

Question 1

- (a) *What is Corporate Social Responsibility? Why it is needed in Indian Business environment?*
- (b) *Explain briefly the matters to be considered and the steps that may be taken by a Finance and Accounting professional when he is required to resolve an ethical conflict in the application of Fundamental principles.* (May 2007)

Answer

- (a) The concept of Corporate Social Responsibility (CSR) focuses on the idea that beyond making profit, a business has social obligations. It is the responsibility of the companies to produce an overall positive impact on the society. CSR is pursued by business to balance their economic, environmental and social objectives while at the same time addressing stakeholders' expectations and enhancing shareholders' values. Stakeholders, including shareholders, analysts, regulators, labour unions, employees, community organisations and mass media expect companies to be accountable not only for their own performance but for the performance of their entire supply chain. Issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights have a profound effect on business and its environment.

Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Need for social responsibility:

1. The iron law of responsibility
2. To fulfil long term self-interest
3. To establish a better public image
4. To avoid government regulation and control
5. To avoid misuse of National Resources and Economic Power

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6. To convert Resistances into Resources
 7. To minimise Environmental damage.
- (b) **Conflict Resolution:** While evaluating compliance with the fundamental principles, a finance and accounting professional may be required to resolve a conflict on the application of fundamental principles. The following need to be considered, either individually or together with others, during a conflict resolution process:
- (a) Relevant facts
 - (b) Ethical issues involved
 - (c) Fundamental principles related to the matter in question
 - (d) Established internal proceedings and
 - (e) Alternative course of action

Having considered these issues, the professional should determine the appropriate course of action that is consistent with the fundamental principles identified. The professional should weigh the consequences of each possible course of action. If the matter remains unresolved, the professional should consult other appropriate persons within the firm or employing organization for help in obtaining resolution. During times where a matter involves a conflict with or within an organization, the finance and accounting professional should also consider consulting those charged with governance of the organisation, such as the Board of Directors.

It may be in the best interests of the professional to document the substance of the issues and details of any discussions held or decisions taken, concerning that issue.

If a significant conflict cannot be resolved, a professional may also obtain professional advice from the relevant professional body or legal advisors and thereby obtain guidance on ethical issues without breaching confidentiality.

If, after adopting all strategies, the ethical conflict still remains unresolved, a professional should try to disassociate from the matter causing the conflict or even from the organization, if need be.

Question 2

What is meant by 'Sustainable Development'? State the special responsibilities of the industries that are based on natural resources. How the adoption of Green Accounting System helps in avoiding policy decisions which are non-sustainable for the country?

(May 2007)

Answer

SUSTAINABLE DEVELOPMENT: Literally sustainable development refers to maintaining development over time. It may be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. A

nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interests of future generations.

Special responsibilities of industries based on natural resources: Industries that are based on natural resources, like minerals, timber, fibre, and foodstuffs etc. have a special responsibility for:

- (1) adopting practices that have built-in environmental consideration
- (2) introducing processes that minimize the use of natural resources and energy, reduce waste, and prevent pollution.
- (3) making products that are 'environment-friendly', with minimum adverse impact on people and ecosystem.

Green accounting systems: Conventional accounts may result in policy decisions which are non-sustainable for the country. Green accounting on the other hand is, focused on addressing such deficiencies in conventional accounts with respect to environment. If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Such measures would facilitate the approach of 'polluter pays principle'. Removing subsidies that encourage environmental damage is another measure.

Question 3

Answer any **two** out of four in 'yes' or 'no' with brief reasons:

- (a) *Knowledge without morality is a social sin.*
- (b) *Consumer purchases goods and health services for personal purposes only.*
- (c) *Consumer and Public interest are both synonymous.*
- (d) *Ethics are necessary in marketing to build Brand image only.* (May 2007)

Answer

- (a) No, in the technical sense, Gandhiji had labeled 'knowledge without character' as a social sin, though knowledge without morality is also bad.
- (b) No. The consumer does not purchase goods and health services for personal purposes only, because on certain occasions various items are purchased for public welfare and development of the society as a whole. Further, under the Competition Act, 2002, a consumer is also one who may purchase goods for commercial purposes also.
- (c) No. Consumer and public interest are not synonymous, because whatever is done in public interest is to protect the larger interest of the society that may or may not be made up of only consumers.
- (d) No, the ethics are necessary in marketing not only to build image, but ethics are necessary for sustainable development of business, and ultimately for transparency and good corporate governance in the country.

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Question 4

Explain in brief the measures to ensure ethics in the Work place.

(May 2007)

Answer

The focus on core values and sound ethics, the hallmark of ethical management, is being recognized as an important way to ensure the long-term effectiveness of governance structures and procedures and avoid the need for whistle-blowing. Employers, who understand the importance of work place ethics, provide their workforce with an effective framework and guiding principles to identify and address ethical issues as they arise. Measures to ensure ethics in the workplace:

1. have a code of conduct and ethics
2. establish open communication
3. make ethics decisions in group and make decision public wherever appropriate
4. integrate ethics management with other management practices.
5. use of cross-functional teams when developing and implementing the ethics management programme
6. Appointing an ombudsman.
7. Creating an atmosphere of trust
8. Regularly updating of policies and procedures
9. include a grievance policy for employees
10. set an example from the top.

Question 5

- (a) *What is meant by 'Corporate Governance'? State the major 'characteristics' of good corporate governance.*
- (b) *Finance and accounting professionals working as employees in an organisation have to face various threats which make it difficult for them to comply with fundamental principles relating to ethics. Explain the safeguards in the work environment which may be created by a business enterprise to overcome such threats.* *(November 2007)*

Answer

- (a) **Corporate Governance:** Simply stated, 'Governance' means the process of decision making and the process by which decisions are implemented. The term corporate governance' is understood and defined in various ways. Corporate governance can be defined as the formal system of accountability and control for ethical and socially responsible organisational decisions and use of resources and accountability relates to how well the content of workplace decisions is aligned with the organisations strategic direction. Control involves the process of auditing and improving organisation decisions and actions. Good corporate governance has the following major characteristics:

- (i) Participatory
- (ii) Consensus oriented
- (iii) Accountable
- (iv) Transparent
- (v) Responsive
- (vi) Effective and efficient
- (vii) Equitable and inclusive and
- (viii) Follows the rule of law.

(b) Safeguards in the work environment

Safeguards against threats faced by professional shall be to (i) Ensure an ethical environment, (ii) Increase the likelihood of identifying or deterring unethical behaviour and (iii) Eliminate or reduce threats to acceptable level.

The following safeguards may be created by a business enterprise in the work environment:

- (i) The employing organisations' systems or corporate oversight or other oversight structures.
- (ii) The employing organisation's ethics and conduct programmes.
- (iii) Recruitment procedures in the employing organisation emphasizing the importance of employing high caliber competent staff
- (iv) Strong internal controls
- (v) Appropriate disciplinary process
- (vi) Leadership that stresses the importance of ethical behaviour and expectation that employees will act in an ethical manner.
- (vii) Policies and procedures to implement and monitor the quality of employee performance.
- (viii) Timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.

Question 6

*Explain the meaning of the terms 'ethics' and 'business ethics' and also state the requirements of 'business ethics'.
(November 2007)*

Answer

Ethics: The term 'Ethics' has a variety of meanings. One of the meanings is 'Ethics' are the principles of conduct governing an individual or a group. Another definition describes ethics as relating to what is good or bad and having to do with moral duty and obligation.

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Business Ethics: In a broad sense, ethics in business refers to the application of day-to-day moral and ethical norms to business. Business ethics are the principles and standards that determine acceptable conduct in business organisation.

Requirements: Being ethical in business requires acting with an awareness of -

- (a) The need for complying with rules (e.g. (i) laws of the land, (ii) customs and expectation of the community (iii) principles of morality (iv) policies of the organization and (v) general concerns such as the needs of others and fairness.
- (b) How the products, services and actions of a business enterprise, can affect its stake holders (i.e. employees, customers, suppliers, shareholders and community / society as a whole) either positively or negatively.

Question 7

Answer any **two** out of **four**. You are required to state whether the statement is correct or incorrect with brief reasons: (November 2007)

- (a) *Company management has responsibility only towards its shareholders*
- (b) *Window-dressing of financial statements will not be useful in the long run.*
- (c) *Ethics and morals are synonymous.*
- (d) *Competition Act, 2002 protects the interest of consumers.*

Answer

- (a) **Incorrect:** Company management is responsible not only to the shareholders, but also to other stakeholders i.e. people who have an interest in the conduct of the business of the company. These include employees, customers, vendors, the local community and even society as a whole. These stakeholders have certain rights with regard to how the business operates.
- (b) **Correct:** In window-dressing, efforts are made to show a 'good balance sheet' by manipulating accounting entries. This can help companies to boost their market image and obtain further capital from the market for some time. Window dressing is on the assumption that next year performance will be better and accounts will be regularised next year. Window dressing can go on for 2 or 3 years but not more. It will lead to the downfall of the company in a few years.
- (c) **Incorrect:** Both 'ethics' and 'morals' deals with right and wrong conduct. But they are not same. Ethics deals with individual character which is a personal attribute. Ethics is the response of individual to a specific situation e.g. whether in this situation, it is ethical to state the truth. Morals deal with customs set by groups or some authority like religion. Morals are general principles e.g. you should speak truth.
- (d) **Correct:** Competition Act, 2002 intends to protect the interests of consumers by establishing a commission to prevent practices having adverse effect on competition and to promote and sustain competition in markets. The commission is empowered to prohibit certain agreements which are considered as anti-competitive in nature, abuse of

dominant position and regulation of combinations likely to cause appreciable adverse effect on competition.

Question 8

What is meant by 'Environmental ethics'? How does its non-adoption leads to 3 Ps Viz., Polluter, Pay and Principles? Explain. (November 2007)

Answer

Ecological ethics is based on the idea that the environment should be protected not only for the sake of human beings but also for its own sake. The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal.

Business and Industry are closely linked with environment and resource utilization. Production process and strategy for eco-friendly technologies throughout the product life cycle and minimization of waste play major role in protection the environment and conservation of resources. Business, Industry and multinational corporations have to recognize environmental management as the priority area and a key determinant to sustainable development. Sound management of wastes is among the major environmental issues for maintaining the quality of Earth's environment and achieving sustainable development.

If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Price signal will also influence behaviour to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of "Polluter Pays Principle". Removing subsidies that encourage environmental damage is another measure.

Question 9

(a) Explain the role played by different committees in regulating the 'Corporate Governance'. (May 2008)

(b) Self interest threats may occur as a result of financial or other interests of finance and accounting professional. Give three examples each of such threats when the accounting professional is working as-

(i) An auditor or consultant

(ii) An employee in a company. (May 2008)

Answer

(a) Role of different committees in regulating corporate governance: The core roles of the various committees in regulation of corporate governance are as follows:

- 1. Board of Directors:** The Board's role is that of trusteeship to protect and enhance shareholders value through strategic supervision. The strategy should aim at

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accountability and fulfillment of goals.

2. **Audit Committee:** They have to provide assurance to Board on adequacy of internal control systems and financial disclosures.
3. **Compensation Committee:** The committee has to recommend to the Board compensation terms for executive Directors and the senior most level of management below the Executive Directors.
4. **Nomination Committee:** It is to recommend to the Board nominations for membership of the Corporate Management Committee and the Board, and oversee succession to the senior most level of management below the Executive Directors.
5. **Investor Services Committee:** It is to look into redressal of Shareholders' and Investors' grievances, approval of transmissions, sub-division of shares, issue of duplicate shares etc.
6. **Corporate Management Committee:** Its primary role is strategic management of company's businesses within Board's approved direction/framework.
7. **Divisional Management Committee:** It is to realize tactical and strategic objectives in accordance with Corporate Management Committee/Board approved plan.

(b) Self Interest Threats: Auditors: Employees:

- (I) Self interest threats for finance and accounting professionals working as consultants or auditors are given below:
 - (a) A financial interest in a client or jointly holding a financial interest with a client.
 - (b) Undue dependence on total fees from a client,
 - (c) Having a close business relationship with a client.
 - (d) Concern about the possibility of losing a client,
 - (e) Potential employment with a client.
 - (f) Contingent fees relating to an assurance engagement.
- (II) Self interest threats for finance and accounting professionals working as an employee are given below:
 - (a) Financial interests, loans and guarantees in the company in which the professional is working.
 - (b) Incentive compensation arrangements.
 - (c) Inappropriate personal use of corporate assets.
 - (d) Concern over employment security.
 - (e) Commercial pressure from outside the employing organization.

Question 10

Explain the extent to which it is possible to observe ethical behaviour in marketing. Also explain in brief the merits and demerits of the above.
(May 2008)

Answer

Ethical behaviour in Marketing; Merits and Demerits: Market is flooded with duplicate goods having fake labels for selling drugs, food stuffs, consumables like agarbathis, suparis etc. followed by misleading advertisements. This results in disrepute for the products of good companies even though such fake goods are small in quantities. Setting high ethical standard and enforcing them reverses the position. If government notices such depletion of ethical standard, rigid regulations are brought in and are never withdrawn. Marketing executives enjoy great amount of social power in influencing the society. They also are the emblems for the organization. Once the virtues are lost it is difficult to regain the social power, influence and image.

Question 11

*Answer any **two** out of four. You are required to state whether the statement is correct or incorrect with brief reasons:*
(May 2008)

- (a) *Ensuring fair treatment to whistle blowers will help in creating good ethical accounting environment in a business enterprise.*
- (b) *Ethical behaviour in marketing is necessary to avoid Government intervention/ regulation.*
- (c) *Promotion policies based on individual merit and not purely on the basis of seniority is discriminatory.*
- (d) *Depletion of Ozone layer will have adverse effect on human beings and not on vegetation.*

Answer

Statements correct or incorrect with brief reasons (answer any two):

- (a) **Correct:** A whistle blower is an employee/person who reports fraud, mismanagement or unethical practices to the appropriate levels of management. Fair treatment and appreciation of whistle blowers is necessary to check fraud. This will help in creating good accounting environment in a business enterprise.
- (b) **Correct:** Business apathy, resistance or token responses to unethical behaviour simply increase the probability of more Governmental regulation. Indeed, most of the Governmental limitations on marketing are the results of management's failure to live up to its ethical responsibilities at one time or other. However, once some form of government control has been introduced, it is rarely removed. So, business enterprises in their own interest must behave ethically in marketing.
- (c) **Incorrect:** Discrimination is action based on prejudice resulting in unfair treatment of people. To discriminate socially is to make a distinction between people on the basis of class or category without regard to individual merit. Examples of such discrimination

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include racial, religious or gender-based discrimination. Distinctions between people which are based just on individual merit (such as personal achievements, skill or ability) are generally not considered socially discriminatory. So seniority alone cannot be the deciding factor for promotion, if the senior person is not fit for the job.

- (d) **Incorrect:** Ozone depletion results in the increase of ultraviolet rays. Experts believe that this could cause several hundred thousands of new cases of skin cancer and could also lead to considerable destruction of 75% of the world's major crops that are sensitive to ultraviolet light.

Question 12

State the benefits of socially responsible corporate performance.

(May 2008)

Answer

Socially Responsible Corporate Performance: The benefits arising out of socially responsible corporate performance include the following:

1. Enhanced brand image and reputation.
2. Reduced Government regulations and controls.
3. Helps to minimize ecological damage.
4. Improved financial performance.
5. Reduced operating costs.
6. Increased sales and customer loyalty.
7. Increased productivity and quality of work life.
8. Increased ability to attract and retain employees.
9. Achievement of certain other objectives like easier access to capital including international capital.

Question 13

- (a) *To pay proper attention to business ethics is certainly beneficial in the interest of business. Describe four such benefits which may be obtained by paying attention to business ethics.*
- (b) *Explain how corporate social responsibility minimises the ecological damage and helps in achieving long-term objectives, so that the business may gain long-term profit maximization.*
- (November 2008)*

Answer

- (a) **Benefits which may be obtained by paying attention to business ethics:** Ethics is the concern for good behaviour – doing the right thing. In business, self interest prevails and there is always inconsistency between ethics and business. But it is a well settled principle that ethical behaviour creates a positive reputation that expands the opportunities for profit. The awareness regarding products and services of an

organization, and the actions of its employees can affect its stakeholders and society as a whole. Therefore to pay proper attention to business ethics may be beneficial in the interest of business. These benefits may be enumerated as follows:

- (1) In the recent past ruthless exploitation of children and workers, trust control over the market, termination of employees based on personalities and other factors had affected society and a demand arose to place a high value on ethics, fairness and equal rights resulting in framing of anti-trust laws, establishment of governmental agencies and recognition of labour unions.
- (2) Easier change management: Attention to business ethics is also critical during times of fundamental change. The apparent dilemma may be whether to be non profit or for profit. In such situations, often there is no clear moral compass to guide leaders about what is right or wrong. Continuing attention to ethics in the workplace sensitises leaders and staff for maintaining consistency in their actions.
- (3) Strong team work and greater productivity: Ongoing attention and dialogues regarding ethical values in the workplace builds openness, integrity and a sense of community which leads to, among the employees, a strong alignment between their values and those of the organisation resulting in strong motivation and better performance.
- (4) Enhanced employee growth: Attention to ethics in the workplace helps employees face the reality both good and bad in the organisation and gain the confidence of dealing with complex work situations.
- (5) Ethical programmes help guarantee that personnel policies are legal: A major objective of personnel policies is to ensure ethical treatment of employees. In matters of hiring, evaluating, disciplining and firing etc, an employer can be sued for breach of contract for failure to comply with any promise. The gap between corporate culture and actual practice have significant legal and ethical implications. Attention to ethics ensures highly ethical policies and procedures in the work place. Ethics management programmes are useful in managing diversity. Such programmes require the recognition and application of diverse values and perspectives which are the basis of a sound ethics management programme. Most organisations feel that cost of mechanisms to ensure ethical programme may be more helpful in minimizing the costs of litigations.
- (6) Ethical programmes help to detect ethical issues and violations early so that criminal acts “of omission” may be avoided.
- (7) Ethical values help to manage values associated with quality management, strategic planning and diversity management.

(b) Corporate social responsibility and ecological damage

The business institution exists and flourishes only because it performs invaluable services to society. Society gives business its license to exist which may be revoked and amended at any time if they do not fulfil the society's expectations. Therefore, if a

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business intends to retain its existing social role and power, it must serve society's needs constructively.

A business organization acts in its own self interest and uses natural resources also. The effluents of many businesses damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention if they are proactive in recognizing their ecological responsibility towards society. Companies must recognize that a strategy for corporate responsibility can play a valuable role not only in meeting the challenges of globalization by mitigating risks domestically and internationally, but also in providing benefits beyond risk management.

Question 14

A retailer was purchasing goods regularly from XYZ Ltd. for the purpose of resale. There were defects in the goods in one of the purchase lot and as a result the retailer suffered loss of his share in competition. The retailer sued the said company for this reason. The company contended that the goods were purchased for the purpose of resale and therefore, not bound. Is it a valid contention? Explain clearly the provisions of Competition Act, 2002 in this regard

(November 2008)

Answer

The problem as asked in the question is based on the provisions of Section 2(f) of the Competition Act, 2002. The Section provides that "consumer" means any person who buys any goods for a consideration which has been paid or promised or partly paid or partly promised or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised or under any system of deferred payment when such use is made with the approval of such person whether such purchase of goods is for resale or for any commercial purpose or for personal use.

Hence Section 2(f) of the Competition Act, 2002 provides that whether purchase of goods is for resale or for any commercial purpose or for personal use, the purchaser is a consumer. Thus consumer will also include a person who purchases goods for re-sale. Therefore the contention of XYZ Ltd. is not valid and not tenable.

Question 15

Answer any two out of four. You are required to state whether the statement is correct or incorrect with brief reasons:

- (a) The Governance Model positions management as accountable solely to investors.*
- (b) Business does not sub-serve environmental ethics.*
- (c) Consumer for personal use and consumer for commercial use are synonymous.*
- (d) Water pollution is also a kind of resource depletion.*

(November 2008)

Answer

- (a) **Incorrect:** The traditional governance model positions management as accountable to investors only but a growing number of corporations in the late part of the 20th century accept that constituents like employees, trade unions, customers, suppliers along with the investors are affected by corporate activity and therefore the corporates must be answerable to them also. Such constituents of an organization are also called the stakeholders.
- (b) **Incorrect:** Previously the business concerns were mainly concerned with only good business in economic sense. The conservation of natural resources was a motive of more economic gains. But now due to awareness of social responsibility and ethical norms the motive of business is not only concerned with business interest of the shareholders but also a general concern for the community. Now the business houses have realized that environmental ethics make good business sense if quality, ethics and environmental standards are maintained.
- (c) **Incorrect:** It seems that the definitions of “consumer” under Competition Act, 2002 and under Consumer Protection Act, 1986 are substantially the same. But there is difference between the two and that difference is that under clause (1) of Section 2(f) in Competition Act, the words used are “whether such purchase of goods is for the resale of for any commercial purpose or for personal use” in place of the words “but does not include a person who obtains such goods for resale of for any commercial purpose” as in the Consumer Protection Act. Likewise in clause (ii) the words used in the Competition Act are “Whether such hiring or availing of services is for any commercial purpose or for personal use” in place of the words “but does not include a person who avails of such services for any commercial purpose” as in the Consumer Protection Act. Thus in case of Competition Act the word consumer includes both consumer for personal use and for commercial use but it is not so in the case of Consumer Protection Act.
- (d) **Correct:** Water pollution is also a kind of resource depletion because contamination of air, water or land diminishes their beneficial qualities. Oceanographers have found traces of plutonium, cesium and other radioactive materials in seawater that have apparently leaked from the sealed drums in which radioactive wastes are disposed. An increase in population and economic activity in urban area has also resulted in increased demands of water. The ground water is also shrinking because of the decreasing rainfall and wasting of water are also goods for certain reasons.

Question 16

State, how far a sound ethical environment in a company may be created and corporate scandals may be avoided.
(November 2008)

Answer

Creating an ethical environment in company: A sound ethical environment in a company may be created and corporate scandals may be avoided by adopting the following methods:

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1. Ensuring that employees are aware of their legal and ethical responsibilities.

Some ethical organisations are having policies to train and motivate employees towards ethical behaviour. To start with, such initiation should be from the top. A number of companies in India and abroad are being known for their quality and soundness of their ethics programmes. Companies like Raytheon, Texas Instruments, Wipro are pioneers in establishing ethical environment among the employees enabling them to take ethical decisions.

2. Providing a communication system between the management and employees so that any one in the company can report fraud and mismanagement without the fear of being reprimanded.

In India, Wipro has introduced a helpline comprising of senior members of the company, who are available for guidance on any moral, legal or ethical issues that an employee of the company may face.

3. Ensuring fair treatment to those who act as whistle blowers:

This is perhaps the most important and sensitive issue. Fair treatment to whistle blowers is a basic necessity to check fraud. Some acts must be appreciated and that appreciation should be extended from within the company rather than outside.

Question 17

- (a) *"To maintain social contract between society and business, the trusteeship relations are essential". Describe the role of business ethics in this reference.*
- (b) *Explain the factors that influence ethical behaviour of an employee. List out some examples of various ethical issues faced in a workplace. (June 2009)*

Answer

(a) Businesses as trustees

Mahatma Gandhi, the father of the nation, has aptly said that trusteeship provides a means for transforming the present capitalist order of society into an egalitarian one. A business man has to act only as a trustee of the society for whatever he has gained from the society. Everything finally belongs to the society. Society bestows upon business the authority to own and use land and natural resources. In return the society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community.

Business ethics is required to implement the laws of land, customs, expectations of community, principles of morality, etc. The products and services of an organization affect its employees, the community and society as a whole. Business ethics also subserve the management discipline. Business houses may also use their financial and public influence to address social problems like poverty, crime, equal rights, environmental problems, public health and education. Society at large has also come to realize that since businessmen are making profits by using the country's resources, they owe it to the country to work for its development. Sound workplace ethics ensures that a

company's employees are highly motivated and identify themselves with their employer. Following ethical business practices safeguard a company from getting entangled with law enforcement agencies. A reputation for highly ethical behaviour also ensures increased sales and customer loyalty. Certain eco-friendly practices also reduce operation costs. Thus society benefits as well as business prospers when businesses are ethically driven.

- (b) Ethical decisions are influenced by three key factors: Individual moral standards, the influence of managers and co-workers and the opportunity to engage in misconduct. While one may have great control over personal ethics outside the workspace, co-workers and the management exert significant control on one's choices at work. The activities and examples set by co-workers along with rules and policies are critical in gaining consistent ethical compliance in an organization. If a company fails to provide good examples and direction for appropriate conduct, confusion and conflict will develop and result in the opportunity for unethical behaviour. Example: If the boss or co-workers leave work early, one may be tempted to do so as well. If one sees co-workers making personal long distance phone calls at work and charging them to the company, one may be more likely to do so also. In addition having sound personal values contributes to an ethical work place.

Some examples of ethical issues faced by an individual in the workplace are:

1. Relationships with suppliers and business partners
 - a. Bribery and immoral entertainment
 - b. Discrimination between suppliers
 - c. Dishonesty in making and keeping contracts
2. Relationship with customers
 - a. Unfair pricing
 - b. Cheating customers
 - c. Dishonest advertising
3. Relationship with employees
 - a. Discrimination in hiring, promoting, etc
 - b. Unequal treatment
4. Management of resources
 - a. Misuse of official funds
 - b. Tax evasion

Question 18

What is meant by 'Stakeholders'? Describe those stakeholders who are affected by or can affect the organization?
(June 2009)

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Answer

Meaning of Stakeholders: The traditional governance model positions management as accountable solely to investors or shareholders. But an increasing number of corporations accept that constituents other than shareholders are affected by corporate activity, and that the corporation must therefore be answerable and accountable to them. The word stakeholders describes such constituents of an organization – the individuals, groups or other organization(s) which are affected by, or can affect the organization in pursuit of its goals. A typical list of stakeholders of a company would be employees, trade unions, customers, shareholders and investors, suppliers, local communities, government and competitors.

Question 19

Answer any two out of four. You are required to state whether the statement is correct or incorrect with brief reasons.

- (a) *Ethical behaviour is not essential to work environment at the workplace.*
- (b) *In the long run those business firms which do not respond to society's needs favourably will survive.*
- (c) *There is no economic growth without ecological costs.*
- (d) *'Consumer interest' and 'Public interest' are synonymous.* (June 2009)

Answer

- (a) "Ethical behaviour is not essential....."

Answer: **Incorrect.** Every organization, whether a business or a government agency, is first and foremost a human society. In all these setups, ethical behaviour is essential to work environment. If an employer does not take steps to create a work environment where the employees have a clear, common understanding of what is right and wrong, and feel free to discuss and ask questions about ethical issues and report violations, some significant problems may arise namely:

- (i) Increased risk of employees making unethical decisions.
 - (ii) Increased tendency of employees to report violations to outside regulatory authorities (whistle blowing) because they lack an adequate internal forum.
 - (iii) Inability to recruit and retain top people.
 - (iv) Diminished reputation in the industry and the community.
 - (v) Significant legal exposure and loss of competitive advantage in the market place.
- Therefore ethical behaviour is essential to work environment at the workplace.

- (b) "In the long run those business firms which do not respond to society's needs will survive."

Answer: **Incorrect.** Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations. Therefore, if a

business intends to retain its existing role and power it must respond to society's needs constructively.

- (c) "There is no economic growth without ecological cost"

Answer: **Correct.** Economic growth has to be environmentally sustainable. There is no economic growth without ecological costs. Industrialization and rapid development have affected the environment. Everybody should realize that such development is related to environmental damage and resource depletion.

Therefore, an element of resource regeneration and positive approach to environment has to be incorporated in development programs. Sustainable development refers to maintaining development over time. Sustainable development is development that meets the needs of the present without comprising the ability of future generations to meet their own needs. A nation or society should satisfy its social, economic and other requirement without jeopardizing the interest of future generations.

High economic growth means high rate of extraction, transformation and utilization of non-renewable resources. Therefore it is suggested that economic growth has to be environmentally sustainable because it is sure that there is no economic growth without ecological cost.

- (d) Consumer interest and Public interest are synonymous:-

Answer: **Incorrect:** Apparently it seems that public interest and consumer interest are synonymous, but it is not so. They may be differentiated as under:

- (i) In the name of public interest, many Governmental policies are formulated which manifest themselves in anti-competitive behaviour. If the consumer is at the fulcrum, consumer interest and welfare should have primacy in all governmental policy formulations.
- (ii) Consumer is a member of a broad class of people who purchase, use, maintain and dispose of products and services. They are being affected by pricing policy, financing practice, quality of goods, services and trade practices. They are clearly distinguished from manufacturers who produce goods for wholesalers, retailers who sell goods in public interest.
- (iii) Public interest is something in which the society as a whole has some interest, and is seen as an externality to competitive markets. There is also a justifiable apprehension that in the name of public interest, Governmental policies may be fashioned and introduced which may not be in the ultimate interest of the consumers. In fact in such situations, there is the possibility that a conflict could arise between public interest and consumer interest.

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Question 20

Explain the reasons for unethical behaviour among finance and accounting professionals.

(June 2009)

Answer

The reasons which lead to unethical behaviour are as follows:

1. Emphasis on short term results.

This is one of the primary reasons which has led to the downfall of many companies like Enron and Worldcom.

2. Ignoring small unethical issues.

It is a known fact that most of the compromises we make start small but however they lead us into committing large infractions. And ignoring minor lapses, lead to bigger and more colossal mistakes.

3. Economic cycles.

In good times, companies are slack in their accounting procedures or disclosures, as there is a pervasive feel-good effect. But when times of hardship follow, then the hit taken by them is almost fatal, as was proved in the Enron case. So companies need to watch out for economic cycles and be vigilant in good times as well as bad.

4. Accounting rules.

In the era of globalization and massive cross border flow of capital, accounting rules are changing faster than ever before. The rules have become more complex and it is difficult to identify deviations from these complex set of requirements. The complexity of these principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behaviour.

Question 21

(a) Explain the importance of ethical behaviour at the workplace.

(b) Explain the meaning of the "Iron Law of Responsibility". State the resulting benefits which may be acquired by achieving the long-term objectives through the business activities.

(November 2009)

Answer

(a) An organisation, whether a business or government agency is first and foremost a human society. If an employer does not take steps to create a work environment where the employees have a clear, common understanding of what is right and wrong and feel free to discuss and ask questions about ethical issues and report violations, significant problems could arise, including:

- increased risk of employees making unethical decisions;

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- increased tendency of employees to report violations to outside regulatory authorities (whistle blowing) because they lack an adequate internal forum;
 - inability to recruit and retain top executives;
 - diminished reputation in the industry and the community; and
 - significant legal exposure and loss of competitive advantage in the market place.
- (b) *The Iron Law of Responsibility*: The institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively. This is known as the "Iron Law of Responsibility". In the long-term those who do not use power in a manner that society considers responsible, will tend to lose it.

Businesses have been delegated economic power and have access to productive resources of a community. They are obliged to use these resources for the common good of society so that more wealth for its betterment may be generated. Technical and creative resources are also helpful to it. A business organisation sensitive to community needs would in its own self interest like to have a better community within which the business may be conducted. This way, the resulting benefits would be:

- (a) Decrease in crime
- (b) Easier labour recruitment
- (c) Reduced employee absenteeism.
- (d) Easier access to international capital, better conditions for loans on international money markets.
- (e) Dependable and preferred as supplier, exporter, importer and retailer of responsibly manufactured components and products.

This way a better society would produce a better environment in which the business may gain long term profit maximisation.

Question 22

Explain the pragmatic reasons for maintaining ethical behaviour in marketing through marketing executives.
(November 2009)

Answer

Pragmatic reasons for maintaining ethical behaviour: Marketing executives should practice ethical behaviour because it is morally correct. To maintain ethical behaviour in marketing, the following positive reasons may be useful to the marketing executives:

1. **To reverse declining public confidence in marketing**: Sometime misleading package labels, false claim in advertisement, phony list prices, infringement of trademarks pervert the market trends and such behaviour damages the marketers' reputation. To reverse

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this situation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will fulfill it. Companies must set high ethical standards and enforce them. Moreover, it is in management's interest to be concerned with the well being of consumers, since they are the lifeblood of a business.

2. **To avoid increase in government regulation:** Business apathy, resistance, or token responses to unethical behaviour increase the probability of more governmental regulation. The governmental limitations may also result from management's failure to live up to its ethical responsibilities. Moreover, once the government control is introduced, it is rarely removed.
3. **To retain power granted by society:** Marketing executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility tied to that power. If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.
4. **To protect the image of the organisation:** Buyers often form an impression of an entire organisation based on their contact with one person. That person represents the marketing function. Some times a single sales clerk may pervert the market opinion in relation to that company which he represents.

Therefore, the ethical behaviour in marketing may be strengthened only through the behaviour of the marketing executives.

Question 23

State with reasons whether the following statements are correct or incorrect.

- (a) *Fairness and honesty are the pillars of success in business.*
- (b) *There is no difference between ethics and morals.* (November 2009)

Answer

- (a) *Correct:* The success of the business depends very much on fairness and honesty in the business. Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. At a minimum, business professionals and persons are expected to follow all applicable laws and regulation. Even then, they are expected not to harm customers, employees, clients or competitors knowingly through deception, misrepresentation, coercion or discrimination.

One aspect of fairness and honesty is related to disclosure of potential harm caused by product use. For example, Mitsubishi Motors, a Japanese automaker, faced criminal charges and negative publicity after executives admitted that the company had systematically covered up customer complaints about tens of thousands of defective automobiles over a 20 year period in order to avoid expensive and embarrassing product recalls.

Another aspect of fairness relates to competition. Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies

sometimes gain control over markets by using questionable practices that harm competition.

Rivals of Microsoft, for example, accused the software giant of using unfair and monopolistic practices to maintain market dominance with its Internet Explore browser.

These aforesaid examples show that fairness and honesty pay in the long run; they secure the stability of the business and overall reputation in the business world. Therefore we may say that fairness and honesty are the pillars of success in the business.

(b) *Incorrect:* There is a fine distinction between ethics and morals which may be enumerated as follows:

- (1) The word 'Moral' is defined as relating to principles of right and wrong. The root word for moral is Latin word 'mos' meaning custom while the root word for ethics is the Greek word 'ethos' meaning character. Custom and character however provide two different standards for defining what is wrong and what is right. Character is a personal attribute while custom is defined by a group over time and people have character while societies have custom.
- (2) Morals are accepted from an authority i.e. culture, religion etc. while ethics are accepted because they follow from personally accepted principles.
- (3) Morals work on a smaller scale than ethics, more reliably but by addressing human needs for belonging and emulation, while ethics has much wider scope.

NOTE

[illegible]