason seems to be that these psychological theories do not have the same wide scope as the basic principles of mainstream economics (Hausman 1992, chapter 13). The methodological commitments governing theoretical economics are much more complex and much

more specific to economics than the general rules proposed by philosophers such as Popper and Lakatos.

The relevance of experimentation remains controversial. Behavioral economists are most enthusiastic, while more traditional theorists question whether experimental findings can be generalized to non-experimental contexts and, more generally, concerning the possibilities of learning from experiments (Caplin and Schotter 2008). For discussions of experimental economics, see Guala (2000a, b, 2005), Hey (1991), Kagel and Roth (1995, 2008), Plott (1991), Smith (1991), Starmer (1999), Camerer (2003), and the June, 2005 special issue of the **Journal of Economic Methodology**. Al Roth's Game Theory, Experimental Economics, and Market Design Page (http://kuznets.fas.harvard.edu/~aroth/alroth.html) is a particularly useful source.

4.5 ROLE OF CHAMBERS OF COMMERCE AND CONFEDERATION OF INDIAN INDUSTRIES

Chambers of commerce plays a vital role by rendering useful services to businessmen and the Government. Services to businessmen Chambers of commerce serves as friends, philosophers and guides to the business community. Businessmen derive the following advantages from chambers of commerce:

(i) Businessmen get valuable information free of cost.

(ii) They can expand their business activities with the help of suggestions and advice from chambers of commerce.

(iii) Chambers of commerce creates markets for the products of their members by organizing fairs and exhibitions.

(iv) Businessmen get a common forum at which they can discuss problems and exchange views on matters of common interest.

(v) Differences and disputes among businessmen can be solved amicably and economically with the help of chambers of commerce.

(vi) Members take advantage of educational and training facilities offered by chambers of commerce.

(vii) Chambers of commerce undertakes research on behalf of their members.

(viii) Chambers of commerce fosters a sense of cooperation's among businessmen.

Chambers of Commerce in India

In India, chambers of commerce have been organised at both regional and national levels.

1. Regional Chambers of Commerce

(i) Indian Chamber of Commerce (Kolkata)
(ii) Bengal Chamber of Commerce (Kolkata)
(iii) Indian Merchants Chamber (Mumbai)
(iv) Mawari Chamber of Commerce (Mumbai)
(v) Madras Chamber of Commerce (Chennai)
(vi) Punjab, Haryana and Delhi Chamber of Commerce (New Delhi).

2. National Chambers of Commerce

(i) Federation of Indian Chambers of Commerce and Industry (FICCI)
(ii) Confederation of Indian Industry (CII)
(Hi) Associated Chambers of Commerce and Industry (ASSOCHAM)
(iv) All India Organizations of Employers (AIOE)

FICCI:

The Federation of Indian Chambers of Commerce and Industry (FICCI) were established in 1926 in New Delhi as an apex central body of businessmen in India. It consists of both individual and corporate members.

Its membership consists of 50 chambers of commerce and trade associations, 200 overseas members, and 1500 associate members. Its management is vested in an executive committee. FICCI acts as a representative body of Indian business.

Economic Planning in India

Introduction:

Economic Planning is to make, decision with respect to Economic Planning is a, the use of resources. Term used to describe the long term plans of government to co-ordinate and develop Economic planning in India was started in 1950, the economy.

Need for Economic Planning

Mess Poverty And Low, Low Level of, High Rate of Growth of Population, Per Capita Income Social And Economic Problem Created By, Backward Technology, Literacy Partition Of Country

Objectives of Economic Planning

Economic Growth. Balanced Regional Development. Reduction of Economic In Equalities. Reduction of Unemployment. Modernization.

Members Of Planning Commission Of India – Chairman -Dr. Manmohan Singh Member,Deputy Chairman - Shri Montek Singh Ahluwalia,(Prime Minister) Secretary - Shri Rajeev Ratna Shah

Five Year Plans

The economy of India is based in part on planning through its five year plans which are developed, executed and monitored by planning commission .The tenth plan completed its terms in march 2007 and the eleventh plan is currently underway .1. First five year plan(1951-1956)2. Second five year plan (1956-1961)3. Third five year plan (1961-1966)4. Fourth five year plan (1969-1974)5. Fifth five year plan (1974-1979)6. Sixth five year plan (1980-1985)7. Seventh five year plan(1985-1990)8. Eighth five year plan(1992-1997)9. Ninth five year plan(1997-2002)10. Tenth five year plan (2002-2007)11. Eleventh five year plan (2007-2012)

1. First five year plan(1951-1956)- The first Indian Prime Minister, Jawaharlal Nehru presented the first five- year plan to the Parliament of India on 8 December 1951.• The plan addressed, mainly, the agrarian sector, including investments in dams and irrigation.• The most important feature of this phase was active role of state in all economic sectors. after independence, India was facing basic problems— deficiency of capital and low capacity to save.• At the end of the plan period in 1956, five Indian Institutes of Technology (IITs) were started as major technical institutions.
2. Second five year plan(1956-61) - The second five- year plan focused on industry, especially heavy industry.• Hydroelectric power projects and five steel mills at Bhilai, Durgapur, and Rourkela were established. Coal production was increased. More railway lines were added in the north east.• Atomic energy was also formed in second five year plan.• The total amount allocated under the

second five year plan in India was Rs. 4,800 crore. This amount was allocated among various sectors:• Mining and industry• Community and agriculture development• Power and irrigation• Social services• Communications and transport

3. Third five year plan (1961-66) -The third plan stressed on agriculture and improving production of wheat, it is also shifted the focus towards the Defense industry.

• Many primary schools were started in rural areas. Panchayat elections were started.

• State electricity boards and state secondary education boards were formed. Fourth five year plan (1969-74) - At this time Indira Gandhi was the Prime Minister. The Indira Gandhi government nationalized 14 major Indian banks and the Green Revolution in India advanced agriculture.

4. Fifth five year plan (1974-79) - Stress was laid on employment, poverty, alleviation, and justice. The plan also focused on self-reliance in agricultural production and defense.• The Indian national highway system was introduced for the first time. Sixth five year plan(1980-85) - The sixth plan also marked the beginning of economic liberalization. This led to an increase in food prices and an increase in the cost of living.• Family planning was also expanded in order to prevent overpopulation.

5. Seventh five year plan(1985-90) -The Seventh Plan marked the comeback of the Congress Party to power.• The main objectives of the 7th five year plans were to establish growth in areas of increasing economic productivity, production of food grains, and generating employment opportunities.• The thrust areas of the 7th Five year plan have been enlisted below:• Social Justice• Using modern technology• Agricultural development• Full supply of food, clothing, and shelter• Increasing productivity of small and large scale farmers• Making India an Independent Economy

6. Eighth five year plan(1992-97) -Between 1990 and 1992, there were only Annual Plans.• It was the beginning of privatization and liberalization in India.• Modernization of industries was a major highlight of the Eighth Plan.• India became a member of the World Trade Organization on 1 January 1995.• The major objectives included, controlling population growth, poverty reduction, employment generation, strengthening the infrastructure, Institutional building, tourism management, Human Resource development, Involvement of Panchayat raj, Nagar Palikas, N.G.OS and Decentralization and peoples participation.

7. Ninth five year plan(1997-2002) -The main objectives of the Ninth Five Year Plan of India are:

• To develop the rural & agricultural sector

• To generate employment opportunities and promote poverty reduction.

• To provide for the basic infrastructural facilities like education for all, safe drinking water, primary health care, transport, energy. Tenth five year plan (2002-07)

• Attain 8% GDP growth per year.

• Reduction of poverty ratio by 5 percentage points by 2007. Providing gainful and high-quality employment at least to the addition to the labor force Reduction in gender gaps in literacy and wage rates by at least 50%.

8. 11th Five Year Plan Target Income & ,Poverty Accelerate growth rate of GDP from 8% to 10% and then maintain at 10% in the 12th Plan in order to double per ,capita income by 2016-17. Reduce educated, Increase agricultural GDP growth rate to 4% per year. Raise real wage rate of unskilled workers by, unemployment to below 5%. 20 percent.

9. Education Reduce dropout rates of children from, Increase elementary school from 52.2% in 2003-04 to 20% by 2011-12. Lower gender, literacy rate for persons of age 7 years or more to 85%. gap in literacy to 10 percentage points.

10. Women and Children Ensure that at least 33 percent, of the direct and indirect beneficiaries of all government schemes are ensure that all children enjoy a safe, women and girl children. childhood, without any compulsion to work.

11. Environment Increase forest and tree cover by 5, Attain WHO standards of air quality in all major, percentage points. Treat all urban waste water by 2011-12 to clean river, cities by 2011-12. Increase energy efficiency by 20 percentage points by 2016-17.,waters.

12. Conclusion Economic Planning help in mobilizing Objective of economic, and allocating the resources in desired manner. Planning is to reduce inequality, economic growth, balanced regional Each five year plan aims at achieving certain, growth, modernization. target. Five year plan constitute the steps toward the fulfillment of objectives of economic planning.

Economic planning:

Economic planning is a mechanism for economic coordination contrasted with the market mechanism. There are various types of planning procedures and ways of conducting economic planning. As a coordinating mechanism for socialism and an alternative to the market, planning is defined as a direct allocation of resources and is contrasted with the indirect allocation of the market.

The level of centralization in decision-making in planning depends on the specific type of planning mechanism employed. As such, one can distinguish between centralized planning and decentralized planning. An economy primarily based on central planning is referred to as a planned economy. In a centrally planned economy the allocation of resources is determined by a comprehensive plan of production which specifies output requirements. Planning may also take the form of directive planning or indicative planning.

Most modern economies are mixed economies incorporating various degrees of markets and planning.

A distinction can be made between physical planning (as in pure socialism) and financial planning (as practiced by governments and private firms in capitalism). Physical planning involves economic planning and coordination conducted in terms of disaggregated physical units; whereas financial planning involves plans formulated in terms of financial units.

Different forms of economic planning have been featured in various models of socialism. These range from decentralized-planning systems, which are based on collective-decision making and disaggregated information, to centralized systems of planning conducted by technical experts who use aggregated information to formulate plans of production. In a fully developed socialist economy, engineers and technical specialists, overseen or appointed in a democratic manner, would coordinate the economy in terms of physical units without any need or use for financial-based calculation. The economy of the Soviet Union never reached this stage of development, so planned its economy in financial terms throughout the duration of its existence.

Concept of socialist planning

The classical conception of socialist economic planning held by Marxists involved an economic system where goods and services were valued, demanded and produced directly for their use-value, as opposed to being produced as a by-product of the pursuit of profit by business enterprises. This idea of "production for use" is a fundamental aspect of a socialist economy. This involves social control over the allocation of the surplus product, and in its most extensive theoretical form, calculation-in-kind in place of financial calculation. For Marxists in particular, planning entails control of the surplus product (profit) by the associated producers in a democratic manner.

This differs from planning within the framework of capitalism, which is based on the planned accumulation of capital in order to either stabilize the business cycle (when undertaken by governments) or to maximize profits (when undertaken by firms), as opposed to the socialist concept of planned production for use.

In such a socialist society based on economic planning, the primary function of the state apparatus changes from one of political rule over people (via the creation and enforcement of laws) into a technical administration of production, distribution and organization; that is the state would become a coordinating economic entity rather than a mechanism of political and class-based control, thereby ceasing to be a state in the traditional sense.[7]

Planning versus Command

The concept of a command economy is differentiated from the concept of a planned economy (or economic planning), especially by socialists and Marxists, who liken command economies (such as that of the former Soviet Union) to that of a single capitalist firm, organized in a top-down administrative fashion based on bureaucratic organization akin to that of a capitalist corporation.

Economic analysts have argued that the economy of the former Soviet Union actually represented an administered or command economy as opposed to a planned economy because planning did not play an operational role in the allocation of resources among productive units in the economy; in actuality, the main allocation mechanism was a system of command-and-control. As a result, the phrase administrative command economy gained currency as a more accurate descriptor of Soviet-type economies.

Decentralized planning

Decentralized economic planning is a planning process that starts at the user-level in a bottom-up flow of information. As such, decentralized planning often appears as a complement to the idea of socialist self-management (most notably by libertarian socialists and democratic socialists).

The theoretical postulates for models of decentralized socialist planning stem from the thought of Karl Kautsky, Rosa Luxembourg, Nikolai Bukharin and Oskar Lange.[10] This model involves economic decision-making based on self-governance from the bottom-up (by employees and consumers) without any directing central authority. This often contrasts with the doctrine of Leninists, Marxist-Leninists and Social democrats, who advocate directive administrative planning where directives are passed down from higher authorities (planning agencies) to agents (enterprise managers), who in turn give orders to workers.

Two contemporary models of decentralized planning are Participatory economics, developed by the economist Michael Albert; and negotiated coordination, developed by the economist Pat Devine.

Material balances

Material balance planning was the type of economic planning employed by Soviet-type economies. This system emerged in a haphazard manner during the collectivization drive under Joseph Stalin, and emphasized rapid growth and industrialization over efficiency. Eventually this method became an established part of the Soviet conception of "socialism" in the post-war period, and other Socialist states emulated it in the latter half of the 20th century. Material balancing involves a planning agency (Gosplan in the case of the USSR) taking a survey of available inputs and raw materials, using a balance-sheet to balance them with output targets specified by industry, thereby achieving a balance of supply and demand.[11]

Lange-Lerner-Taylor model

The economic models developed in the 1920s and 1930s by American economists Fred M. Taylor and Abba Lerner, and by Polish economist Oskar Lange, involved a form of planning based on marginal cost pricing. In Lange's model, a central planning board would set prices for producer goods through a trial-and-error method, adjusting until the price matched the marginal cost, with the aim of achieving Pareto-efficient outcomes. Although these models were often described as "market socialism", they actually represented a form of "market simulation" planning.

Planning in capitalism

Intra-firm and intra-industry planning

Large corporations use planning to allocate resources internally among its divisions and subsidiaries. Many modern firms also utilize regression analysis to measure market demand in order to adjust prices and to decide upon the optimal quantities of output to be supplied. Planned obsolescence is often cited as a form of economic planning employed by large firms to increase demand for future products by deliberately limiting the operational lifespan of its products.

The internal structures of corporations have been described as centralized command economies that employ both planning and hierarchical organization and management. According to J. Bradford DeLong, a significant portion of transactions in Western economies do not pass through anything resembling a market. Many transactions are actually movements of value among different branches and divisions within corporations, companies and agencies. Furthermore, a significant portion of economic activity is planned in a centralized manner by managers within firms in the form of production planning and marketing management where consumer demand is estimated, targeted and included in the firm's overall plan; and in the form of production planning.

In The New Industrial State, the American economist John Kenneth Galbraith posited that large firms manage both their prices and consumer demand for their products through sophisticated statistical methods. Galbraith also pointed out that, because of the increasingly complex nature of technology and specialization of knowledge, management had become increasingly specialized and bureaucratized. The internal structures of corporations and companies had been transformed into what he called a "techno structure", where specialized groups and committees are the primary decision-makers, and specialized managers, directors and financial advisers operate under formal bureaucratic procedures, replacing the individual entrepreneur's role.

Joseph Schumpeter, an economist associated with the Austrian school and Institutional school of economics, argued that the changing nature of economic activity – specifically the increasing bureaucratization and specialization required in production and management – was the major reason for why capitalism would eventually evolve into socialism. The role of the businessman was increasingly bureaucratic, and specific functions within the firm required increasingly specialized knowledge which could just as easily be supplied by state functionaries in publicly owned enterprises.

In the first volume of Capital, Karl Marx identified the process of capital accumulation as central to the law of motion of capitalism. Increased industrial capacity from increasing returns to scale further socializes production. Capitalism eventually socializes labor and production to a point where the traditional notions of private ownership and commodity production become increasingly insufficient for further expanding the productive capacities of society,[14] necessitating the emergence of a socialist economy where the means of production are socially owned and the surplus value is controlled by the workforce.

Many socialists viewed these tendencies, specifically the increasing trend toward economic planning in capitalist firms, as evidence of the increasing obsolescence of capitalism and inapplicability of ideals like perfect competition to the economy; with the next stage of evolution being the application of society-wide economic planning.

State development planning

State development planning or national planning refers to macroeconomic policies and financial planning conducted by governments to stabilize the market or promote economic growth in market-based economies. This involves the use of monetary policy, industrial policy and fiscal policy to "steer" the market toward targeted outcomes. Industrial policy includes government taking measures "aimed at improving the competitiveness and capabilities of domestic firms and promoting structural transformation."

In contrast to socialist planning, state development planning does not replace the market mechanism and does not eliminate the use of money in production. It only applies to privately owned and publicly owned firms in the strategic sectors of the economy and seeks to coordinate their activities through indirect means and market-based incentives (such as tax breaks or subsidies).

Economic planning in practice

Soviet Union

Main articles: Analysis of Soviet-type economic planning and Economy of the Soviet Union

The Soviet model of economic planning is an economic system where decisions regarding production and investment are embodied in a plan formulated by Gosplan (State planning agency) through the process of material balances. Economic information, including consumer demand and enterprise resource requirements, are aggregated and used to balance supply (from available resource inventories) with demand (based on requirements for individual economic units and enterprises) through a system of iterations.

The Soviet economy operated in a centralized and hierarchical manner where directives were issued to lower-level organizations. As a result, the Soviet economic model was often referred to as a command economy or an administered economy because plan directives were enforced through inducements in a vertical power-structure, where planning played little functional role in the allocation of resources.

United States

The United States utilized economic planning during the First World War. The Federal Government supplemented the price system with centralized resource allocation and created a number of new agencies to direct important economic sectors; notably the Food Administration, Fuel Administration, Railroad Administration and War Industries Board. During the Second World War, the economy experienced staggering growth under a similar system of planning. In the postwar period, US governments utilized such measures as the Economic Stabilization Program to directly intervene in the economy to control prices, wages, etc. in different economic sectors.

From the start of the Cold War and up until the present day, the United States Federal Government directs a significant amount of investment and funding into research and development (R&D), often initially through the Department of Defense. The government performs 50% of all R&D in the United States, with a dynamic state-directed public-sector developing most of the technology that later becomes the basis of the private sector economy. As a result, Noam Chomsky has referred to the United States economic model as a form of State Capitalism. Examples include laser technology, the internet, nanotechnology, telecommunications and computers, with most basic research and downstream commercialization financed by the public sector. This includes research in other fields including healthcare and energy, with 75% of most innovative drugs financed through the National Institutes of Health.

East Asian Tigers

The development models of the East Asian Tiger economies involved varying degrees of economic planning and state-directed investment in a model sometimes described as "state development capitalism" or the "East Asian Model".

The governments of Malaysia and South Korea instituted a series of macroeconomic plans (First Malaysia Plan and Five-Year Plans of South Korea) to rapidly develop and industrialize their mixed economies.

The economy of Singapore was partially based on economic planning involving an active government industrial policy and high levels of state-owned industry in a free-market economy.

France

Under dirigisme, France utilized indicative planning and established a number of state-owned enterprises in strategic sectors of the economy. The concept behind indicative planning is the early identification of oversupply, bottlenecks and shortages so that state investment behavior can be modified in a timely fashion to reduce the incidence of market disequilibrium, with the goal of sustaining stable economic development and growth. Under this system France experienced its "Trente Glorieuses" period of economic prosperity.

Criticisms

The most notable critique of economic planning came from Austrian economists Friedrich Hayek and Ludwig von Mises. Hayek argued that central planners could not possibly accrue the necessary information to formulate an effective plan for production because they are not exposed to the rapid changes in the particular time and place that take place in an economy, and are unfamiliar with these circumstances. The process of transmitting all the necessary information to planners is therefore inefficient.

Proponents of de-centralized economic planning have also criticized central economic planning. For example, Leon Trotsky believed that central planners, regardless of their intellectual capacity, operated without the input and participation of the millions of people who participate in the economy, and would therefore be unable to respond to local conditions quickly enough to effectively coordinate all economic activity.

UNIT –V - CORPORATE SOCIAL RESPONSIBILITY AND GOVERNANCE

Unit Structure:

5.0 Objectives

After reading this unit you should be able to understand:

- The meaning need for CSR.
- Its evolution and challenges
- The regulations of CSR.
- The future of CSR activities

5.1 Definition – Evolution and need for CSR

Meaning:

The heart of corporate governance is transparency, disclosure, accountability and integrity. It is to be borne in mind that mere legislation does not ensure good governance. Good governance flows from ethical business practices even when there is no legislation.

Noble laureate Milton Friedman defined Corporate Governance as "the conduct of business in accordance with shareholders' desires, which generally is to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs.

Governance is concerned with the intrinsic nature, purpose, integrity and identity of an organization with primary focus on the entity's relevance, continuity and fiduciary aspects.

The root of the word Governance is from 'gubernate', which means to steer. Corporate governance would mean to steer an organization in the desired direction. The responsibility to steer lies with the board of directors/ governing board. Corporate or a Corporation is derived from Latin term "corpus" which means a "body". Governance means administering the processes and systems placed for satisfying stakeholder expectation. When combined Corporate Governance means a set of systems procedures, policies, practices, standards put in place by a corporate to ensure that relationship with various stakeholders is maintained in transparent and honest manner.

Definitions of Corporate Governance:

1. "Corporate Governance is concerned with the way corporate entities are governed, as distinct from the way business within those companies is managed. Corporate governance addresses the issues facing Board of Directors, such as the interaction with top management and relationships with the owners and others interested in the affairs of the company" Robert Ian (Bob) Tricker (who introduced the words corporate governance for the first time in his book in 1984)

2. "Corporate Governance is about promoting corporate fairness, transparency and accountability".

James D. Wolfensohn (Ninth President World Bank)

OECD

Corporate governance structure specifies the distribution of rights and responsibilities among different participants in the company such as board, management, shareholders and other stakeholders; and spells out the rules and procedures for corporate decision-making. By doing this, it provides the structure through which the company's objectives are set along with the means of attaining these objectives as well as for monitoring performance.

Cadbury Committee, U.K

"(It is) the system by which companies are directed and controlled"

Corporate Governance is a system of structuring, operating and controlling a company with the following specific aims:—

(i) Fulfilling long-term strategic goals of owners;
(ii) Taking care of the interests of employees;
(iii) A consideration for the environment and local community;
(iv) Maintaining excellent relations with customers and suppliers;
(v) Proper compliance with all the applicable legal and regulatory requirements.

"Corporate governance deals with laws, procedures, practices and implicit rules that determine a company's ability to take informed managerial decisions vis-à-vis its claimants - in particular, its shareholders, creditors, customers, the State and employees. There is a global consensus about the objective of 'good' corporate governance: maximizing long-term shareholder value."

Confederation of Indian Industry (CII) - Desirable Corporate Governance Code (1998)

"Strong corporate governance is indispensable to resilient and vibrant capital markets and is an important instrument of investor protection. It is the blood that fills the veins of transparent corporate disclosure and high quality accounting practices. It is the muscle that moves a viable and accessible financial reporting structure."

Report of Kumar Mangalam Birla Committee on Corporate Governance constituted by SEBI (1999)

"Corporate Governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company."

Report of N.R. Narayana Murthy Committee on Corporate Governance constituted by SEBI (2003)

"Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders."

NEED FOR CSR:

Corporate social responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are environmental protection and the wellbeing of employees, the community and civil society in general, both now and in the future.

The concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society. Traditional views about competitiveness, survival and profitability are being swept away.

Some of the drivers pushing business towards CSR include:

1. The shrinking role of government

In the past, governments have relied on legislation and regulation to deliver social and environmental objectives in the business sector. Shrinking government resources, coupled with a distrust of regulations, has led to the exploration of voluntary and non-regulatory initiatives instead.

2. Demands for greater disclosure

There is a growing demand for corporate disclosure from stakeholders, including customers, suppliers, employees, communities, investors, and activist organizations.

3. Increased customer interest

There is evidence that the ethical conduct of companies exerts a growing influence on the purchasing decisions of customers. In a recent survey by Environics International, more than one in five consumers reported having either rewarded or punished companies based on their perceived social performance.

4. Growing investor pressure

Investors are changing the way they assess companies' performance, and are making decisions based on criteria that include ethical concerns. The Social Investment Forum reports that in the US in 1999, there was more than $2 trillion worth of assets invested in portfolios that used screens linked to the environment and social responsibility. A separate survey by Environics International revealed that more than a quarter of share-owning Americans took into account ethical considerations when buying and selling stocks . (More on socially responsible investment can be found in the 'Banking and investment' section of the site.)

5. Competitive labor markets

Employees are increasingly looking beyond paychecks and benefits, and seeking out whose philosophies and operating practices match their own principles. In order to hire and retain skilled employees, companies are being forced to improve working conditions.

6. Supplier relations

As stakeholders are becoming increasingly interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers, to ensure that other companies' policies or practices do not tarnish their reputation.

Some of the positive outcomes that can arise when businesses adopt a policy of social responsibility include:

1. Company benefits:

- Improved financial performance;
- Lower operating costs;
- Enhanced brand image and reputation;
- Increased sales and customer loyalty;
- Greater productivity and quality;
- More ability to attract and retain employees;
- Reduced regulatory oversight;
- Access to capital;
- Workforce diversity;
- Product safety and decreased liability.

2. Benefits to the community and the general public:

- Charitable contributions;
- Employee volunteer programmes;
- Corporate involvement in community education, employment and homelessness programmes;
- Product safety and quality.

3. Environmental benefits:

- Greater material recyclability;
- Better product durability and functionality;
- Greater use of renewable resources;
- Integration of environmental management tools into business plans, including life-cycle assessment and costing, environmental management standards, and eco-labelling.

Nevertheless, many companies continue to overlook CSR in the supply chain - for example by importing and retailing timber that has been illegally harvested. While governments can impose embargos and penalties on offending companies, the organizations themselves can make a commitment to sustainability by being more discerning in their choice of suppliers.

The concept of corporate social responsibility is now firmly rooted on the global business agenda. But in order to move from theory to concrete action, many obstacles need to be overcome.

A key challenge facing business is the need for more reliable indicators of progress in the field of CSR, along with the dissemination of CSR strategies. Transparency and dialogue can help to make a business appear more trustworthy, and push up the standards of other organizations at the same time.

NEED FOR CORPORATE GOVERNANCE

Corporate Governance is integral to the existence of the company.

Corporate Governance is needed to create a corporate culture of Transparency, accountability and disclosure. It refers to compliance with all the moral & ethical values, legal framework and voluntarily adopted practices.
Corporate Performance: Improved governance structures and processes help ensure quality decision-making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance.

This can be linked with improved corporate performance- either in terms of share price or profitability. Enhanced Investor Trust: Investors consider corporate Governance as important as financial performance when evaluating companies for investment. Investors who are provided with high levels of disclosure & transparency are likely to invest openly in those companies. The consulting firm McKinsey surveyed and determined that global institutional investors are prepared to pay a premium of up to 40 percent for shares in companies with superior corporate governance practices.

Better Access to Global Market: Good corporate governance systems attract investment from global investors, which subsequently leads to greater efficiencies in the financial sector. Combating Corruption: Companies that are transparent, and have sound system that provide full disclosure of accounting and auditing procedures, allow transparency in all business transactions, provide environment where corruption will certainly fade out. Corporate Governance enables a corporation to compete more efficiently and prevent fraud and malpractices within the organization.

Easy Finance from Institutions: Several structural changes like increased role of financial intermediaries and institutional investors, size of the enterprises, investment choices available to investors, increased competition, and increased risk exposure have made monitoring the use of capital more complex thereby increasing the need of Good Corporate Governance. Evidence indicates that well-governed companies receive higher market valuations. The credit worthiness of a company can be trusted on the basis of corporate governance practiced in the company.

Enhancing Enterprise Valuation: Improved management accountability and operational transparency fulfill investors' expectations and confidence on management and corporations, and return, increase the value of corporations.

Reduced Risk of Corporate Crisis and Scandals: Effective Corporate Governance ensures efficient risk mitigation system in place. The transparent and accountable system that Corporate Governance makes the Board of a company aware of all the risks involved in particular strategy, thereby, placing various control systems to monitor the related issues. Accountability: Investor relations' is essential part of good corporate governance. Investors have directly/ indirectly entrusted management of the company for the creating enhanced value for their investment. The company is hence obliged to make timely disclosures on regular basis to all its shareholders in order to maintain good investor’s relation. Good Corporate Governance practices create the environment where Boards cannot ignore their accountability to these stakeholders.

5.2 THEORETICAL PERSPECTIVES

Corporate Governance Theories

The following theories elucidate the basis of corporate governance:
(a) Agency Theory
(b) Shareholder Theory
(c) Stake Holder Theory
(d) Stewardship Theory

Agency Theory

According to this theory, managers act as 'Agents' of the corporation. The owners or directors set the central objectives of the corporation. Managers are responsible for carrying out these objectives in day-to-day work of the company. Corporate Governance is control of management through designing the structures and processes.

In agency theory, the owners are the principals. But principals may not have knowledge or skill for getting the objectives executed. The principal authorises the mangers to act as 'Agents' and a contract between principal and agent is made. Under the contract of agency, the agent should act in good faith. He should
protect the interest of the principal and should remain faithful to the goals.

In modern corporations, the shareholdings are widely spread. The management (the agent) directly or indirectly selected by the shareholders (the Principals), pursue the objectives set out by the shareholders. The main thrust of the Agency Theory is that the actions of the management differ from those required by the shareholders to maximize their return. The principals who are widely scattered may not be able to counter this in the absence of proper systems in place as regards timely disclosures, monitoring and oversight. Corporate Governance puts in place such systems of oversight.

Stockholder/shareholder Theory

According to this theory, it is the corporation which is considered as the property of shareholders/ stockholders.

They can dispose of this property, as they like. They want to get maximum return from this property.

The owners seek a return on their investment and that is why they invest in a corporation. But this narrow role has been expanded into overseeing the operations of the corporations and its mangers to ensure that the corporation is in compliance with ethical and legal standards set by the government. So the directors are responsible for any damage or harm done to their property i.e., the corporation. The role of managers is to maximize the wealth of the shareholders. They, therefore should exercise due diligence, care and avoid conflict of interest and should not violate the confidence reposed in them. The agents must be faithful to shareholders.

Stakeholder Theory

According to this theory, the company is seen as an input-output model and all the interest groups which include creditors, employees, customers, suppliers, local-community and the government are to be considered. From their point of view, a corporation exists for them and not the shareholders alone.

The different stakeholders also have a self interest. The interest of these different stakeholders is at times conflicting. The managers and the corporation are responsible to mediate between these different stakeholders interest. The stake holders have solidarity with each other. This theory assumes that stakeholders are capable and willing to negotiate and bargain with one another. This results in long term self interest.

The role of shareholders is reduced in the corporation. But they should also work to make their interest compatible with the other stake holders. This requires integrity and managers play an important role here.

They are faithful agents but of all stakeholders, not just stockholders.

Stewardship Theory

The word 'steward' means a person who manages another's property or estate. Here, the word is used in the sense of guardian in relation to a corporation, this theory is value based. The managers and employees are to safeguard the resources of corporation and its property and interest when the owner is absent. They are like a caretaker. They have to take utmost care of the corporation. They should not use the property for their selfish ends. This theory thus makes use of the social approach to human nature.

The managers should manage the corporation as if it is their own corporation. They are not agents as such but occupy a position of stewards. The managers are motivated by the principal's objective and the behavior pattern is collective, pro-organizational and trustworthy. Thus, under this theory, first of all values as standards are identified and formulated. Second step is to develop training programmes that help to achieve excellence. Thirdly, moral support is important to fill any gaps in values.

5.3 CORPORATE CITIZENSHIP:

The Securities and Exchange Board of India (SEBI) had set up a Committee under the Chairmanship of Kumar Mangalam Birla to promote and raise standards of corporate governance. The Report of the committee was the first formal and comprehensive attempt to evolve a Code of Corporate Governance, in the context of prevailing conditions of governance in Indian companies, as well as the state of capital markets at that time.

The recommendations of the Report, led to inclusion of Clause 49 in the Listing Agreement in the year 2000.

These recommendations, aimed at improving the standards of Corporate Governance, are divided into mandatory and non-mandatory recommendations. The said recommendations have been made applicable to all listed companies with the paid-up capital of Rs. 3 crores and above or net worth of Rs. 25 crores or more at any time in the history of the company. The ultimate responsibility for putting the recommendations into practice lies directly with the Board of Directors and the management of the company.

A summary of the Report is reproduced hereunder:

- The Board should have an optimum combination of Executive and Non Executive Directors with not less than 50 per cent of the Board consisting of non-executive directors.

In the case of Non-executive Chairman, at least one-third of the Board should consist of independent directors and in the case of an executive Chairman, at least half of the Board should consist of independent directors. The committee agreed on the following definition of independence:

"Independent directors are directors who apart from receiving director's remuneration do not have any other material pecuniary relationship or transactions with the company, its promoters, its management or its subsidiaries, which in the judgment of the board may affect their independence of judgment."

- Board meetings should be held at least four times in a year, with a maximum time gap of four months between any two meetings. A director should not be a member in more than 10 committees or act as Chairman of more than five committees across all companies in which he is a director.
- Financial Institutions should appoint nominee directors on a selective basis and nominee director should have the same responsibility, be subject to the same discipline and be accountable to the shareholders in the same manner as any other director of the company
- Non-executive Chairman should be entitled to maintain Chairman's office at the expense of the company and also allowed reimbursement of expenses incurred in performance of his duties.
- Audit Committee - which a qualified and independent audit committee should be set up by the board of a company
- The audit committee should have minimum three members, all being non-executive directors, with the majority being independent, and with at least one director havi the chairman of the committee should be an independent director;
- The chairman should be present at Annual General Meeting to answer shareholder queries;
- The audit committee should invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee but on occasions it may also meet without the presence of any executives of the company. Finance director and head of internal audit and when required, a representative of the external auditor should be present as invitees for the meetings of the audit committee;

- The Company Secretary should act as the secretary to the committee.

•Frequency of Meeting

- The audit committee should meet at least thrice a year. One meeting must be held before finalization of annual accounts and one necessarily every six months.
- The quorum should be either two members or one-third of the members of the audit committee, whichever is higher and there should be a minimum of two independent directors.

•Powers of Audit Committee

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

•Functions of the Audit Committee

- Oversight of the company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
- Reviewing with management the annual financial statements before submission to the board, focusing primarily on:

Remuneration Committee

Remuneration Committee should comprise of at least three directors, all of whom should be non- executive directors, the chairman of committee being an independent director. All the members of the remuneration committee should be present at the meeting. These recommendations are non mandatory.

The board of directors should decide the remuneration of non-executive directors. The Corporate Governance section of the Annual Report should make disclosures about remuneration paid to Directors in all forms including salary, benefits, bonuses, stock options, pension and other fixed as well as performance linked incentives.

- Shareholders/Investors' Grievance Committee of Directors - The Board should set up a Committee to specifically look into share holder issues including share transfers and redressal of shareholders' complaints.
- General Body Meetings - Details of last three AGMs should be furnished
- Disclosures - Details of non-compliance by the company including penalties and strictures imposed by the Stock Exchanges, SEBI or any statutory authority on any matter related to capital markets during the last three years must be disclosed to the shareholders.
- Means of communication - Half-yearly report to be sent to each household of shareholders, details of the mode of dissemination of quarterly results and presentations made to institutional investors to be disclosed and statement of Management Discussion and Analysis to be included in the report.
- General shareholder information - Various specified matters of interest to be included in the Annual Report.
- Auditor's Certificate on Corporate Governance - There should be an Auditor's certificate on corporate governance in the Annual Report as an annexure to the Director's Report.
- Companies should consolidated accounts in respect of all subsidiaries in which they hold 51 per cent or more of the capital.

- Information like quarterly results, presentation made by companies to analysts may be put on company's web-site or may be sent in such a form so as to enable the stock exchange on which the company is listed to put it on its own web-site.
- Shareholders to use the forum of General Body Meetings for ensuring that the company is being properly stewarded for maximizing the interests of the shareholders.
- A board committee under the chairmanship of a non-executive director should be formed to specifically look into the redressing of shareholder complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc.
- Half-yearly declaration of financial performance including summary of the significant events in last six-months, should be sent to each household of shareholders.

The institutional shareholders should:

Take active interest in the composition of the Board of Directors Be vigilant Maintain regular and systematic contact at senior level for exchange of views on management, strategy, performance and the quality of management. Ensure that voting intentions are translated into practice. Evaluate the corporate governance performance of the company.

TYPES OF BOARD

Unitary Board

The unitary board, remains in full control of every aspect of the company's activities. It initiates action and it is responsible for ensuring that the action which it has initiated is carried out. All the directors, whether executive or outside, share same aims and responsibilities and are on the same platform.

Two-tier Boards

The alternative board model to unitary board is the two-tier board, which was developed in its present form in Germany.

A two-tier board fulfils the same basic functions as a unitary board, but it does so through a clear separation between the tasks of monitoring and that of management. The supervisory board (Asfusichtsrat) oversees the direction of the business and the management board (Vorstand) is responsible for the running of the company. The supervisory board controls the management board through appointing its members and through its statutory right to have the final say in major decisions affecting the company. The structure rigorously separates the control function from the management function and members of the one board cannot be members of the other. This separation is enshrined in law and the legal responsibilities of the two sets of board members are different.

The supervisory board system was introduced to strengthen the control of shareholders, particularly the banks, over the companies in which they had invested. Shareholdings are more concentrated in Germany and most quoted companies have at least one major shareholder, often a family or another company. Banks play an important part in governance as investors, lenders and through the votes of individual shareholders for which they hold proxies. They are, therefore, well represented on supervisory boards.

5.5 STRATEGIES FOR CORPORATE SOCIAL RESPONSIBILITY:

Recommendations of Report of Committee on The Financial Aspects on Corporate Governance, 1992 under the chairmanship of Sir Adrian Cadbury set up by the London Stock Exchange, the Financial Reporting Council and accounting professions to focus on the control and reporting functions of boards, and on the role of auditors.

Role of Board of Directors

The Report introduced "The Code of Best Practice" directing the boards of directors of all listed companies registered in the UK, and also encouraging as many other companies as possible aiming at compliance with the requirements. All listed companies should make a statement about their compliance with the Code in their report and accounts as well as give reasons for any areas of non compliance. It is divided into four sections:

1. Board of Directors:

(a) The board should meet regularly, retain full and effective control over the company and monitor the executive management.

(b) There should be a clearly accepted division of responsibilities at the head of a company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

(c) Where the chairman is also the chief executive, it is essential that there should be a strong and independent element on the board, with a recognized senior member, that is, there should be a lead independent director.

(d) All directors should have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

2. Non-Executive Directors:

(a) The non-executive directors should bring an independent judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

(b) The majority of non-executive directors should be independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgment, apart from their fees and shareholding.

3. Executive Directors:

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

4. Financial Reporting and Controls:

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

Role of Auditors

The Report recommended for the constitution of Audit Committee with a minimum of three non-executive members majority of whom shall be independent directors.

The Report recommended that a professional and objective relationship between the board of directors and auditors should be maintained, so as to provide to all a true and fair view of company's financial statements. Auditors' role is to design audit in such a manner so that it provide a reasonable assurance that the financial statements are free of material misstatements.

The Report recommended for rotation of audit partners to prevent the relationships between the management and the auditors becoming too comfortable.

Rights & Responsibilities of Shareholders

The Report emphasizes on the need for fair and accurate reporting of a company's progress to its shareholders. The Report placed importance on the role of institutional investors/ shareholders and encouraged them to make greater use of their voting rights and take positive interest in the board functioning. Both shareholders and boards of directors should consider how the effectiveness of general meetings could be
increased as well as how to strengthen the accountability of boards of directors to shareholders.

Developments in India:

The initiatives taken by Government in 1991, aimed at economic liberalization and globalization of the domestic economy, led India to initiate reform process in order to suitably respond to the developments taking place world over. On account of the interest generated by Cadbury Committee Report, the Confederation of Indian Industry (CII), the Associated Chambers of Commerce and Industry (ASSOCHAM) and, the Securities and Exchange Board of India (SEBI) constituted Committees to recommend initiatives in
Corporate Governance.

Confederation of Indian Industry (CII) - Desirable Corporate Governance: A Code

CII took a special initiative on Corporate Governance, the first institution initiative in Indian Industry. The objective was to develop and promote a code for Corporate Governance to be adopted and followed by Indian companies, whether in the Private Sector, the Public Sector, Banks or Financial Institutions, all of which are corporate entities. The final draft of the said Code was widely circulated in 1997. In April 1998, the Code was released. It was called Desirable Corporate Governance: A Code. A brief summary of the Desirable Corporate Governance Code is reproduced hereunder:

Recommendation I

The full board should meet a minimum of six times a year, preferably at an interval of two months, and each meeting should have agenda items that require at least half a day's discussion.

Recommendation II

Any listed company with a turnover of Rs.100 crores and above should have professionally competent, independent, non-executive directors, who should constitute:

- At least 30 per cent of the board if the Chairman of the company is a non-executive director,
- At least 50 per cent of the board if the Chairman and Managing Director is the same person.

Recommendation III

No single person should hold directorships in more than 10 listed companies. This ceiling excludes directorships in subsidiaries (where the group has over 50 per cent equity stake) or associate companies (where the group has over 25 per cent but no more than 50 per cent equity stake).

Recommendation IV

For non-executive directors to play a material role in corporate decision making and maximizing long term shareholder value, they need to:

- become active participants in boards, not passive advisors;
- have clearly defined responsibilities within the board such as the Audit Committee; and
- know how to read a balance sheet, profit and loss account, cash flow statements and financial ratios and have some knowledge of various company laws. This, of course, excludes those who are invited to join boards as experts in other fields such as science and technology.

Recommendation V

To secure better effort from non-executive directors companies should:

- Pay a commission over and above the sitting fees for the use of the professional inputs. The present commission of 1% of net profits (if the company has a managing director), or 3% (if there is no managing director) is sufficient.
- Consider offering stock options, so as to relate rewards to performance. Commissions are rewards on current profits. Stock options are rewards contingent upon future appreciation of corporate value. An appropriate mix of the two can align a non-executive director towards keeping an eye on short- term profits as well as longer term shareholder value.

Recommendation VI

While re-appointing members of the board, companies should give the attendance record of the concerned directors. If a director has not been present (absent with or without leave) for 50 per cent or more meetings, then this should be explicitly stated in the resolution that is put to vote.

Recommendation VII

Key information that must be reported to, and placed before, the board must contain:

- Annual operating plans and budgets, together with up-dated long term plans.
- Capital budgets, manpower and overhead budgets.
- Quarterly results for the company as a whole and its operating divisions or business segments.
- Internal audit reports, including cases of theft and dishonesty of a material nature.
- Show cause, demand and prosecution notices received from revenue authorities which are considered to be materially important (Material nature if any exposure that exceeds 1 per cent of the company's net worth).
- Default in payment of interest or non-payment of the principal on any public deposit and/or to any secured creditor or financial institution.
- Fatal or serious accidents, dangerous occurrences, and any effluent or pollution problems.
- Defaults such as non-payment of inter-corporate deposits by or to the company, or materially substantial non-payment for goods sold by the company.

- Any issue which involves possible public or product liability claims of a substantial nature, including any judgment or order which may have either passed strictures on the conduct of the company, or taken an adverse view regarding another enterprise that can have negative implications for the company.
- Details of any joint venture or collaboration agreement.
- Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
- Recruitment and remuneration of senior officers just below the board level, including appointment or removal of the Chief Financial Officer and the Company Secretary.
- Labour problems and their proposed solutions.
- Quarterly details of foreign exchange exposure and the steps taken by management to limit the risks of adverse exchange rate movement, if material.

Recommendation VIII

- Listed companies with either a turnover of over Rs.100 crores or a paid-up capital of Rs. 20 crores should set up Audit Committees within two years.
- Composition: at least three members, all drawn from a company's non-executive directors, who should have adequate knowledge of finance, accounts and basic elements of company law.
- To be effective, the Audit Committees should have clearly defined Terms of Reference and its members must be willing to spend more time on the company's work vis-à-vis other non-executive directors.
- Audit Committees should assist the board in fulfilling its functions relating to corporate accounting and reporting practices, financial and accounting controls, and financial statements and proposals that accompany the public issue of any security - and thus provide effective supervision of the financial reporting process.
- Audit Committees should periodically interact with the statutory auditors and the internal auditors to ascertain the quality and veracity of the company's accounts as well as the capability of the auditors themselves.
- For Audit Committees to discharge their fiduciary responsibilities with due diligence, it must be incumbent upon management to ensure that members of the committee have full access to financial data of the company, its subsidiary and associated companies, including data on contingent liabilities, debt exposure, current liabilities, loans and investments.
- By the fiscal year 1998-99, listed companies satisfying criterion (1) should have in place a strong internal audit department, or an external auditor to do internal audits.

Recommendation IX

Under "Additional Shareholder's Information", listed companies should give data on:

- High and low monthly averages of share prices in a major Stock Exchange where the company is listed for the reporting year.
- Statement on value added, which is total income minus the cost of all inputs and administrative expenses.
- Greater detail on business segments, up to 10% of turnover, giving share in sales revenue, review of operations, analysis of markets and future prospects.

Recommendation X

Consolidation of Group Accounts should be optional and subject to:

- The FIs allowing companies to leverage on the basis of the group's assets, and
- The Income-tax Department using the group concept in assessing corporate income-tax.

- If a company chooses to voluntarily consolidate, it should not be necessary to annex the accounts of its subsidiary companies under Section 212 of the Companies Act.
- However, if a company consolidates, then the definition of "group" should include the parent company and its subsidiaries (where the reporting company owns over 50% of voting stake).

Recommendation XI

Major Indian stock exchanges should gradually insist upon a compliance certificate, signed by the CEO and the CFO, which clearly states that:

- The management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report, and which also suggest that the company will continue in business in the course of the following year.

- The accounting policies and principles conform to standard practice, and where they do not, full disclosure has been made of any material departures.

- The board has overseen the company's system of internal accounting and administrative controls systems either through its Audit Committee (for companies with a turnover of Rs.100 crores or paid- up capital of Rs. 20 crores) or directly.

Recommendation XII

For all companies with paid-up capital of Rs. 20 crores or more, the quality and quantity of disclosure that accompanies a GDR issue should be the norm for any domestic issue.

Recommendation XIII

The Government must allow far greater funding to the corporate sector against the security of shares and other paper.

Recommendation XIV

It would be desirable for FIs as pure creditors to re-write their covenants to eliminate having nominee directors except:

- In the event of serious and systematic debt default; and

- In case of the debtor company not providing six-monthly or quarterly operational data to the concerned FI(s).

Recommendation XV

- If any company goes to more than one credit rating agency, then it must divulge in the prospectus and issue document the rating of all the agencies that did such an exercise.

- It is not enough to state the ratings. These must be given in a tabular format that shows where the company stands relative to higher and lower ranking. It makes considerable difference to an investor to know whether the rating agency or agencies placed the company in the top slots or in the middle or in the bottom.

- It is essential that we look at the quantity and quality of disclosures that accompany the issue of company bonds, debentures, and fixed deposits in the USA and Britain - if only to learn what more can be done to inspire confidence and create an environment of transparency.

- Companies which are making foreign debt issues cannot have two sets of disclosure norms: an exhaustive one for the foreigners, and a relatively minuscule one for Indian investors.

Recommendation XVI

Companies that default on fixed deposits should not be permitted to:

- accept further deposits and make inter-corporate loans or investments until the default is made good; and
- declare dividends until the default is made good.

Gist of Coverage of CII Desirable Corporate Governance: A Code

Recommendation I	Frequency of Board meetings
Recommendation II	Board Composition
Recommendation III	No. of directorships
Recommendation IV	Role, Responsibilities, Qualifications of Non-executive Directors
Recommendation V	Remuneration of non-executive directors
Recommendation VI	Disclosure of attendance record for reappointment
Recommendation VII	Key information to the Board
Recommendation VIII	Audit Committee
Recommendation IX	Disclosure on shareholder information
Recommendation X	Consolidated Accounts
Recommendation XI	Compliance certificate
Recommendation XII	Disclosure relating to Global Depository Receipts (GDR)
Recommendation XIII	Funding
Recommendation XIV	Nominee Director
Recommendation XV	Disclosure of Ratings
Recommendation XVI	Default on fixed deposits by company

5.6 CHALLENGES & IMPLEMENTATION:

Company being an artificial person it requires certain natural persons to represent the company at various fronts. The position of directors in their relationship to the company is not only as the agents, but also trustees of the company

Executive Director: The term executive director is usually used to describe a person who is both a member of the board and who also has day to day responsibilities in respect of the affairs of the company. Executive directors perform operational and strategic business functions such as:

- Managing people
- Looking after assets
- Hiring and firing
- Entering into contracts

Executive directors are usually employed by the company and paid a salary, so are protected by employment law.

Examples of executive directors are production director, finance director or managing director or whole time director.

Section 2(26) of the Companies Act, 1956 defines Managing Director as - "managing director" means a director who, by virtue of an agreement with the company or of a resolution passed by the company in general meeting or by its Board of directors or, by virtue of its memorandum or articles of association, is entrusted with [substantial powers of management] which would not otherwise be exercisable by him, and includes a director occupying the position of a managing director, by whatever name called.

Provided that the power to do administrative acts of a routine nature when so authorised by the Board such as the power to affix the common seal of the company to any document or to draw and endorse any cheque on the account of the company in any bank or to draw and endorse any negotiable instrument or to sign any certificate of share or to direct registration of transfer of any share, shall not be deemed to be included within substantial powers of management:

Provided further that a managing director of a company shall exercise his powers subject to the Superintendence, control and direction of its Board of directors;

5.7 EVOLUTION OF CORPORATE GOVERNANCE

Corporate Governance Developments in USA Years	Developments
1977	The Foreign Corrupt Practices Act
1979 US	Securities Exchange Commission
1985	Treadway commission
1992	COSO issued Internal Control
2002	Sarbanes - Oxley Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010

Provides for specific provisions regarding establishment, maintenance and review of systems of internal control.

Emphasized the need of putting in place a proper control environment, desirability of constituting independent boards and its committees and objective internal audit function. As a consequence, the Committee of Sponsoring Organizations (COSO) took birth.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued Internal Control - Integrated Framework. It is a framework "to help businesses and other entities assess and enhance their internal control systems".

The Act made fundamental changes in virtually every aspect of corporate governance in general and auditor independence, conflict of interests, corporate responsibility, enhanced financial disclosures and severe penalties for wilful default by managers and auditors, in particular.

Vote on Executive Pay and Golden Parachutes: Gives shareholders a say on pay with the right to a non-binding (advisory) vote on executive pay and golden parachutes (acquisitions). This gives shareholders a powerful opportunity to hold accountable executives of the companies they own, and a chance to disapprove where they see the kind of misguided incentive schemes that threatened individual companies and in turn the broader economy.

5.13 Case Studies with lessons learned

Securities Exchange Commission, USA, in a recent case has begun a new era of scrutinizing liability of independent directors by bringing an action against independent director. In SEC v. Raval, Civil Action No. 8:10-cv-00101 (D.Neb. filed Mar.15,2010) it was alleged that Vasant Raval, former Chairman of the Audit Committee of Info Group Inc.(now Info USA, Inc.) had failed to sufficiently investigate certain "red flags" surrounding the company's former CEO and Chairman of the Board, Vinod Gupta.

The SEC's complaint alleged that Vasant Raval 70, resident of Nebraska, served on the board of directors for Info Group in various positions from 2003 to 2008, including a stint as Chairman of the Audit Committee. During this period, Raval allegedly turned a blind eye to allegations that Vinod

Gupta directed the company to improperly pay himself $9.5 million that he then spent on corporate jets, service for his yacht, life insurance premiums, and payment of personal credit cards. In addition, the complaint alleged that Gupta directed the company to enter into related party transactions totaling approximately $9.3 million with entities that he controlled or with whom he was affiliated viz. Annapurna Corporation (now Everest Corporation), Aspen Leasing Services, LLC ("Aspen Leasing"). These related party transactions were not disclosed in the company's public filings.

The Commission also alleged that Raval failed to respond appropriately to various red flags concerning Gupta's expenses and Info's related party transactions with Gupta's entities. According to the complaint, Raval failed to take appropriate action regarding the concerns expressed to him by two internal auditors of Infogroup Inc., that Gupta was submitting requests for reimbursement of personal expenses. In a board meeting, Raval was tasked with investigating the propriety of the transactions. Rather than seeking assistance from outside counsel or rigorously scrutinizing the transactions, Raval began his "in depth investigation" and presented a report to the company's board merely in 12 days. The "Raval Report" however, omitted critical facts.

Despite numerous prompts by internal auditor, Raval failed to undertake a thorough investigation. As a result, the company allegedly failed to disclose related party transactions and materially understated Gupta's compensation. Although Raval did not make any pecuniary benefits, he failed to discharge his duties and take meaningful action to further investigate Gupta's misconduct and misappropriation of company funds.

The SEC charged Raval for failing in his 'affirmative responsibilities' and thus violating the anti-fraud, proxy, and reporting provisions of the US Exchange Act. To settle his case, Raval consented to the entry of a permanent injunction prohibiting future violations of the related provisions of the federal securities laws, a $50,000 civil penalty, and a five-year ban from serving as an officer or director of a company.

Indian scenario:

In Bhopal Gas Tragedy verdict, the Bhopal Trial Court on 7th June 2010 has held Keshub Mahindra reputed industrialist, the then non executive chairman of Union Carbide India limited(UCIL), guilty and sentenced him to two years of imprisonment alongwith seven others accused. He was charged of attending only a few meetings in a year and took only macro view of the company's developments. A non-vigilant act of non- executive chairman, accounted for death of thousands. "Ignorance" of the system by the director of the company is unacceptable. Role of non executive director in this case is questionable. Later he was granted bail.

Lead Independent Director

Internationally, it is considered a good practice to designate an independent director as a lead independent director or senior independent director. He coordinates the activities of other non-employee directors and advises chairman on issues ranging from the schedule of board meetings to recommending retention of advisors and consultants to the management.

- Acts as the principal liaison between the independent directors of the Board and the Chairman of the Board;
- Develops the agenda for and preside at executive sessions of the Board's independent directors;

- Advises the Chairman of the Board as to an appropriate schedule for Board meetings, seeking to ensure that the independent directors can perform their duties responsibly while not interfering with the flow of Company operations;
- Approves with the Chairman of the Board the agenda for Board and Board Committee meetings and the need for special meetings of the Board;
- Advises the Chairman of the Board as to the quality, quantity and timeliness of the information submitted by the Company's management that is necessary or appropriate for the independent directors to effectively and responsibly perform their duties;
- Recommends to the Board the retention of advisors and consultants who report directly to the Board;
- Interviews, along with the chair of the Nominating and Corporate Governance Committee, all Board candidates, and make recommendations to the Nominating and Corporate Governance Committee;
- Assists the Board and Company officers in better ensuring compliance with and implementation of the Governance Guidelines;
- Serves as Chairman of the Board when the Chairman is not present; and
- Serves as a liaison for consultation and communication with shareholders.

California Public Employees' Retirement System (CalPERS) provides that where the Chairman of the board is not an independent director, and the role of Chairman and CEO is not separate, the board should name a director as lead independent director who should have approval over information flow to the board, meeting agendas, and meeting schedules to ensure a structure that provides an appropriate balance between the powers of the CEO and those of the independent directors. Other roles of the lead independent director should include chairing meetings of non-management directors and of independent directors, presiding over board meetings in the absence of the chair, serving as the principle liaison between the independent directors and the chair, and leading the board/director evaluation process.

Given these additional responsibilities, the lead independent director is expected to devote a greater amount of time to board service than the other directors.

Chairman

The responsibility for ensuring that boards provide the leadership which is expected of them is that of their chairman. Chairmen, however, have no legal position; they are whoever the board elects to take the chair at a particular meeting. Boards are not bound to continue with the same chairman for successive meetings. In law, all directors have broadly equal responsibilities and chairmen are no more equal than any other board member. Chairmen are an administrative convenience and a means of ensuring that board meetings are properly conducted.

Thus from a statutory point of view there is no necessity for a board to have a continuing chairman.

The chairmanship could, for example, rotate among board members. Although board chairmen have no statutory position, the choice of who is to fill that post is crucial to board effectiveness. If the chairman is not upto the task, it is improbable that the meeting will achieve anything but frustration and waste of that most precious of resources—time. Continuity and competence of Chairmanship is vital to the contribution which boards make to their companies. The leaders which boards give to their companies, stems from the leadership which chairmen give to their boards. The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness.

The role of the Chairman includes:

- setting the Board agenda, ensuring that Directors receive accurate, timely and clear information to
- enable them to take sound decisions, ensuring that sufficient time is allowed for complex or
- contentious issues, and
- encouraging active engagement by all members of the Board;
- taking the lead in providing a comprehensive, formal and tailored induction programme for new
- Directors, and in addressing the development needs of individual Directors to ensure that they have
- the skills and knowledge to fulfill their role on the Board and on Board Committees;
- evaluating annually the performance of each Board member in his/her role as a Director, and
- ensuring that the performance of the Board as a whole and its Committees is evaluated annually.
- Holding meetings with the non executive Directors without the executives being present;
- ensuring effective communication with shareholders and in particular that the company maintains
- contact with its principal shareholders on matters relating to strategy, governance and Directors'
- remuneration. Ensuring that the views of shareholders are communicated to the Board as a whole.
- As per the Institute of Directors (IOD) (UK), the following are the responsibilities of a chairman
- The chairman's primary role is to ensure that the board is effective in its tasks of setting and
- implementing the company's direction and strategy.

The chairman is appointed by the board and the position may be full-time or part time. The role is often combined with that of managing director or chief executive in smaller companies. However, the joint role is considered to be less appropriate for public companies listed on the The main features of the role of chairman are as follows:

- Being chairman of the board, he/she is expected to act as the company's leading representative
- which will involve the presentation of the company's aims and policies to the outside world;
- To take the chair at general meetings and at board meetings. With regard to the latter this will
- involve:
- the determination of the order of the agenda;
- ensuring that the board receives proper information;
- keeping track of the contribution of individual directors and ensuring that they are all involved in
- Discussions and decision making. At all meetings the chairman should direct discussions towards the emergence of a consensus view and sum up discussions so that everyone
- understands what has been agreed;
- To take a leading role in determining the composition and structure of the board. This will involve
- Regular reviews of the overall size of the board, the balance between executive and non-
- Executive directors and the balance of age, experience and personality of the directors.

CHIEF EXECUTIVE OFFICER (CEO)

The Board appoints the CEO based on the criterion of his capability and competence to manage the company effectively. His main responsibilities include developing and implementing high-level strategies, making major corporate decisions, managing the overall operations and resources of a company, and acting as the main point of communication between the board of directors and the corporate operations.

He is involved with every aspect of the company's performance. The CEO is supported and advised by a skilled board and CEO is ultimately accountable to the board for his actions. The most important skill of a CEO is to think strategically. His key role is leading the long term strategy and its implementation, it further includes:

Developing implementation plan of action to meet the competition and keeping in mind the long

- term existence of the company
- Adequate control systems
- Monitoring the operating and financial outcomes against the set plan
- Remedial action
- Keeping the Board informed

CEO should be able to, by the virtue of his ability, expertise; resources and authority keep the company prepared to avail the benefit of any change whether external or internal.

Separation of role of Chairman and Chief Executive Officer

It is perceived that separating the roles of chairman and chief executive officer (CEO) increases the effectiveness of a company's board.

It is the board's and chairman's job to monitor and evaluate a company's performance. A CEO, on the other hand, represents the management team. If the two roles are performed by the same person, then it's an individual evaluating himself. When the roles are separate, a CEO is far more accountable.

To prevent unfettered decision making power with a single individual, Corporate Governance Voluntary Guidelines, 2009 provide for the separation of the roles of the chairman of the Board and that of the Managing Director/CEO.

ICSI Recommendations to strengthen Corporate Governance suggests that there should be clear demarcation of the roles and responsibilities of the chairman of the board and that of the Managing Director/ CEO. The roles of Chairman and CEO should be separated to promote balance of power.

The chairman is responsible for leadership of the board, ensuring its effectiveness on all aspects of its role and setting its agenda. The chairman is also responsible for ensuring that the directors receive accurate, timely and clear information. The chairman should ensure effective communication with shareholders. The chairman should also facilitate the effective contribution of non-executive directors in particular and ensure constructive relations between executive and non-executive directors.

A clear demarcation of the roles and responsibilities of the Chairman of the Board and that of the Managing Director/CEO promotes balance of power. The benefits of separation of roles of Chairman and CEO can be:

1. Director Communication: A separate chairman provides a more effective channel for the board to express its views on management
2. Guidance: a separate chairman can provide the CEO with guidance and feedback on his/her performance
3. Shareholders' interest: The chairman can focus on shareholder interests, while the CEO manages the company
4. Governance: a separate chairman allows the board to more effectively fulfill its regulatory requirements
5. Long-Term Outlook: separating the position allows the chairman to focus on the long-term strategy while the CEO focuses on short-term profitability
6. Succession Planning: a separate chairman can more effectively concentrate on corporate succession plans.

The chairman may be a person outside the board?

• True or False

COMPANY SECRETARY

Section 2(45) of the Companies Act, 1956 defines the term 'secretary' to mean a company secretary within the meaning of Section 2(1)(c) of the Company Secretaries Act, 1980 and includes any other individual possessing the prescribed qualifications and appointed to perform the duties which may be performed by a secretary under the Companies Act, 1956 and any other ministerial or administrative duties. Every company in India having a paid-up capital of not less than rupees five crore (limit increased from rupees two crore to five crore in 2009) shall be requiring to appoint a whole-time company secretary.

Under Section 5 of the Companies Act, the company secretary has also been included in the category of the officer of the company and shall be considered to be in default in complying with any provisions of the Companies Act, 1956.

Business Ethics, Corporate Social Responsibility and Governance

Question Bank:

1. Define ethics.
2. Define business ethics.
3. Mention the various objects of ethics.
4. Explain the nature of ethics.
5. How ethics and law are related?
6. Explain ethical code.
7. Explain any two ethical problems that you have faced in your life.

16 Mark questions

1. Explain in detail different objectives of business.
2. What is ethical decision making? Discuss three different frameworks for ethical decision making.
3. What is social responsibility of business? Illustrate the arguments in support as well as against the social responsibility of business.
4. Analyse in detail the roles and responsibilities of Board of Directors in corporate governance.

5 A manager must possess certain skills in order to translate knowledge into performance what is the required managerial skill in corporate governance.

6. There are two different models used to govern a corporation. Discuss the outsider and insider model of corporate governance.
7. Explain the areas in HRM which are more prone to unethical practices.
8. Discuss different types of managerial roles in corporate governance.
9. Ambiguity, concealed facts, exaggeration and psychological appeal are certain methods by which organisations do unethical practices white advertising-Explain.
10. Explain sexual harassment of women at work place and provide constitutional guidelines and norms to solve the problem.
11. What is the meaning of Work Ethics?
12. How did work Ethics Originate?
13. Which Ethical Principles impact work life? Discuss using examples.
14. What are the various types of Ethics and what are their implications for the Business world.
15. In these times of deceits and fraud are Ethics still relevant for the Business world?
16. Discuss the main ethical issues that are predominant in the Business arena.

17. What do you understand by the concept of Corporate Social Responsibility?

18. Do you believe it to be an important part of the core business strategy? If yes, elucidate with examples.

19. What are the inherent and perceived benefits from Corporate Social Responsibility?

20. Highlight the importance of CSR with the help of examples.

21. Critically analyze the concept of CSR.

22. Discuss the various approaches and models for corporate social responsibility.

23. Explain the issues of concern in regard to the corporate social responsibility as a strategic move.

24. What do you understand by the following?
   a. Corporate citizenship
   b. Corporate social performance
   c. Corporate social responsiveness

Reg. No. :

Question Paper Code : 87172

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2013.

Fourth Semester

104002 — CORPORATE GOVERNANCE AND BUSINESS ETHICS

(Command To All Branch of M.B.A.)

Time : Three hours Maximum : 100 marks

PART A — (5 × 4 = 20 marks)

Answer any FIVE questions.

1. State the nature and purpose of Corporate Governance.
2. Explain the characteristics of Corporate Governance.
3. Write a short note on nature of voting.
4. What is mean by Legendary Rights? Explain its importance.
5. What are the economic and non-economic objectives of corporations? Explain.
6. State the expectations from CEO.
7. Explain the concept of equal employment and affirmative actions.
8. What are the various factors influencing business ethics?

PART B — (4 × 16 = 64 marks)

Answer ALL questions.

9. (a) Write an essay on Corporate Governance in India.

Or

(b) What are the responsibilities and accountability of stock owner? Discuss.

10. (a) Explain the roles of Directors in corporate.

Or

(b) Describe the process of strategic development and implementation of corporate governance.

11. (a) Explain corporate social responsibility towards educational institutions.

Or

(b) What is the difference between ethical dilemma and ethical reasoning? Why is it important to distinguish between these two concepts? Discuss.

12. (a) Write an essay on ethics of confrontation and the individual rights.

Or

(b) Explain the concept of human rights declaration with respect to company policies?

PART C — (1 × 16 = 16 marks)

Case Study Compulsory

13. Explain the impact of corporate governance of Narayana Murthy Committee.

Reg. No. :

Question Paper Code : 71172

M.B.A. DEGREE EXAMINATION, AUGUST 2012.

Fourth Semester

104002 — CORPORATE GOVERNANCE AND BUSINESS ETHICS

(Common to All Branch of M.B.A.)

(Regulation 2007–08)

Time : Three hours Maximum : 100 marks

PART A — (5 × 4 = 20 marks)

Answer any FIVE questions.

1. Define 'Corporate Governance' and list its scope.

2. What do you mean by Clause 49 in Corporate Governance?

3. Who is a Director? How a Director be appointed in a company?

4. What is meant by Business Ethics?

5. How the performance of a board can be measured?

6. Is Individuals rights are important for business organization?

7. What is Diversity?

8. What do you mean by Economic and Non- Economic objective of Corporation?

PART B — (4 × 16 = 64 marks)

Answer ALL questions.

9. (a) Explain the structure of Corporate Governance in India.

Or

(b) Briefly explain the Corporate Governance Framework practices followed in India.

10. (a) Explain roles and duties of board of directors.

Or

(b) What are the primary rights of shareholders? Explain their duties and responsibility.

11. (a) Explain the process of strategic development and implementation.

Or

(b) Explain briefly the different types of ethical dilemmas.

12. (a) Explain clearly about "Social Responsible Investment".

Or

(b) Explain the various benefits of "Diversity".

PART C — (1 × 16 = 16 marks)

Case Study – Compulsory

13. On January 08, 2009, M. Rammohan Rao (Rao), resigned as the Dean of the Indian School of Business (ISB). The resignation followed the announcement the previous day by B. Ramalinga Raju (Raju), Founder and Chairman of India's fourth largest IT services company, Satyam Computer Services Limited (Satyam), that the company had been inflating the revenue and profit figures for past several years. In his resignation letter, Rao, who had recently resigned as independent director on the Satyam board, said, "Unfortunately, yesterday's shocking revelations (by Raju), of which I had absolutely no prior knowledge, mean that we are far from seeing the end of the controversy surrounding Satyam Computers. My continued concern and preoccupation with the evolving situation are impacting my role as dean of ISB at a critical time for the school."

On December 30, 3008, Rao, resigned from the board of Satyam. With him, two other independent directors, Vinod Dham (Dham), inventor of the Pentium chip, and Krishna Palepu (Palepu), Professor at the Harvard Business School, also submitted their resignations to the board of the company.

Another independent director, Mangalam Srinivasan[8] (Srinivasan), had resigned from the Satyam board a few days earlier, on December 25. The resignations of these directors were the result of an aborted deal by Satyam to acquire two companies run by Raju's sons, Maytas Properties Pvt. Ltd (Maytas Properties) and Maytas Infrastructure Limited (Maytas Infra) for US$ 1.6 billion.

Offer your comments regarding *Business Ethics, Failure of Corporate Governance, Board of Directors, and the Role of independent Directors* based on the above.