

CHAPTER 1

PRINCIPLES OF BUSINESS ETHICS

1. What do you mean by the term 'Ethics'?

The term 'ethics' is derived from the Greek word 'ethos' which means character. Ethics are the principles of conduct governing an individual or a group. It is concerned with norms of conduct of people as members of society as it relates to what is good or bad, and having to do with moral duties and obligations.

In general sense, ethics is the concern for good behavior – doing the right things. Human beings have always been puzzled with moral question of right or wrong behavior; struggling to develop a system that produced the maximum good for the individual and for the group.

Definition: Churchill defined ethics as the application of moral values or codes to complex problems using a rational decision making process. The outcome of this process is usually a behavior or set of behaviours.

2. What is the difference between ethics and morals?

Both 'ethics' and 'morals' deal 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.

	ETHICS	MORALS
Meaning	Ethics relates to what is good or bad, moral duties and obligations.	Moral relates to principles of right and wrong.
Root word & analysis	Greek word 'ethos' meaning 'character' character is a personal attribute.	Latin word 'mos' meaning customs. Custom is an attribute of a group of society.
Nature	Ethics are accepted because these arise from personally accepted principles.	Morals are accepted due to an authority which may be religious or cultural.
Scope	Ethics is much wider in scope. It examines the moral standards of a group or society to determine whether these standards are reasonable or unreasonable in concrete situation.	Morals are in smaller scope than ethics. It addresses human need for belonging and emulation.
Expression	Ethical norms are comparatively abstract. It cannot be described in general rules and statements.	Moral norms are usually expressed as general rules and statements. Ex. "always tell the truth."
Absorption	Ethics are adopted or absorbed by an individual gradually by taking reasonable decisions in appropriate situations.	Morals are typically adopted or absorbed since childhood from family, friends, school, religion, religious leader and so on.

3. What is the difference between ethics and Law?

1. Law is concerned only with the minimum regulations necessary for public order. On the other hand ethics cannot be legislated. It examines both the individual and social good in all dimensions.
2. Ethics and law are quite independent of each other. What is lawful need not necessarily be ethical. Similarly, all types of ethical behaviour may not be legislated.

4. What is 'Business Ethics'?

Definition: According to "William Shaw" business ethics is the study of what constitutes right and wrong or good and bad human conduct in business context.

Thus, business ethics deals with morality in business environment. It involves moral judgment based on understanding of the society. It extends beyond the legal questions and involves goodness and badness of an act.

1. Ethics in business refers to the application of day-to-day moral or ethical norms to business. Business Ethics are the principles and standards that determine acceptable conduct in business organizations.
2. Business Ethics in a business organization relates to a corporate culture of values, programs, enforcement and leadership.
3. Business ethics is a set of principles or reasons which should govern the conduct of business – at the individual firm Level or at the collective Industry Level, by the application of ethical reasoning to specific business situations and activities.

5. What are the requirements of ethics in business?

Ethics in business requires an awareness of –

1. The need for complying with rules, such as (i) laws of the land, (ii) customs and expectations of the community, (iii) policies of the organization, (iv) principles of morality and (v) general concerns such as the needs of others and fairness.
2. How the products and services of an organization, and the actions of its members, affects its stakeholders (i.e. employees, customers, shareholders, suppliers, community and society as a whole), either positively or negatively.

6. What is the need for ethics in business?

There is a 'social contract' between society and shareholders, under which society bestows upon business firms the authority to own and use its natural and human resources. In return society expects that productive organizations will enhance the general interests of consumers, employees and community. In conduct of their activities business firms are expected to honour social rights, justice, equity and fairness. Business ethics provides a set of moral principles which should govern the conduct of business. These moral principles help business people to judge the social consequences of their decisions and actions.

Since the social responsibility movement in 1960, business ethics has come to be considered a management discipline and there has been an increasing assertion that business enterprises must use their massive financial and public power to address social problems such as poverty, crime, public health, environmental protection, education etc.

To be ethical in business, one must be aware of the need for complying with the laws, customs and expectations of the society. The actions of people working in business, products and services must contribute positively to the welfare of the society.

In general, ethical behaviour is becoming increasingly significant in business due to the following reasons:

1. **Moral Consciousness:** Moral Consciousness leads the businessmen to avoid adulteration, over charging, spurious goods, black marketing, false advertising etc. Long before such practices were declared illegal by the law.
2. **Self-interest:** Ethical business conduct is in the self interest of businessmen in long run. Goodwill, sales and profits of the business enterprise will increase, if businessmen serve then customers with good quality and fair prices reward then shareholders with good dividends, pay taxes honestly, treat their employees with respect and dignity.
3. **Environmental pressure:** Environment pressure has mad many businessmen realize that they use resources which belong to society and they must discharge their social obligation through ethical behaviour and must adhere to social values.
4. **Legal imperative:** Laws reflect ethical conduct and businessmen must follow them. If businessmen disobey laws and regulation of government, they are surely to lose their power, prestige and their survival will be in danger.

Ethical influence on business

Functional Area of Business	Ethical Practice
Plant location	No adverse impact on local community
Production	Control of pollution
Purchase	No hoarding of raw material
Storage	No hoarding of finished goods
Marketing	Fair treatment to customers
Advertising	Truthful and realistic claims
Administration	Concern for social values
Finance	Protection and appreciation of capital
Personnel	Just and equitable treatment to employees.

7. What do you understand by Ethical Dilemmas?

Ethical dilemma is a situation where the decision maker has to choose not between right and wrong but between right and right.

In business many issues may seem straight forward and easy to solve but in most cases conflict arise and no one option is a clear choice. Businessmen are faced with moral and ethical dilemmas while making choice from various alternatives. Business interest comes into conflicts with moral values. Ethical dilemmas faced by managers are often highly complex with no clear guidelines.

However, the following guidelines can be used to ease ethical dilemmas –

1. **Problem definition**
 - i. Clearly identify the problem
 - ii. How would you define the problem if you stood on the other side of the fence?
 - iii. How did the situation arise?
2. **Decision making**
 - i. What is your intention in making this decision?
 - ii. How does this intention compare with the problem results?
 - iii. Will your decision change or be valid over a long period of time at it seems now?

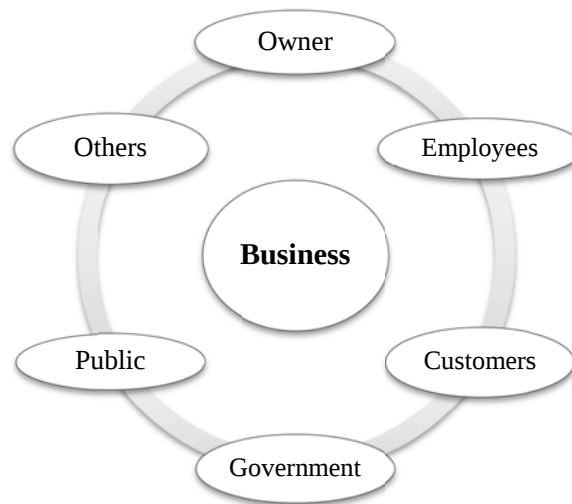
3. View points

- i. To whom are you loyal as a person and a member of the organization
- ii. Whom could your decision or action injure?
- iii. Can you discuss the problem with the affected parties before you make your decision?
- iv. Could you disclose without any doubt your decision or action to your boss, your CEO, the Board of Directors, your family, society as a whole?
- v. Under what conditions would you allow exceptions to your stand?

4. Effect

- i. What is the symbolic potential of your action if understood and if misunderstood?
- ii. Reconciliation of conflicting interests.

Business is under pressure from various social groups as shown in the following figure.



The interest of these social groups is not identical but conflicting. Therefore, it is the task of management to reconcile these conflicts.

SYNOPSIS

Ethical Dilemma: A Ethical Dilemma is a situation where the decision – maker has to choose between right and right. For example, in Ramayana, Ram had to choose between two Dharmas – (a) to abide by his Father’s words and proceed to the forest for 14 years, or (b) to ignore his father’s words and rule the country as a Kshatriya Prince. Both these alternatives constitute ‘right action” by applying different yardsticks / viewpoints.

Ethical Dilemma in business: In business, the manager / decision – maker is faced with moral and ethical decisions daily. He has to tackle ethical issue and choose between -) i) right and wrong, (ii) right and right. For example, in the case of a Salesperson, does offering a gift to a customer constitute a bribe or sales promotion?

8. What is the “Golden Rule of Ethics”?

The golden rule of ethics is often terms as ‘Ethics of Reciprocity’. The golden rule states “Do unto others as you would have them to unto you.” Another way to rewrite it would be “treat others as you would like to be treated, if you were them.” The golden rule is an example of normative theory which establishes a single principle against which we can judge all action (i.e. whether any possible action is right or wrong)

9. What are the principles of business ethics?

Special nature of business, it requires certain basic specific principles. The late American President Woodrow Wilson has laid down four important principles for the proper conduct of business. They are as follows:

- (a) **The rate of Publicity:** This rule describes the necessity and importance of maintaining transparency in business. The people should be adequately informed about the nature, purpose and consequences of business dealings. This principle states that let the people know what it is going to do. Usually misunderstandings, suspicion and false conjuncture arise out of secretiveness. Therefore people must be properly acknowledged about what the business is going to do.
- (b) **The rate of equivalent price:** this rule states that let the public receive goods and services fully equivalent to the money paid. In other words the buyers should get the best return of their spending. The business should see that it offers products having utility and quality when the business gets the price for what it renders as a reward, the consumer must get a satisfaction due to the fulfillment of his/her need for the sacrifice which he/she has made by way of spending.
- (c) **The rule of conscience in business:** this principle emphasizes that the rules of business games must be of a higher order than those of an ordinary game, sustained by moral judgment of honourable men because business is very special type of activity. It uses the society's resources as input and offers an output to the society for material satisfaction. It is responsible for employment generation wealth creation and economic development of the society, rather than by selfish motives. A conscience in business will motivate the business to function in the best interest of stakeholders and society at large.
- (d) **The rule of spirit of service:** this principle suggests to see that the timings you do for the public and get money for it is the best thing of that kind that can be done. It emphasizes on quality of service and acceptance of the obligation to offer the best return of the price paid by the customers. The business must remember that service is the basic purpose of business and profit is the reward for working sincerely for accomplishment of the goal.

10. What is the benefits of Business Ethics?

The advantages or benefits of business ethics are as follows:

- 1. **Improvement of society:** Focus on business ethics has substantially improved society. Exploitation of workers and children, monopolistic price fixing and profiteering, harassment of employees at workplace cannot be practiced by business enterprises now. The society has reacted and demanded that business enterprises place high value on fairness and equal rights, thus resulting in improved social welfare.
- 2. **Maintaining moral course in turbulent times:** Business ethics is helpful during times of fundamental change, when there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing focus on ethics in the workplace sensitizes leaders and staff for maintaining consistency in their actions.
- 3. **Strong teamwork and productivity:** When an organization finds surprising disparity between its preferred values and the values actually regarding values at the workplace builds openness, integrity and community, all critical ingredients of strong teams in the workplace. Employees feel strong alignment between their values and those of the organization, as well as motivation and performance of employees are also improved.
- 4. **Employee growth:** Focus on the ethics in the workplace helps employees face reality, both good and bad, in the organization and gain the confidence of dealing with complex work situation.

5. **Ensure that policies are legal:** Attention to ethics ensures highly ethical policies and procedures in the workplace. For example, in matters of hiring, evaluating, disciplining, firing, etc. most firms feel that it is for better to incur the cost of mechanisms to ensure practices than to incur cost of litigation later.
6. **Compliance with law:** Ethical programs helps to avoid criminal acts “of omission” and reduce fines, focus on ethical programs results in early identification of ethical issues and violations, so that they can be reported or addressed.
7. **Total quality management:** Total Quality Management initiatives include high priority on certain operating values eg. Trust among stakeholders, performance, reliability, measurement and feedback. Ethical programs help in identifying preferred values and ensuring that organizational behaviours are aligned with those values for TQM purposes.
8. **Diversity Management:** Ethics management programs are useful in managing diversity. Diversity programs require recognizing and applying diverse values and perspectives which are the basis of a sound ethics management program.
9. **Strengthens the organization:**
 - i. Managing ethical value in business legitimizes managerial actions.
 - ii. Strengthens the coherence and balance of the organization’s culture.
 - iii. Improves trust in relationship between individuals and groups
 - iv. Supports greater consistency in standards and qualities of products
 - v. Cultivates greater sensitivity to the impact of the enterprise’s values and messages.

11. Discuss briefly the sources of ethical standards.

Our ethics are not based on feelings, religion, law, accepted social practice, or science. Thus many philosophers and ethicists have suggested different sources of ethical standards. They are.

The utilitarian approach: some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, to put it another way, produces the greatest balance of good over harm. The utilitarian approach deals with consequences it tries both to increase the good done and to reduce the harm done.

Thus corporate ethical actions should be such that they should do the most good and do the least harm to its stakeholders.

The rights approach (deontological approach): this approach propounds that ethical action is one that best protects and other respects the moral rights of those affected. This approach is based on the belief that humans have dignity and the basis of such dignity, they have a right to be treated as ends and not merely as means to others ends.

The fairness or justice approach: Aristotle and other Greek philosophers have contributed to the idea that equals should be treated equally. This idea is used to say that ethical actions treat all human beings equally or if unequally, then fairly based on some standard that defensible.

The common good approach: the Greek philosopher has contributed the idea that life in a community is a good in itself and our actions should contribute to that life. The approach suggests that interlocking relationship in society are the basis for ethical reasoning and that respect and compassion for all others –especially the vulnerable–are requirements of ethical reasoning. Approach focus on common conditions that are important for welfare of society as a whole.

The virtue approach: it is one of the most ancient approaches to ethics. the approach propounds that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of humanity. Virtue ethics asks of any action, “what kind of person will I become if I do this?” or “is this action consistent with my acting at my best?”. Honesty, courage, compassion, generosity, tolerance, fairness and prudence are a few examples of virtues.

CHAPTER 2

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

1. What is the concept of Corporate Governance?

MEANING:

Corporate Governance is about promoting corporate fairness, transparency and accountability. It is concerned with structures and processes for decision making, accountability, control and behaviour at the top level of organization. It influences (i) The organization's objectives (ii) risk monitoring (iii) performance optimization.

DEFINITION:

Corporate Governance can be defined as *"the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources"*.

Accountability is related to how well the content of workplace decision is aligned with the organizations stated strategic direction.

Control involves the process of auditing and improving organizational decisions and actions.

APPLICABILITY:

The need of good 'Corporate Governance' arises in all categories of Indian companies.

1. **Public sector units (PSUs)** where the government is the dominant share holder and the general public holds minority stake.
2. **Multinational Companies (MNCs)** where the foreign parent is the dominant shareholders.
3. **Domestic business groups** where the promoters (with their friends and relatives) are the dominant shareholders, government owned financial institutions holds a comparable stake and the balance is held by the general public.

SCOPE:

Corporate Governance arrangements are key determinants of an organizations relationship with the world. It encompasses the following aspects:

- (i) The power given to management and control over management's use of power
- (ii) Management's accountability to stakeholders
- (iii) The formal and informal processes by which stakeholder's influence management decisions

2. What is meant by the term "stakeholders"?

Management is not accountable solely to investors (shareholders) but also to other interest group or constituents who are affected by corporate activity. The term "stakeholders" describes such constituents of an organization – the individuals, groups or other organization which is affected by, or can affect the organization in pursuit of its goals. Stakeholders of a company constitutes:-

1. Employees
2. Trade Unions
3. Suppliers
4. Government
5. Competitors
6. Customers
7. Shareholders and investors
8. Local communities

3. What are the characteristics of good Corporate Governance?

Good Corporate Governance is a formal system of accountability, decision making and control of ethical and socially responsible organizational decisions and use of resources.

Good Corporate Governance has some major characteristics. They are as follows:-

1. Participatory
2. Consensus oriented
3. Accountable
4. Transparent
5. Responsive
6. Equitable and inclusive
7. Efficient and effective; and
8. Follows the rule of law.

4. What are the major factors to be considered while evaluating Corporate Governance?

In India section 229 of the companies Act, 1956 and clause 49 of listing agreement with SEBI contains the legal frame work of Corporate Governance.

1. Appointment non executive directors
2. Placing constraints on management power and ownership concentration and
3. Ensuring proper disclosure of financial information and executive compensation.

Some key issues to be considered while evaluating Corporate Governance are as follows:

1. Appointment of Board of Directors (BOD)

- (i) Board of Director is the link between managers and shareholders
- (ii) BOD is potentially the most effective instrument of good governance.
- (iii) BOD are elected by the shareholders to establish Corporate Governance policies and make decisions on major issues pertaining to the company.
- (iv) Minority of independent directors make it difficult for the board of directors to operate outside the sphere of the management influence.
- (v) Large investors seek out companies where there are more independent directors who don't have commercial link to the firm and who demonstrate and objective willingness to question the decisions of the management.

2. Financial disclosure and control:

- (i) The corporate structure should constitute an audit committee comprising of independent directors with significant exposure on financial transaction.
- (ii) The committee should have the sole power to hire and fire the company's auditors and approve non audit service from the auditor.
- (iii) Compensation of top management should be determined by measurable performance goals.
- (iv) The compensation rate should also be set by an independent compensation committee and should be fully disclosed to the shareholders.

3. Stock options:

- (i) Sometimes executive Board directors grant generous stock options to top managers.
- (ii) Stock options offer managers an incentive to perform well; overloaded stock option accounts create the possibility of unwanted share value dilution.

5. What is the concept of Corporate Social Responsibility (CSR)?

MEANING:

Corporate Social Responsibility is the continuing commitment by business 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.

Corporate Social Responsibility focuses on the idea that a business has social obligation above and beyond making a profit. It is company's responsibility to produce an overall positive impact on the society.

Corporate Social Responsibility is a way of integrating the social, economic and environmental imperatives of business activities. Shareholders, analysts, regulators, labour unions, employees, mass media and community organizations hold companies to be accountable not only for their own performance but for the performance of their entire supply chain.

Issues like peace, sustainable development, environmental quality, human rights and security are having performed effect on business and its environment.

DEFINITIONS:

Some definitions of Corporate Social Responsibility are as follows:

"Corporate Social Responsibility is an integrated combination of policies, programs, education and practices which extend throughout a corporation's operations and into the communities in which they operate".

"Corporate Social Responsibility is the continuing commitment by business 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".

"Corporate Social Responsibility is achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment."

SCOPE:

Corporate Social Responsibility is a way of integrating the social, economic and environmental imperatives of business activities. The term corporate Citizenship denotes the extent to which business meet the legal, ethical, economic and voluntary responsibilities placed on them by their stakeholders. It's all about how companies voluntarily manage the business processes to produce an overall positive impact on society.

6. What is the need for social Responsibilities in a business enterprise?

The following arguments stress upon the need for Corporate Social Responsibility in business enterprises:-

1. **Iron law of responsibility:** Society gives business its charter to exist and that charter can be amended or revoked at any time if it fails to live up to the expectation of the society. In order to retain its existing social role and social power business must respond to society's needs constructively. This is called the Iron law of Responsibility. In the long run those who do not use the power in a socially responsible manner will tend to lose it.
2. **Long run self interest:** A better society would produce a better environment in which the business can be profitable in the long run. Such an environment can be created by implementing special programmes which reduce crimes, labour turnover and absenteeism, and improve public health and education. Recruitment of labour becomes easier.

3. **Better public image:** Good public image is necessary for a business to secure more customers, better employees and higher profit. Business can capture a favourable public image by supporting the society's interest and social goals.
4. **Avoiding government regulation or control:** Regulation and control are costly to business both in terms of energy and money and also restricts its flexibilities of decision making. Businessmen's failure to assume social responsibilities invites government to intervene and regulate or control their activities. The prudent course for business is to understand the limit of its power and to use that power responsibly, giving government no opportunity to intervene. By their own socially responsible behaviour they can prevent government intervention.
5. **Effective use of resources and power:** Businessmen command considerable power over the productive resources of a community. They are under an obligation to use those resources for the common good of society. They should keep in mind that power to command national resources has been delegated to them by the society for the purpose of generating more wealth for its betterment. They must honour social obligation while exercising the delegated economic power.
6. **Conversion of resistance into resources:** Business has the innovative ability to return social problems into economic opportunities and functional capacity can be increased many times.
7. **Minimizing environmental damage:** The effluences of many businesses positively damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention by recognizing their ecological responsibility towards society.

7. What are key developments have taken place over the last decade to increase focus on CSR?

1. **Increased stakeholder activism:** various stakeholders' group have come to expect more and more from business. Society is looking to the private sector to help with complex economic and social issues. Corporations which are perceived by the society as not being socially responsible are targeted through such as public demonstrations, public exposes, boycotts, shareholder resolutions and even "denial of service" attacks on company websites.
2. **Engagement of stakeholder:** Engaging stakeholders in decision making process has evolved from "whether to engage shareholders" to "how to engage shareholders". Companies and stakeholders have progressed beyond "dialogue for dialogue's sake" and are looking to rationalize the process.
3. **Proliferation of codes and guidelines:** new voluntary Corporate Social Responsibility standards and performance measurement tools are added by various companies as part of their annual reports. There is a growing consensus to evolve a standard in Corporate Social Responsibility reporting and dissemination of information.
4. **Concept of value chain:** Corporate Social Responsibility agenda is characterized by the expansion of boundaries of corporate responsibility. Stakeholders increasingly hold companies accountable for the practices of their business partners throughout the entire value chain with special focus on supplier environment labour and human rights practices.
5. **Transparency and reporting:** Public demand greater transparency and better disclosure of the economic and social performance of the corporate sector. Companies are expected to provide access to information on impacts of their operations, to engage stakeholders in meaningful dialogue about issues of concern that are relevant to either party and to be responsive to particular concerns not covered in standard reporting and communication practice. Accounting authorities are developing new accounting standard to improve corporate reporting.
6. **Corporate Social Responsibility & corporate governance:** The convergence of Corporate Social Responsibility and Corporate Governance is growing rapidly. Initially the focus was on issue such as board diversity, director independence and executive compensation. Now Corporate Social Responsibility activities have begun to stress the importance of Board and

Management Accountability, Governance and decision making structures for effective institutionalization of Corporate Social Responsibility.

7. **Growing pressure from investors and markets:** Corporate Social Responsibility is now part of the mainstream investment. Mainstream investors are now treating Corporate Social Responsibility as a strategic business issue. Socially responsible investors are putting pressure on companies to disclose their workplace policies environmental responsibility, human rights practices, Corporate Governance and community involvement. Activist groups are giving access to annual meetings and the shareholders resolution process by buying shares in targeted companies.
8. **Information technology:** Rapid advancement in information technology has sharpened the focus on the link between business and Corporate Social Responsibility speeding up the flow of information about the company's Corporate Social Responsibility record.
9. **Pressure to quantify Corporate Social Responsibility "ROI":** Companies, employees, customers, NGOs and public institutions want to know return on Corporate Social Responsibility investment both for business and society. Companies want to determine what their Corporate Social Responsibility initiatives have accomplished so that they can focus scarce resources most effectively.

8. Explain briefly the strategies in implementation of CSR policies and practices?

A company uses variety of formal mechanism and processes to raise the Corporate Social Responsibility issues with Board for the purpose of incorporating them into business strategies and decision making. Companies implement Corporate Social Responsibility by putting in place internal management system that promote –

- (i) Adherence to labour standards by corporations and their business partners;
- (ii) Respect for human rights;
- (iii) Protection of the local & global environment
- (iv) Avoiding bribery and corruption
- (v) Consumer protection; and
- (vi) Reducing the negative impacts of corporations operating in conflict zones.

Some key strategies that can be used by companies while implementing Corporate Social Responsibility policies and practices are as follows:

1. **Mission, vision and values statement:** Corporate Social Responsibility is regarded as a prominent place in a company's core mission, vision and values documents which state a company's goals and aspirations. It provides insight into the company's values, culture and strategies for achieving its aims. The mission or vision of a socially responsible business refers to a purpose beyond "making a profit" and specifies that it will engage in ethical and responsible business practices. It seeks to balance the interests of all the key shareholders while making decisions.
2. **Culture values:** Corporate Social Responsibility requires an environment where innovation and independent thinking are welcomed. There must be a commitment to close the gap between "what the company says" and "reality of its actual performance". Care should be exercised so that the company says what it means and means what it says.
3. **Management structures:** Corporate Social Responsibility management system aims to integrate corporate responsibility concerns into a company's values culture, operations and business decisions at all levels of the organization. Such a system can be created by assigning responsibility to a Board committee, an executive level committee or a single executive or a group of executives who can identify key Corporate Social Responsibility issues and evaluate and develop a structure for long term integration of social values throughout the organizations.

There is no single universally accepted method for designing a Corporate Social Responsibility management structure. The designed structure should align the company's mission, size, sector, culture, business structure, geographic locations, risk areas & level of Corporate Social Responsibility commitment.

4. **Strategic planning:** companies begun to incorporate Corporate Social Responsibility into their long term planning processes. Specific goals and measures of progress are identified for the purpose. The impact of any major company proposals on society is assessed before it is approved.
5. **General accountability:** Social responsibility goals may be prescribed for different divisions, departments and job positions. Job descriptions are designed so that each employee can understand how he can contribute to the company's overall effects to be socially responsible.
6. **Employee recognition and rewards:** Employees tend to engage in such behaviour that is recognized and rewarded and avoid behaviour that is penalized. To promote Corporate Social Responsibility, the system of recruiting, hiring, promoting, compensating and publicly honouring employees should be designed.
7. **Communication, education and training:** Employees cannot be held accountable for responsible behaviour if they are not aware of its importance. Therefore, they should be provided with the information and tools they need to act appropriately in carrying out their job requirements. Companies should publicize the need of Corporate Social Responsibility internally, include it as a subject in management training programs, establish a code of conduct, and provide managers and employees with decision making processes that help them to achieve responsible outcomes.
8. **Corporate Social Responsibility reporting:** Annual Corporate Social Responsibility report build trust with stakeholders and encourage internal efforts to comply with a company's Corporate Social Responsibility goals. The best report demonstrate –
 - (i) CEO and senior leadership support
 - (ii) Provide verified performance data for social, environmental and economic performance indicators
 - (iii) Share good and bad news
 - (iv) Set goals for improvement
 - (v) Include stakeholders' feedback.
9. **Leadership role:** A few socially responsible companies take the lead and persuade others to behave in more responsible manner. It is in everyone's best interest to have as many companies as possible honouring the requirements and expectations of Corporate Social Responsibility.
10. **Increased productivity and quality of work life:** Efforts to improve working conditions, lessen environmental impacts and increase employee involvement in decision making often lead to increased productivity and reduce error rate in a company.

9. What are the benefits of Corporate Social Responsibility?

The benefits of Corporate Social Responsibility, i.e. “good corporate citizenship” are as follows:

1. **Achievement of long term objectives:** A business organization. Sensitive to community needs would, in its own self interest, like to have a better community in which to conduct its business. The resulting benefits would be:

- Decrease in crime
- Easier labour recruitment
- Reduced employee turnover and absenteeism
- Easier access to international capital, better conditions for loans on international money markets.
- Dependable and preferred as suppliers, exporter/ importer, retailer of responsibly manufactured components and products.

A better society would produce a better environment in which the business may gain long term *profit maximization*.

2. **Improved financial performance:** socially responsible business practices and financial performance are linked positively. Studies and surveys reveal that overall financial performance of socially responsible companies have been much better than that of other companies. Improved financial performance results in stable socio- political – legal environment, enhanced competitive advantage, improved employee recruitment, retention and motivation, better stakeholders relations and a more secure environment to operate in.
3. **Reduction in operating costs:** Corporate Social Responsibility can also help to reduce operating cost significantly. For example – recycling initiatives cut waste disposal costs and generate income by selling recycled materials. Similarly work life programs result in reduced absenteeism and increased retention of employees. It will increase productivity and also reduce training and hiring costs.
4. **Brand image and reputation:** A socially responsible company enjoys reputation with the public companies brand and reputation. It draws customers, Increases Company's ability to attract capital and trading partners.
5. **Increased sales and customer's loyalty:** business must satisfy customer's key buying criteria such as price, quality, availability, safety and convenience. Customer increasingly favours firms based on other values based criteria such as “sweetshop free” and “child labour free” clothing, lower environmental impact, and absence of genetically modified materials or ingredients.
6. **Ability to attract and retain employees:** Strong Corporate Social Responsibility commitments in companies find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs.
7. **Reduced regulatory oversight:** National and local governments exercise less control over companies that clearly satisfy or go beyond regulatory compliance requirements. Such companies are subject to fewer inspections and paperwork, and may be given preferential treatment when applying for operating permits or other forms of governmental permission.
8. **Access to capital:** Companies with strong Corporate Social Responsibility performance have increased access to capital that might not otherwise have been available.
9. **Helps minimize ecological damage:** The effluence of many businesses damages 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.
10. **Increased productivity and quality of work life:** Efforts to improve working conditions lessen environmental impacts or increase employee's involvement in decision making often lead to increased productivity and reduced error rate in a company.

10. What are the external standards and guidelines for Corporate Social Responsibility reporting?

1. GRI: Global Reporting Initiative:

- (i) It is a reporting standard rather than a performance standard. It was established to design globally applicable guidelines for preparing enterprise level sustainability reports including social and environmental indicators.
- (ii) GRI is conveyed by CERES (Coalition for Environmental Responsible Economics) and involves the active participation of corporations, non governmental organizations, international organizations, business associations, Universities and other stakeholders from around the world.
- (iii) GRI first released its sustainability reporting Guidelines in 1999 and is now a permanent, independent, international body with a multi stakeholder governance structure. Its core mission is maintenance, enhancement and dissemination of the guidelines through a process of ongoing consultation and stakeholder's engagement. GRI has begun to add sector specific supplements, beginning with financial services and tour operators.

2. AA 1000 (1999):

- (i) It is an accountability standard designed – to complement the global reporting initiative (GRI) reporting guidelines, and improve accountability and performance by learning through stakeholder engagement.
- (ii) This helps to establish a systematic stakeholder engagement process that generates the indicators, target and reporting systems needed to ensure its effectiveness in overall performance of the organization.

3. Social Accountability 3000:

- (i) It specifies requirements for special accountability to enable a company to develop, maintain and enforce policies and procedure in order to manage those issues which it can control or influence demonstrate to interested parties that policies procedures and practices are in compliance with the requirement of this standard.
- (ii) This standard is maintained by social accountability international. It covers standards and monitoring programs for child labour, wages of benefits, working hours, health and safety, freedom of association and collective bargaining and management system.

4. Union Nations Global Compact (2000):

- (i) It is a set of nine principles which the companies can voluntarily “embrace and exact” in their individual corporate practices and to support complementary public policy initiatives.
- (ii) This standard includes those practices that endorsing companies would commit to enact as well as a section describing the benefits to business for embracing each principles.

5. OECD Guidelines for Multinational Enterprises (1976/2000):

- (i) Organization for Economic Corporation and Development (OECD) guidelines are recommendations addressed by Governments to multi national enterprises.
- (ii) These are not legally enforceable and are voluntary principles and standards. Governments encourage the companies operating within the countries to observe the guidelines wherever they operate. These guidelines were first published in 1976 and updated in June 2000.

6. ICCR Guidelines

- (i) The Interfaith Centre on Corporate Responsibility (ICCR) has published “Principals for Global corporate Responsibility” which is not a standard but a collective distillation of the issues of

concern to religions oriented institutional investors developed by groups in the U.K., U.S. and Canada.

- (ii) This guideline comprises of more than 275 religious institutions that use their investments to promote social change.
- (iii) The principles cover the entire spectrum of Corporate Social Responsibility issues which includes workplace, community, environment, human rights, ethics, suppliers and consumers. The principles are published as a reference tool that companies can use to monitor their own policies or those of the companies in which they invest.

7. Caux Round Table (CRT):

- (i) CRT has produced “Principles for Business” a document which seeks to express a world wide standard for ethical and responsible corporate behaviour for dialogue and world wide action by business and leaders.
- (ii) CRT promotes principled business leadership and the belief that business has a crucial role in identifying and promoting sustainable and equitable solutions to key global issues affecting the physical economic social environment.
- (iii) CRT is comprised of senior business leaders from Europe, Japan & North America and is based in CAUX Switzerland.
- (iv) This principles include –
 - (a)** Social impact of company operations on a local community
 - (b)** A respect for rule and ethics
 - (c)** Support for multilateral trade agreement that promote “Judicious liberation of trade”.
 - (d)** Respect for the environment and “avoidance of illicit operation”.

8. Global Sullivan Principles (1999):

The objectives of the Global Sullivan Principles are -

- (i) To support economic, social and political justice by companies where they do business.
- (ii) To support human rights
- (iii) To encourage equal opportunity at all level of employment
- (iv) To train and advance disadvantaged workers for technical supervisory and management opportunities.
- (v) To assist with greater tolerance and understanding among people.
- (vi) To improve the quality of life for communities, workers and children with dignity and equality.

9. Asian – Pacific Economic Cooperation (APEC) Business code of conduct (1999):

- (i) APEC is known as the primary international organization for promoting open trade and economic among 21 member economics around the world.
- (ii) The code issued is a standard that draws significantly on a variety of other internationally recognized codes and standard.
- (iii) The drafting of the code is designed to supplement and support company’s existing codes of conduct. In addition to it, the code addresses policy recommendations to APEC county governments and provides recommendations for specific “Company action” or a range of issues.

CHAPTER 3

WORKPLACE ETHICS

1. What do you mean by “Workplace Ethics”?

Workplace ethics refers to how one applies values to work in actual decision making. It is a set of right and wrong actions that directly impact the workplace. Workplace ethics are an extension of the personal standards or lack of them that is intrinsic in the people comprising the workplace. It is all about making choice that may not always feel good or seem beneficial but are the right choices to make. Ethics in the workplace require abolition of all kinds of discrimination and exploitation.

2. Why workplace ethics is needed?

Public concerns about the ethical practices in business usually relate to issues such as

1. Fraud and embezzlement
2. Accepting bribes or lying
3. Financial scams
4. Deceptive advertising of food and beverages.

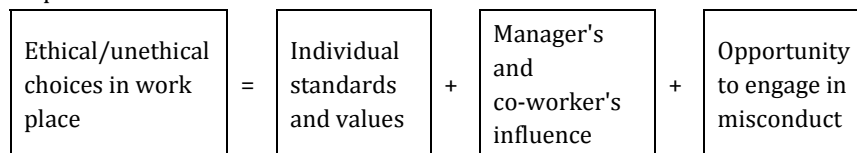
Unfair competitive practices etc. strengthen the public perception that ethical standards in business need to be improved. The pressure of sound values and ethics is a vital and ongoing part of good governance in organization and an integral part of good management practices.

3. What are the factors influencing Workplace ethics?

The main factors influencing the level of workplace ethics are as follows:

1. **The individual moral Standards:** The moral standards and sound personal values of a person exercise a significant impact on ethics in the workplace. An employee has to make a choice between right and wrong in different situations. His ethical behaviour affects his reputation within the company as well as the reputation of his company. His choices and actions depend upon his personal beliefs and value as well as reflect the understanding of his ethical responsibility as an employee.
2. **Influence of managers and co-workers:** managers and coworkers exert significant control on one's choices at workplace through authority. For gaining consistent ethical compliance in the company's workplace, activities and examples should be set by co-workers along with the rules and policies established by the company.
3. **Opportunity to engage in misconduct:** In case the company fails to provide good examples and direction for appropriate workplace conduct, confusion and conflict will develop and will result in the opportunity for unethical behaviour. If punishments for undesirable behaviour are not implemented, each individual may misuse the opportunities available to him since there is no system of punishment.

Examples: If the boss or co-workers leave work early or make personal long-distance phone calls at work and charge them to the company or uses company's assets for private purpose, every individual may be tempted to do so.



4. What are the ethical issues faced by an individual in the workplace?

Ethical issues faced by an individual in the workplace can be classified as (1) Business relationship, (2) Conflicts of interest, (3) Fairness and Honesty, (4) Communication.

1. Business relationship:

- (i) The behaviour of business persons toward customers, suppliers, and other in their workplace may also generate ethical concerns. For example, a company will be benefited more by treating its customers fairly, truthfully and equitably. Customers should also perceive that the company is treating them fairly.
- (ii) Ethical behaviour within a business involves (a) keeping company secrets (b) meeting obligations and responsibilities and (c) avoiding undue pressure that may force others to act unethically.
- (iii) Managers can influence employees' actions, due to their positional authority. Employees may be encouraged to engage in activities that they might personally view as unethical e.g. invading other's privacy or stealing a competitor's secrets.

2. Conflicts of interest:

A conflict of interest arises when an individual has to make a choice between self interests and his organizational interests. For example, a bribe is a conflict of interest because it benefits an individual at the expense of an organization or society. It need not always be financial. However, the effect of a decision taken in a situation of "conflict of interest" has a financial impact on the company. To avoid conflicts of interest, employees must be able to separate their personal interests from their business dealings.

3. Fairness and honesty:

- (i) Fairness and honesty are the heart of business ethics and it relate to the general values of decision makers.
- (ii) Business persons are expected (a) to follow all applicable laws and regulations and (b) not to harm customers, employees, clients or competitors knowingly through deception, misrepresentation, coercion or discrimination.
- (iii) An aspect of fairness and honesty is related to disclosure of potential harm caused by product use and avoiding illegal and questionable monopolistic practices to harm competition.

4. Communications:

- (i) False and misleading advertising, as well as deceptive personal selling tactics, amber the consumers and can lead to the failure of a business, hence, communication is a key factor where ethical concerns may arise.
- (ii) Truthfulness disclosures about product safety and quality are important for consumers e.g. in case of medicines, food items etc the food and drug regulatory authorities need to ensure that customers are told the truth about the product safety, quality and effectiveness claims.
- (iii) Product labeling is another important aspect of communications that may arise ethical concerns, it is mandatory for cigarette manufacturers to indicate clearly on cigarette packing that smoking cigarette is harmful to the smoker's health".

What are the basic reasons for Ethical Dilemmas in workplace? Give examples of ethical issues faced by the individual in the workplace.

- 1. **Ethical Dilemmas / Concerns:** An individual's ethical concerns are differential relationships and responsibilities at the workplace where there are no "correct" rules to follow.
- 2. **Examples:** Examples of ethical issues faced by an individual in the workplace are-
 - (a) Bribery and immoral entertainment
 - (b) Discriminating between Suppliers

5. What is discrimination in context of Workplace Ethics?

Discrimination is action based on prejudice resulting in unfair treatment of people. The meaning of the term discriminate is “to distinguish one object from another”. In the context of workplace ethics discrimination refers to –

- (i) Treating people differently. It refers to wrongful act of making a difference in treatment or favor on a basis other than individual merit.
- (ii) Treating one person better than another because of their age, race, religion, gender or other protected class status, which is not relevant to their individual job.
- (iii) A form of injustice based on the formal “Principle of equality” individuals who are equal in all respects relevant to the kind of treatment in question should be treated equally, even if they are dissimilar in other non relevant respects.

6. What are the basic elements in employment discrimination?

Discrimination in employment involves three basic elements:-

1. **Individual merit is ignored:** It is a decision against one or more employees (or prospective employees) i.e. not based on individual merit, such as the ability to perform a given job, seniority or other morally legitimate qualification.
2. **Biased way:** The decision is based wholly or partly on (i) racial or sexual prejudice, (ii) false stereotypes, or (iii) other kind of morally unjustified attitude against members of the class to which the employee belongs,
3. **Harmful impact:** The discriminatory decision has a harmful or negative impact on the interests of the employees, perhaps costing the jobs, promotions or better pay.

7. What are the commonly recognized employment discrimination practices?

The commonly recognised discriminatory practices are as follows:

1. **Recruitment practices:** Business firms that rely solely on the word of mouth referrals of present employees to recruit new workers tend to recruit only from those racial and sexual groups that are already represented in their labour force. For example, when job vacancies are advertised in media that are used by only men and not minorities or women, recruitment will tend to be discriminatory.
2. **Screening Practices:** Discriminatory job qualification arises when they are not relevant to the job to be performed. E.g. requiring a high school diploma for a manual task. Job interviews become discriminatory if the interviewer routinely disqualifies certain class of people assumptions about occupations ‘suitable for women’ or the priority of putting women in ‘male’ environments.
3. **Promotion practices:** Promotion, job progression and transfer practices become discriminatory when (i) employers place makes on job tracks separate from those open to women and minorities. (ii) Promotions rely on the subjective recommendations of immediate supervisors.
4. **Condition of Employment:** Discrimination in condition of employment include non compliance with the following aspects:
 - (i) Equal wages and salaries to people who are doing essentially the same work.
 - (ii) Fair wages based on industry standards and working environment conditions.
 - (iii) Fair treatment to workers for e.g. facilities like child labour that abuse and for underpay their workforces is termed as sweatshops and that should be avoided.
5. **Dismissal:** Firing an employee on the basis of his or her races or sex is a clear form of discrimination. Lay off policies become discriminatory if they rely on a seniority system in which minorities and women have the lowest seniority on account of past discrimination.

8. What is meant by harassment in context of Workplace Ethics?

Harassment is tormenting by subjecting to consent interference or intimidation. "It acts and conduct creates an "intimidating, hostile or offensive working environment." which could be –

1. Adverse or unreasonable terms and conditions of an individuals employment either explicitly or implicitly.
2. Conduct which has the purposes or effect of unreasonably interfering with an individual's work performance or creating an offensive work environment.

Another type of harassment is sexual harassment – a situation in which an employee is coerced into giving into other employees sexual demands by the treat of losing some significant job benefits e.g. promotion, salary increment or even the job.

Effect of harassment –

1. Great psychological harm on the employee.
2. Violates the employee's most basic right of freedom and dignity.
3. Unjust misuse of the unequal power that an employer can exercise over the employee.
4. Degrading coercion on employees.

9. What major the steps should be taken by the employer to prevent sexual harassment?

Business enterprise is comprised of individuals and constitutes a human society. Hence, the employer is expected to ensure a fair working environment free of harassment. Sexual harassment s usually committed by one employee against another employee. But the employer bears both legal and ethical obligations to prevent such sexual harassment. The following programmes may be taken to prevent sexual harassment.

1. **Sexual harassment policy:** A policy statement should be prepared by the company stating the sexual harassment of any kind will not be tolerated. A good sexual harassment policy should educate as well as warn employees and describe the kind of actions that amount to sexual harassment.
2. **Communicating such policy:** Sexual harassment policy should be communicated so that all employees understand it and accept it. Education and training may be required to create sensitivity to the issue.
3. **Establishing procedure:** For handling incidents of sexual harassment an effective procedure should be set up. The person or office to which complaints should be made (i) assurance of non retaliation against an accuser, and (ii) confidentiality of complaints are essential part of such policy, each and every complaints must be properly investigated to ascertain all the relevant facts.
4. **Appropriate action:** The action may include pay reduction, job transfer, demotion and even termination due publicity of the penalty imposed on the offender is helpful. The victim should be compensated for the harm caused.

10. What are the guidelines for managing ethics in the workplace?

The following are a few guiding principles of managing ethics in the workplace –

1. **Codes of conduct and ethics:** Codes of conduct specify actions in the workplace and codes of ethics are general guides to decisions about those actions. It specifies what is right and what is wrong. Codes of conduct include – preferred style of dress, avoiding illegal drugs, adherence to superior's instructions, being reliable and prompt, prohibiting from accepting gifts etc. codes become more effective when the top management actively supports and applies it.
2. **Open communication:** Many of the ethical problems arising in a business are ambiguous and uncertain. Therefore there is necessary to create a work environment where employee understands that it is acceptable. To have an ethical dilemma management should explain the purpose and contents of ethical policy. Training may be required to sensitize employees to potential ethical issues. Necessary resources need to be provided to help employees resolve ethical dilemmas.
3. **Group decision making:** Ethical decisions can be made in groups and then made public as appropriate. It produces better quality decisions by including diverse interests and perspectives and increases the credibility of the decision process and outcome by reducing suspicion of unfair basis.
4. **Integrated ethics management:** Ethics need to be integrated into management policies and practices. Ethical values preferred in the workplace should be included while developing the value statement during strategic planning. Similarly, ethical principles should be considered when developing personnel policies and then design policies to produce these behaviours.
5. **Grievance policy:** A grievance policy should be created for employees to use to resolve disagreement with supervisors and staff.
6. **Atmosphere of trust:** Creating an atmosphere of trust is critical in encouraging employees to report unethical activities they come across. So, a suggestion box may be installed so that employees may report suspected ethical violations activities in an anonymous basis.
7. **Cross functional teams:** Cross functional teams should be used when developing and implementing the ethics management program so that employees feel a sense of participation and ownership in the program if they are to adhere to its ethical values.
8. **Ombuds person:** The ombuds person establishes a point of contact where employees can go to ask questions in confidence about the work situations they confront and seek advice. In order to institutionalize the moral values in the workplace, the ombuds person facilitates the development of the policies and procedures.
9. **Example from leadership:** Top executives and managers should endorse strict standards of conduct and also follow it themselves. They must create an impression on employees that unethical behaviour will not be tolerated. Employees need to be informed that they must report any wrongdoing they encounter top executives must assure both by words and actions that no discrimination will take place against those who report ethical breaches.
10. **Updating policies and procedures:** Policies and procedures concerning ethics at the workplace should be reviewed and updated on a regular basis. To produce behaviours preferred from the code of conduct, job descriptions, performance appraisal forms, management by objectives.

Expectations, standard firms, checklist, budget report formats and other relevant control instruments to ensure conformance to the code of conduct.

CHAPTER 4 ENVIRONMENT & ETHICS

1. What is the concept of Sustainable development?

- 1) Sustainable development is “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.
- 2) A nation or society should satisfy its requirements social, economic and others without jeopardizing the interest of future generations.
- 3) High economic growth means high rate of extraction, transformation and utilization of non renewable resources. This concept of sustainable development refers to maintaining development over time.
- 4) As per Brundtland Report the concept of ‘Sustainable development’, recognizes that economic growth has to be environmentally sustainable, since there is no economic growth without ecological cost.
- 5) Sustainable development as a balance concept between ecology and development has been accepted as a part of the customary international law. Right of a person to environment which is pollution free is a part of basic jurisprudence of the land.
- 6) Increased development and higher GNP are related to environmental damage and resource depletion. Therefore, on element of resource regeneration and positive approach to environment have to be incorporated in all developmental programmes.

2. What are the main forms of Pollution & Resource Depletion and their detrimental effects?

POLLUTION: It refers to the undesirable and unintended contamination of the environment by the manufacture or use of commodities.

RESOURCE DEPLETION: It refers to the consumption of finite or scarce resources. Pollution may also be a type of resource depletion because contamination of air, water or land diminishes their beneficial qualities.

The main forms of pollution and resource depletion are as follows:-

1. **AIR POLLUTION:** According to U.S. Public Health Services, air pollution means, “*the presence in the outdoor atmosphere of one or more contaminations or combination thereof, in such quantities and of such duration as may be, or may tend to be injurious to human, plant or animal life, or property, or which unreasonably interfere with the comfortable enjoyment of life, or property, or the conduct of business*”

Causes: Air pollution may be caused by –

- (i) Gases and particulate spewed out by vehicles and industrial processes
- (ii) Increase in population
- (iii) Urbanization
- (iv) Industrialization
- (v) Industrial accidents and disasters

Effect: Adverse effects of Air pollution are given bellow:

- (i) Affect vegetation by decreasing agriculture yields
- (ii) The air we breath, becomes hazardous to health and life
- (iii) Deteriorate exposed construction materials through corrosion.
- (iv) Disastrous global damage (global warning, ozone layer, destruction & acid rains)

2. **WATER POLLUTION:** Water is essential to human life and also for industrial growth and development. Any human activity which spoils the quality of water may be called water pollution. Water is regarded as polluted when it becomes harmful for all living creatures.

Sources: Water pollution is caused by –

- (i) Industrial effluence
- (ii) Using water bodies as dumping yards/ disposal sites for wastes,
- (iii) Nuclear power plants
- (iv) Disasters (e.g. oil spills) etc.

Effects:

The world's per capital supplies of water are shrinking and are now 30% smaller than 25 years ago. It is due to increase in population and economic activity in urban areas, to meet urban demands, water is being increasingly diverted from agriculture irrigation to provide water for cities.

3. **LAND POLLUTION**

Solid Wastes: People living in cities produce tons of solid wastes every year. City garbage dumps are significant sources of pollution, containing toxic substances such as cadmium, copper, Zinc, etc. problem of toxic-waste dumping are increasing day by day due to rapid advancement in the IT industries and it can't be reused also.

Hazardous or Toxic Substances: these can cause –

- (i) Increase in mortality rates
- (ii) Irreversible or incapacitating illness
- (iii) Seriously adverse health or environmental effects.

For example, **Benzene** is a common industrial toxic chemical used in plastic, dyes, nylon, food additives, detergents, drugs, fungicides and gasoline. Benzene workers are several times more likely than the general population to get leukemia.

Vinyl Chloride is used in the production of plastics, which is released in small amounts when plastic products deteriorate causes liver damage. Birth anomalies, liver, respiratory and bone damage, brain and lung cancer etc.

4. **DEPLETION OF FOSSIL FUELS**

Depletion of fossil fuels at an exponentially rising rate led to loss of non-renewable source of energy. The loss of forest habitats combined with the effects of pollution has led to the extinction of a phenomenal number of species and danger of many existing species disappearing forever.

3. **What is Global Warming & Acid Rains? What are the effects of Global warming and Acid rains?**

(a) GLOBAL WARMING:

Greenhouse gases: Carbon dioxide, nitrous oxide, methane and CFCs (Chloro fluoro carbons) occurs naturally in the atmosphere to absorb and hold the heat from the sun. It prevents heat to escape back into space, to keep the earth's temperature at right levels so that life can evolve and flourish. Industrial and other human activities during the last 50 years have released substantially more greenhouse gases into the atmosphere, particularly by the burning of fossil fuels resulting in increasing amounts of heat, and raising temperatures around the globe.

(b) DEPLETION OF OZONE LAYER:

Ozone layer in the lower stratosphere protects all life on the earth from harmful ultraviolet radiation.

This ozone layer is destroyed by CFC gases, which are used in Aerosol cans, Refrigerators, Air conditioners, Industrial Solvents etc. When released into air, CFC gases rise and reach the stratosphere in 7 to 10 years, where they destroy ozone molecules and remain for 75 to 150 years continuing all the while to break down additional ozone molecules. Shrinking of the ozone layer and subsequent increase of UV rays will lead to –

- (i) Skin cancer
- (ii) Destruction of 75% of the world's major crops those are sensitive to UV light.

(c) ACID RAIN:-

- (i) Acid rain is a threat to the environment i.e. closely related to the combustion of burning of fossil fuel which are heavily used by utilities to produce electricity.
- (ii) Burning fossil fuels, containing high level of sulphur releases large quantities of sulphur oxides into the atmosphere. When these gasses are carried into the air, they combine with water vapour in clouds to form nitric acid and sulphuric acid. These acids are then carried down in the rain, thus, raising the acidity of the water source.

Adverse effect of global warming

Average global temperatures are now higher than before. This increasingly heat will have the following effects –

- ⇒ Increases the frequency and magnitude of drought.
- ⇒ Expansion of world's deserts.
- ⇒ Melting of polar ice caps leading to rise in sea levels.
- ⇒ Warming of water – bodies like oceans and lakes, thus shifting the geographical distribution of fish and other marine species.
- ⇒ Increases the distribution and severity of diseases.
- ⇒ Extinction of several species of plants and animals
- ⇒ Reduced agriculture yield levels and disruption in farming.

Adverse effect of acid rains

- ⇒ Acid rain falls directly on trees and other vegetation and soaks into soils. It directly damages forests and indirectly destroys the wildlife and species that depend on forests for food and breeding.
- ⇒ Water sources become highly acidic. Many fish populations and other aquatic organisms are unable to survive in lakes and rivers that have become highly acidic due to acid rain.
- ⇒ Acidic rain water releases toxic metals from the soil and carries these into waterways, where it contaminate drinking water which lead to various diseases.
- ⇒ Acid rain can corrode and damage buildings, statues and other objects specifically made up of iron. Limestone and marble.

4. What is meant by ecological ethics?

ECOLOGICAL SYSTEM

An ecological system is an interrelated and interdependent set of organisms and environments, such as a lake in which the fish depend on small aquatic organisms, which in turn live off decaying plant and fish waste products. Since the various parts of an ecological system are inter related, the activities of one of its parts will affect all the other parts.

ROLE OF BUSINESS

Business firms are parts of a larger ecological system. Business firms depend on the natural environment for their energy, material resources and waste disposal and the environment in turn is affected by the commercial activities of business firms. Therefore, ecological systems within which we live need to be recognized, maintain and preserve.

Business firms should –

- (i) Recognize the inter relationship and inter dependencies of the ecological systems within which they operate; and
- (ii) Ensure that their activities will not seriously injure the ecological system.

Moreover, we all have a moral duty to protect environment not only for the sake of human beings but also for its own sake. This is known as ecological ethics, such resolve by business enterprises is required in order to counter the problems, of pollution and resource depletion.

5. What is the significance of Conservation of Natural Resources?

Conservation refers to the saving or rationing of natural resources for better uses.

Conservation focuses primarily to the future i.e. the need to limit consumption now to have resources available for tomorrow. E.g. pollution control is a form of conservation. Pollution “consumes” pure air and water, and pollution control “conserves” them for the future.

Depletion of resources is primarily a concern for future generation. Conservation is only way of ensuring a supply for tomorrow’s generations.

Awareness:

In the earlier times, business enterprises were mainly concerned with ‘using’ the economic resources in the best possible manner. Now awareness increases to conserve the ecological resources.

Awareness of social responsibility need to adopt ethical values and more statutory requirement towards pollution control, environment – friendly practices etc. have translated into providing safety for the workers at workplace, reducing pollution, health concern for them and incorporating environmental values in governance.

6. What is meant by environmental ethics?

Meaning: Environmental ethics concerns the value system of societies – the value system that has brought the state of environment to the present situation.

Impact: Problems such as global warming, ozone depletion and disposal of hazardous waste affect the entire world. They require international cooperation and have to be tackled at the global level.

Pervasive: Environmental ethics is a issue that concerns ethical behaviour of all types of organizations ranging from international Bodies, National Governments, Opinion makers, media, intelligentsia, public and private enterprises and NGOs.

Cause and effect: the effect i.e. the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal.

The basic cause i.e. the issue of exploitive human nature and attitude should be addressed in a rational way.

Ethical practices in Business: Ethical practices make good business sense especially the organizations engaged in exports of products and satisfy the importer in regard the quality, ethics and environmental standards.

Developments in India: The Chipko movement (1973) in India is a proof of people's concern about the balance in ecosystem. Air pollution measures were enacted through:-

- (i) The factories act 1948
- (ii) The industrial (Development and Regulation) Act 1951
- (iii) Mines and Mineral (Regulation and Development) Act 1957
- (iv) Air (Control and prevention of pollution) Act 1981
- (v) The motor Vehicles Act.

7. What do you mean by "Environment friendly behaviour" of Business enterprise?

Environmental management is the priority and it is a key determination to sustainable development.

Business and industry are closely linked with environmental and resource utilization, so eco friendly business practices should involve eco friendly production processes, strategies and technologies throughout the product life cycle and effective management of wastes.

Waste management can be achieved through –

- 1. Minimum production of waste
- 2. Maximizing reuse of waste and recycling
- 3. Promoting environmentally sound waste. Disposal practices.

Business enterprise which pollute the environment have to pay the costs of managing such waste and also they cannot enjoy subsidies given by the government.

Economic progress and environmental protection are not a conflicting proposition. Companies can achieve the goals of reduction in wastage and resources depletion by redesigning products and adopting the latest technologies available. Company should adopt new thinking and strategies with regard to environment – business relationship. A change is needed at all levels starting from organizational structure, finance, manufacturing, marketing operations, accounting and other related disciplines. Policies viz. environment impact assessment – (EIA) and environmental audits which shows environmental concern should be adopted.

Implementation of environmental standards like ISO 14001 can provide competitive advantages to businesses incorporation of environmental issues in organizational set up improves corporate performance.

Industries based on natural resources (e.g. mineral, fiber, timber and foodstuffs etc.) have a special responsibility for:

- (i) Adopting practices that have built in environmental consideration.
- (ii) Introducing processes that minimize the use of natural resources and energy reduce waste and prevent pollution.
- (iii) Making products that are environment friendly with minimum impact on people and ecosystem.
- (iv) Green accounting systems, focus on addressing deficiencies in conventional accounts with respect to the environment. Environmental costs reflecting in the prices paid for goods and services so as to adjust the market behaviour in a way that would reduce damage to environment, pollution and waste production.

8. What are precautionary principles in environmental control?

Environmental measures taken by the state government and the statutory authorities are the precautionary principles. They must anticipate, prevent and attack causes of environmental degradation, in case of threats of serious and irreversible measures in order to prevent environmental degradation.

CHAPTER 5 ETHICS IN MARKETING AND CONSUMER PROTECTION

1. What are the ethical dilemmas in today's marketing scenario?

Marketing executives face the challenge of balancing their own best interest in the form of recognition, pay and promotion, with the best interests of consumer, their organizations and society into a workplace guide for their daily activities. They must be able to distinguish between 'ethical' and 'unethical' and act accordingly regardless of the possible consequences.

Ethical guidelines: Many organizations have code of ethics that identify specific acts (bribery accepting gifts) as unethical and describe the standards employees are expected to live up to these guidelines will:

- (i) Lessen the chance that an employee will knowingly or unknowingly violate a company's standards.
- (ii) Strengthen a company's hand in dealing with customers or prospects that encourage unethical behaviour.
- (iii) Valuable guides for young or inexperienced executives, to resist pressure to compromise personal ethics in order to move up in the organization.

Limitation of ethical guidelines:

- (i) Every decision cannot be taken by the manager.
- (ii) Determination of what is right and what is wrong can be extremely difficult in adverse situation.
- (iii) Difficult for any enterprise to construct a two-column (ethical V. Unethical) list of all possible practices.

So, a marketing manager must be able to evaluate a situation and formulate a response.

2. What are the reasons for ethical behaviour in marketing?

The reasons for ethical behaviour in marketing are as follows:

1. **Well being of consumers:** Management should be concerned with the well being of consumers, since they are the lifeblood of a business. Ethical behaviour in marketing strategies, policies and campaigns ensure acknowledgement of consumer's interest.
2. **Role of business leaders in marketing:** Marketing activities should not be interpreted wrongly by public as consisting of misleading package labels, false claims in ads, phony list prices, and infringements of well established trademarks. To reverse the damaged reputation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will set and enforce high ethical standards.
3. **Reduced Government regulation:** Unethical marketing behaviour increases the probability of government control on business. Most of the governmental limitations on marketing are the result of management's failure to maintain its ethical responsibilities in marketing. To avoid such

regulations and retain their freedom of operations by caring for the consumer's interest on voluntary basis.

4. **Regain social power:** Marketing executives manage a great deal of social power as they influence the markets and speak out on economic issues. However, there is responsibility field to that power. If marketing executives do not use their power in a socially manner, that power will be lost in the long run.
5. **Boost public image:** Buyers form an opinion about the entire organization public the basis of their contact with one person i.e. the person who represents the marketing function. (e.g. sales clerk for retail store) ethical marketing behaviour can protect and improve the image of the enterprise.

3. What is competition?

Definition: Competition is a situation in a market in which firms or sellers independently strike for the buyers, patronage in order to achieve a particular business objective(s), for e.g. sales or market shares.

Requirement: A pre-requisites for a good competition is trade i.e. the unrestricted liberty of every man to buy, sell and barter, when, where and how, of whom and to whom he pleases.

Effect: In situation of effective competition, competition will be having equal opportunities to compete for their own economic interest and therefore the quality of their outputs and resource deployment will be given top priority in order to sustain and succeed in the market by meeting consumer's demand at the lowest possible cost.

4. What are the competition policy and law?

Competition policy: The central economic goal of the competition policy is the preservation and promotion of the competitive process. It is a symbolic process, which encourages efficiency in the production and allocation of goods and services over a period of time through its effects on innovation and adjustment to technological change.

Competition law: It provides necessary powers to the commission to enforce and implement the competition policy. The Competition policy is regarded as genus, of which Competition law is 'Specie'.

5. What are the Competition law in UK and US?

Competition laws in UK:

- (i) **Competition Act 1988:** The UK Competition Act, 1988 which came into force on March 1, 2000 is based upon the Competition law of European Commission. The Act prohibited agreements, which have the object of preventing, restricting or distorting competition which directly or indirectly fix prices, trading conditions, limit or control production, markets or sources of supply.
- (ii) **The enterprise Act:** This Act introduced the next major reform of UK Competition law, 2002 which concentrated on a new regime for the assessment of mergers and markets in the UK.
- (iii) **European commission:** The implementation of European commission is a radical modernization of UK's Competition policy. For regulating the competition & its practices, most of the countries have the competition authority commonly known as the Competition commission.

Competition law in US:

- (i) **The Sherman Act, 1890:** This Anti-Trust Act aimed at restraint of trade and monopolization of inter state and foreign commerce.
- (ii) **The Clayton Act:** This is a civil statute (carrying no criminal penalties) passed in 1914. It aims to eliminate monopolies in the bud by specifying practices that monopolists used to gain monopoly power.
- (iii) **The federal trade commission 1914:** This act prohibits unfair method of Competition in interstate commerce but carries no criminal penalties. There was a federal trade commission to monitor violations of the act.

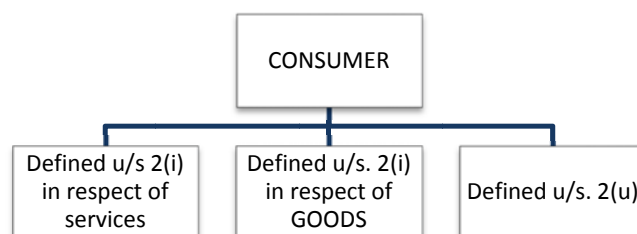
6. What are the objects of the Competition Act, 2002 in India?

The Competition Act, 2002 intends to provide the following objectives:

- (i) Keeping in view of the economic development of the country, for the establishment of a commission [i.e. Competition commission of India (CCI)] to prevent practices having adverse effect on competition.
- (ii) To promote and sustain Competition in India.
- (iii) To protect the consumer's interest
- (iv) To ensure freedom of trade carried on by other participants in markets in India.
- (v) To provide for matters connected therewith or incidental thereto

The Competition act, 2002 extends to the whole of India, except the state of Jammu and Kashmir.

7. What is meant by term 'Consumer'?



Means buyer of any goods	Means hirer or availers of any services
Includes any users of goods when such use is made with the approval of the buyer	Includes, any beneficiary of any services when such services are availed of with the approval of the hirer of avaiier.
Consideration: It may be(i) paid or (ii) promised or (iii) partly paid or (iv) partly promised or (v) under any system of deferred payment	Consideration: it may be (i) paid or (ii) promised or (iii) partly paid or (iv) partly promised or (v) under any system of deferred payment.
Purpose: Goods may be purchased for resale or for any commercial purpose or for personal use.	Purpose: Service may be hired or availed for any commercial purpose or for personal use.

8. How are Goods and services defined in Sales of Goods Act, 1932?

Goods: Section 2(7) of the sale of Goods Act, 1932 defines goods as “every kind of moveable property other than actionable claims and money, and includes stock & shares, growing crops, grass and thing attached to and forming part of the land which are agreed to be severed before sale of under the contract and sale.”

Services: As per section 2(U) “Services” means service of any description which is made available to potential users services also includes the provision of services in connection with business of any individual or commercial matters such as banking communication, education, insurance, financing, chit funds, real estate, transport, storage, material treatment, processing, supply of electrical or other energy, boarding, lodging, entertainment, amusement, construction, repair, conveying of news or information and advertising.

9. Consumer as per competition Act V/s. consumer as per consumer protection Act

Competition Act defines consumer substantially same as U/s. 2(d) of the Consumer Protection Act 1986. However, following are the wording difference:

Clause	Consumer of	As per competition Act	As per Consumer protection Act
(i)	Goods	“whether such purchase of goods is for the resale or for any commercial purpose or for personal use.”	“But does not include a person who obtains such goods for resale or for any commercial purpose.
(ii)	Services	“whether such hiring of availing of services is for any commercial purpose or for personal use.”	“But does not include a person who avails of such services for any commercial purposes.”

10. How consumer interest is different from public interest?

Basis of difference	Consumer interest	Public interest
Meaning	The areas in which the consumers as a whole are benefited is called consumer interest	The area in which the society as a whole has some interest is called public interest.
Members	Consumer is a member of a broad class of people who purchase, use, maintain and dispose of product & services.	Society is a collection of subsystem, e.g. consumers, manufacturers, distributors, input suppliers, service providers etc.
Factors	Consumers are affected by pricing, policies, financing practices, quality of goods and services and various trade practices.	Public interest reflects the morals during period and also the established interest of the society.
Scope	Consumer interest is restricted in scope as it is only a sub system of a larger system i.e. general public/ society.	Public interest is wider in scope in comparison to consumer interest.
Examples	Formulation of competition act, regulation of consumer protection councils, consumer courts etc.	Maintenance of law and order providing for defense of the country etc.

11. When does conflict arise between consumer interest and public interest?

Government policies may be fashioned and introduced in the name of “public interest” may not be in the ultimate interest of the consumers. This arises due to the fact that all producers are consumers but all consumers are not producers as such.

Example: A farmer wants the price of goods he consumes to be as cheap as possible but they want highest price for his produce. A government wishing for self sufficiency in food as a national security measurement, faces the conflict i.e. should it support high prices to encourage production or low prices to protect the consumers?

Conclusion: In general consumers (buyers) want competition but producers (sellers) desire monopoly. In a society there may such divergent interests and therefore the resolution is best left to market with Government intervention.

12. What is the relationship between Competition and Consumer Welfare?

Competition: It refers to rivalry in the market place. It is regulated by a set of policies and laws to achieve the goals of economic efficiency and consumer welfare, and to check on the concentration of economic power. All these goals have an interactive relationship and when in harmony, deliver total welfare.

Effect of competition on consumers: It is the consumers who are the main losers due to anti competitive activities in a market. The consumers are worse off because there is a lack of capacity to deal with such problems.

Micro level effect: The design and implementation of a competition policy promotes the advancement and increases poor's welfare.

Macro level effect: An effective competition regime or consumer law (covering competition distortions) can prevent consumer abuses, both at industry level as well in a village or locality where one shopkeeper can cheat the whole community.

Conclusion: An appropriate and dynamic competition policy and law are necessary to maintain economic development, avoid corruption, reduce wastage and arbitrariness, improve competitiveness and provide support to the poor.

CHAPTER 6 ETHICS IN ACCOUNTING AND FINANCE

1. What is the concept of ethical dilemma in context of finance and accounting professionals?

Ethical dilemma exist when finance and accounting professionals need to choose from available alternatives and there are –

1. Significant value conflicts among differing interest
2. Actual alternatives which can all be justified and
3. Significant consequences to all stake holders

EXAMPLE:

In preparing a profit forecast for launching a new product to be financed by external debt a finance and accounting professional should decide between –

- (i) Projecting unrealistic high revenue and mislead the launching institution in order to get the loan, or
- (ii) Projecting realistic but insufficient revenue, which is not satisfactory to the lender and consequently the project is closed. Both the above mentioned actions have got three own risks. There is no right answer to such a situation.

2. What is the concept of ethical conflicts for finance and accounting professionals?

A finance and accounting professional faces an “ethics conflicts” in circumstances when he is not in position to comply with the principles that govern ethical behaviour. “Conflict of Interest” situation the professional is required to decide between compliance with principles, and actions which are beneficial to the business enterprise.

Circumstances under which the conflicts occur are as follows.

Finance and accounting professional working as consultant or auditor:

For professionals working as consultant or auditors a threat to objectivity is created, when a professional accountant in public practice competes directly with a client or has a joint venture or similar arrangement with a major competitor of a client. Such circumstances may give rise to conflict of interest and give rise to non compliance with the fundamental principles.

Finance and accounting professional working as an employee:

Finance and accounting professionals working as an employee may be pressurized to act or behave in way that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit or may come from a supervisor, manager, director or another individual within the employing organization. Such professionals may face pressure to:

- (i) Act contrary to law or regulation
- (ii) Act contrary to technical or professional standards.
- (iii) Facilitate unethical or illegal earnings of management strategies.
- (iv) Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others particularly to the auditors of the organization or regulatory authorities.
- (v) Issue or otherwise be associated with a financial or non financials report that materially misrepresents the facts, including statements in connection with the financial statements; tax compliance; legal compliance; or reports required by securities regulators etc.

3. Explain aspects for creating a sound ethical accounting environment in a business enterprise?

The following aspects should be considered for creating a sound ethical accounting environment in a business enterprise –

1. **Employee awareness:** All employees should be made aware of their legal and ethical responsibilities. The top management should initiate policies to train and motivate employees toward ethical behaviour.
2. **Efficient communication system:** Ethical organization provide a communication system between the management and the employees so that any one in the organization can report about fraud, mismanagement or any other form of non routine detrimental behaviours without the fear of being reprimanded or fired. It may be in the form of 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 a company may face.
3. **Fair treatment to whistle blowers:** A whistle blower is an employee who report unethical practices, fraud and mismanagement to the appropriate level of management. Top management must ensure fair treatment to whistle blowers to assure and appreciate them. This would help to check fraud and other unethical practices.

4. What are the fundamental principles of ethics in the context of finance and accounts?

1. **Principles of integrity:** This principle requires that accounting and finance professionals should be honest and straight forward while discharging their respective professional duties. The following acts includes compliance with “Integrity” principles:-
 - (i) Communicate all the information (adverse as well as favourable) with concerned managers/superiors.
 - (ii) Avoid being involved in activities which would impair the firm’s goodwill.
 - (iii) Avoid conflicts and advice related parties on apparent conflicts which could arise in the future.
 - (iv) Refuse to take any gift or favour which could influence actions taken or to be taken.
 - (v) Refuse to get involved in any activity which would adversely affect the achievement of the firm’s goals.
2. **Principles of objectivity:** This principle requires that accounting and finances professionals should use their professional judgement and should not allow bias, conflicting interests or undue influence of others to override their business judgment. Information should be communicated fairly and objectively in such a way that the communication with the end user is complete and transparent.
3. **Principle of confidentiality:** This principle requires that accounting and financial professional should refrain from disclosing confidential information related to their work. Such information may be disclosed to their subordinates and care should be taken that the later maintains the confidentiality. An exception can be made when there are requirement to disclose information under a legal obligation or because of some statutory ruling.
4. **Principle of professional competence and due care:** This principle requires that accounting and finance professionals should update their professional skills from time to time. In the modern day competitive environment, updated knowledge and skill shall ensure that the client or employer receives competent professional services based upon current and contemporary development in the related areas.
5. **Principle of professional behaviour:** This principle requires that accounting and finance professionals should comply with relevant laws and regulations and should avoid such actions which may result into discrediting the profession.

5. What are the various threats which can be faced by a finance and accounting professional while working as an auditor, consultant or an employee in a company?

Finance and accounting professional face several types of threats and conflicts which may cause unethical behaviour. Such threats may be classified as follows:-

1. **Self interest Threats:** Such threats occur as a result of the financial or other interests of finance and accounting professional or of an immediate or close family member. Circumstances under which the self interest threats may occur are as follows:-
 - (i) **Self interest threat for finance and accounting professionals working as auditors or consultants:**
 - 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. Close business relationship with a client.
 - d. Threat of losing the client.
 - e. Potential employment with a client.
 - f. Contingent fees relative to an assurance engagement.

- (ii) **Self interest for finance and accounting professionals working as an employee:**
 - a. Financial interest, loan and guarantees in the company the professional is working.
 - b. Arrangement for incentive compensation.
 - c. Inappropriate personal use of company's assets.
 - d. Concern over employment security.
 - e. Commercial pressure from outside the employing firm.

- 2. **Self review threats:** Such a threat occurs when a previous judgment needs to be revaluated by the finance and accounting professionals responsible for that judgment. Circumstances leading to such threats are as follows:
 - (i) **Self review threat for accounting and finance professionals working as auditors/consultants:**
 - a. Location of significant error during a re evaluation of work of the finance and accounting professionals
 - b. Preparation of original data used to generate records which are the subject matter of the engagement.
 - c. Reporting on the operation of financial system after being involved in their design or implementation.
 - d. A former director/manager of the client's firm being a member of the audit/consulting team.
 - e. A member of the auditor consulting team appointed in the client's firm in a position to exert direct and significant influence over the subject matter of the engagement.
 - (ii) **Self review threat for finance and accounting professionals working as an employee:**

Such threats occur when business decisions or data is subject to review and also justification is required to be given by the same professional who was responsible for preparing such data or taking such decisions.

- 3. **Advocacy threat:** Such threats occur when professional promotes a position or opinion to the point that subsequent objectivity may be compromised. Circumstances leading to advocacy threats are as follows:
 - (i) **Advocacy threat for finance and accounting professionals working as auditor/consultant**
 - a. Promoting shares in a listed entity when that entity is a consultancy or a financial statement audit client.
 - b. Acting as an advocate on behalf of an assurance client in disputes with third parties.
 - (ii) **Advocacy threat for finance and accounting professionals working as an employee**

Making false and misleading statements about the company's position, when furthering the legitimate goals and objectives of their professionals. However, when such statements made are neither false nor misleading, such actions generally would not create an advocacy threat.

- 4. **Familiarity threats:** Such threats occur when a finance and accounting professional has close relationships in the work environment and such relationships impair his selfless attitude towards work circumstances leading to familiarity threats are as follows:
 - (i) **Familiarity threats for finance and accounting professionals working as auditors/consultants:**
 - a. A member of the engagement team having a close family relationship
 - ⇒ With a director or officer of the client

⇒ With an employee of the client who is in a position to exert direct and significant influence over the subject matter of the engagement.

- b. A former director/officer of the client or an employee in an influential position.
- c. Accepting gifts or preferential treatment from a client.
- d. Long association of senior personnel with the assurance client.

(ii) Familiarity threats for finance and accounting professionals working as an employee:

- a. A finance and accounting professional in a position to influence financial or non-financial reporting or business decisions and having an immediate or close family members who is in a position to benefit from that influence.
- b. Accepting gifts/ favours unless the value is clearly insignificant.
- c. Long association with business contacts influencing business decision.

5. Intimidation threats: Intimidation threats occur when a professional may be prohibited from acting objectively by threats, actual or perceived.

(i) Intimidation threat for finance and accounting professionals working as auditors/ consultants:

- a. Being threatened with dismissal or replacement
- b. Being threatened with litigation.
- c. Being pressured to reduce inappropriately the extent of work performed in order to reduce fees.

(ii) Intimidation threat for finance and accounting professionals working as employees:

- a. Threat of dismissal of the professional or close relative over disagreement on application of accounting principles or the way in which financial information is to be reported for external use as well as for decision making purposes.
- b. The attempt of the boss to influence the professional's decision.

6. What are the various safeguards which may be adopted by accounting & finance professionals to overcome the threats?

Effective safeguards are required to check unethical behaviour. Thus safeguards shall

- (i) Ensure an ethical environment
- (ii) Eliminate or reduce the threats to an acceptable level
- (iii) Increase the likelihood of identifying or deterring unethical behaviour safeguards may be created by the –
 - 1. Finance and accounting profession, legislation and regulation; or
 - 2. Business firms employing the professional.

1. Finance and accounting profession legislation and regulation:

- (i) Education training and experience requirement for entry into the profession
- (ii) Continuing professional development requirement
- (iii) Corporate governance regulation
- (iv) Professional standards.
- (v) Professional or regulatory monitoring and disciplinary procedures.
- (vi) External review by a legally empowered third party of the reports, returns, communication or information produced by concerned professionals.

2. Safeguards in the work environment:

- (i) Employing organization system of corporate oversight
- (ii) Employing organization ethics and programs
- (iii) Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff
- (iv) Adequate internal control system appropriate disciplinary process
- (v) Policies and procedures to implement and monitor the quality of employee performance.
- (vi) Ethical leadership
- (vii) Policies and procedure to empower & encourage employees to report unethical practices to senior without fear.
- (viii) Timely communication of the company's policies and procedures and appropriate training and education on such policies and procedures.

7. What is “ethical Conflict Resolution” in the context of finance and accounting professionals?

Ethical conflict is a situation, where the professional is in a position to decide between compliance with principles, and actions which are beneficial to the business enterprise.

During a conflict resolution process, it is necessary to consider the following:

- (i) Relevant facts
- (ii) Ethical issues involved
- (iii) Fundamental principles related to the matter in question
- (iv) Established internal procedure
- (v) Alternative course of action

The finance and accounting professional should consider the consequences/ effects of each possible course of action. The professional should consult with other appropriate person within the firm or employing organization including those charged with governance of the organization i.e. BOD

The professionals may document the substance of the issue and details of any discussions held or decisions taken concerning that issue and that should be in compliance with the professional's code of conduct. In case the professional is unable to make a choice even after the evaluation of consequences of various alternatives he may take advice from relevant professional body or legal advisors.

If the conflict remains unresolved the professional can abstain from being associated with the matter causing conflict. He may withdraw or resign altogether from the assignment, the firm or the employing organization.