IPCC

ETHICS

Covering 20 Marks

Ethics

Ethics are principles and standards set after giving due thought as what is good or bad and having to do with moral duty and obligation. Ethics are the principles of conduct that governs the act of individual or a group.

Ethics is not following culturally accepted norms blindly rather following these norms after giving due thought as to whether it is good to follow it. Ethics provides reasons for how humans ought to act.

Ethics & Moral

Although both words are broadly similar but technically has distinction.

1. The root word for ethics is the Greek **"ethos," meaning "character"**, while the root word for Moral is Latin **"mos," meaning "custom**".

   Character and custom provide two very different standards for defining what is right and what is wrong. Character is a personal attribute, while custom is defined by a group over time. People have character. Societies have custom.

   To Repeat,
   Ethics and moral provide two very different standards for defining what is right and what is wrong. Ethics is a personal attribute, while moral is defined by a group over time. People have Ethics. Societies have moral which is then followed by People.

2. Another way to look at the distinction is to say that morals are accepted from an authority (cultural, religious, etc.), while ethics are accepted because they follow from personally accepted principles.

3. For example, if one accepts the authority of a religion, and that religion forbids stealing, then stealing would be immoral. An ethical view might be based on an idea of personal property that should not be taken without social consent.

Ethics & Religion

Ethics is different from Religion.
Many people are not religious, but ethics applies to everyone. Most religions do advocate high ethical standards but sometimes do not address all the types of problems we face.

Ethics & Law

Ethics is not only following the law. A good system of law does incorporate many ethical standards, but Law can deviate from what is ethical. The formation of Law can sometimes be preceded by narrow politicians.

Ethics & Science

Ethics is not science.
Science may provide an explanation for what humans are like but it cannot provide reasons for how humans ought to act. And just because something is scientifically or technologically possible, it may not be ethical to do it.
The common saying "When in Rome, do as the Romans do" is not a satisfactory ethical standard.

Five Sources of Ethical Standards / Five Approaches of Ethical Standards

1. **<u>The Utilitarian Approach</u>**
   Set the Ethics so as to ↑ the Goodness and ↓ the Harm
   An approach of ethicists that emphasizes, the ethical action that provides the most good or does the least harm is called as Utilitarian Approach.

2. **<u>The Rights Approach (The Deontological Approach)</u>**
   An approach of ethicists that emphasizes the ethical action, that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature or on their ability to choose freely what they do with their lives. **On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends**.

3. **<u>The Fairness or Justice Approach</u>**
   Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally-or if unequally, then fairly based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to anorganization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; many ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.

4. **<u>The Common Good Approach</u>**
   The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that community. This approach suggests that the interlocking relationships of society are the basis of ethical reasoning and that respect and compassion for all others-especially the vulnerable-are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone.

5. **<u>The Virtue Approach</u>**
   An approach of ethicists that emphasizes the ethical action to be totally inclined towards ideal virtues is called the Virtue Approach. Ideal Virtues are habits which elevate the character of the person or group. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues.

   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?

Five Fundamental Principles of Ethics / Ethics which a Professional must follow

1. The Principle of Integrity - (Honesty & Straightforwardness)
2. The Principle of Objectivity - (Stick to Professional Judgment)
3. The Principle of Confidentiality - (Maintenance of Secrecy)
4. The Principle of Professional Competence & Due Care - (Updation of Skills)
5. The Principle of Professional Behavior - (Compliance of Law)

Business Ethics

- Business Ethics is the branch that examines as to what is right or wrong in the context of business.
- It requires application of ethical principles to ethical problems and issues that arise in a business environment.
- These are written or unwritten codes of principles and values that govern decisions and actions in a business or commercial environment.
- It is generally said that business & ethics are contradictory in practical sense because of the inherent inconsistency between ethics and the self-interested motive of profit. On the contrary it is now a well accepted fact that **ethical behavior creates a positive reputation that expands the opportunities for profit.**
- Being ethical in business requires developing code of conduct and acting with an awareness that how the same is affecting to its **stakeholders & society at large**. In other words, the requirements of Business Ethics are:

    - Awareness of actions affecting its stakeholders & society
    - Social Responsibilities
    - Legal Responsibilities
    - Transparency & Accountability

Trusteeship Philosophy propounded by Mahatma Gandhi
A business man has to act only as a trustee of the society for whatever he has gained from the Society. Everything finally belongs to the society. "Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one".

Social Sins by Mahatma Gandhi
Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. He stressed that people follow ethical principles and listed following seven Social Sins:

1. Politics without Principles. (PP)
2. Wealth without work. (WW)
3. Commerce without Morality. (CM)
4. Knowledge without Character. (KC)
5. Pleasure without Conscience. (PC)
6. Science without humanity. (SH)
7. Worship without sacrifice. (WS)

Benefits of Business Ethics

1. Increased Brand Image & Reputation
2. Increased Sales and customer Loyalty
3. Increased Employee Loyalty
4. Increased Operational Efficiency owing to increased Motivation
5. Reduced Regulatory Supervision

Ethical Dilemma

Ethical dilemma refers to the situation wherein the decision maker is trapped in making deciding ac act to categorizing it to be right or wrong. Quiet often, we come across the situation when an act is good from one point of view and bad from another point of view. This is called as Ethical Dilemma.

Even if, we need to choose among the five approaches of Ethical standards, we find that an act may be Ethical from the point of one Principle and may not be ethical from the angle of another principle.

A gift made a customer may be called as Sales Promotion or may be called as an unfair practice of charging high and thereafter returning some portion by mode of gift.

Although there is no well set guidelines to handle Ethical Dilemma but here are few questionnaires that must addressed as guidelines to handle ethical dilemma situation:

1. Define the problem clearly.
2. How would you define the problem if you stood on the other side of the fence?
3. How did the situation arise?
4. To whom are you loyal as a person and as a member of the organisation?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period?
10. Could you disclose without any doubt your decision or action to your boss?
11. What is the symbolic potential of your action if understood? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

Stakeholders

- Shareholders
- Debenture holders
- Employees
- Directors
- Suppliers
- Customers
- Local Community
- Government & Regulatory Authorities

Workplace Ethics

Ethics at the workplace should be maintained at highest standards as the co-workers and sub-ordinates try to follow the similar ethics. Ethical Behavior is influenced by the following Factors:

1. Individual Standards & Values
2. Influence of Manager and Co-workers
3. Opportunity to Engage in Misconduct

Example: If the boss or co-workers leave work early, one may be tempted to do so as well. If one sees co-workers making personal long distance phone calls at work and charging them to the company, one may be more likely to do so also.

Individual Standards and Values	+	Managers' and Co-workers' Influence	**+**	Opportunity to Engage in Misconduct	**=**	Ethical/Unethical Choices in Workplace

Examples of Ethical Issues faced by an Individual

- **Relationship with Suppliers and Business Partners**
  - Bribery
  - Discrimination between Suppliers
  - Dishonesty in complying with the Contracts
- **Relationship With Customers**
  - Unfair Pricing
  - Dishonest Advertising
  - Cheating Customers
- **Relationship With Employees**
  - Unequal Treatment
  - Discrimnation in Hiring
- **Management of Resources**
  - Misuse of Official Funds

Guidelines for Managing Ethics in Workplace

1. Establish Code of Ethics
   - Stating the Rules that need to be followed. For Example: Do not take Gifts from Suppliers
2. Establish Open Communication
   – Not only Rules are to be imposed but should also be discussed and the logic for such formulation should be openly discussed for its better impletation
3. Make ethics decisions in group and make decision public wherever appropriate
4. Integrate ethics management with other management practices.
5. Appointing an Ombudsman
6. Set the Example from Top
7. Set up the System of Reporting Ethical Violation – Include Grievance Policy for Employees
   - In Such manner that the reporting Person should not be harassed thereafter
8. Regular Updating of Policies and Procedures

A brief on Workplace Ethics:

Fairness & Honesty	-	Yes
Discrimination	-	No
Harassment	-	No
Communication	-	Fair and Not Misleading

Ethics in Accounting & Finance

Reasons for Unethical Behavior among Finance & Accounting Professionals

1. Emphasis on Short Term Results
2. Ignoring Small Unethical Issues
3. Economic Cycles
4. Accounting Rules

Creating a Sound Ethical Environment

1. Ensuring that employees are aware of their legal and ethical responsibilities
2. Providing a communication system between the management and the employees so that anyone in the company can report about fraud and mismanagement without the fear of being reprimanded
3. Ensuring fair treatment to those who act as whistle blowers.

Classification/Types of Threats

A. Self Interest Threats
B. Self Review Threats
C. Advocacy Threats
D. Familiarity Threats
E. Intimidation Threats

Examples of Self interest Threats as an Auditor or Consultant

- Concern about the Possibility of Losing the Client
- Undue Dependence on Total Fees from the Client
- Contingent Fees Relating to an Assurance Engagement
- Close Business Relationship with the Client

Examples of Self interest Threats as an Employee

- Concern over Employment Security
- Financial Interests, Loans or Guarantees in the Company
- Incentive Compensation Arrangements
- Inappropriate personal use of Corporate Assets

Safeguards to the Threats faced by Professional

A. Safeguards Created by the Profession, Legislation and Regulation

- Education, Training and Experience acquired for Entry into Profession
- Professional Standards
- Governance Regulations
- Professional Disciplinary Procedures

B. Safeguards in Work Environment

- Strong Internal Controls
- Appropriate Disciplinary Processes
- Recruitment procedures in the employing organization emphasizing the importance of employing high caliber competent staff.
- Timely Communication
- The Employing Organization’s Ethical Standards

Ethical Conflict Resolution

The following needs to be considered during a conflicts resolution process:

1. Relevant Facts
2. Ethical Issues Involved
3. Fundamental Principles related to the matter in question
4. Established Internal Procedures
5. Alternative Course of Action

Corporate Governance & Corporate Social Responsibility

Corporate Governance

Corporate governance is about promoting corporate fairness, transparency and accountability.

The term governance relates to a process of decision making and implementing the decisions in the interest of all stakeholders.

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

For the purpose of adherence to Corporate Governance Measures, India Companies are required to comply with clause 49 of the Listing Agreement primarily focusing on the following areas:

- Board Composition & Procedure
- Audit Committee Responsibility
- Risk Management
- CEO/CFO certification of financial statements and internal controls
- Legal compliance

Developments for Implementation of Corporate Governance

1998 - Kumar Manglam Birla
2002 - Naresh Chandra
2003 - Mr. N.R. Narayan Murthy

Characteristics of Good Corporate Governance

1. Participatory
2. Consensus Oriented
3. Accountable
4. Transparent
5. Responsive
6. Effective and Efficient
7. Follows the rule of Law

Benefits of Good Corporate Governance

1. Protection of investor interests and strong capital markets
2. Studies show clear evidence that good governance is rewarded with a higher market valuation.
3. Ensures commitment of the board in managing the company in a transparent manner

Role Played by Different Committees in Regulating Corporate Governance

1. Board of Directors
2. Audit Committee
3. Compensation Committee
4. Nomination Committee
5. Investor Services Committee
6. Corporate Management Committee

Corporate Social Responsibility

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.

Iron Law of Responsibility

Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively. This is known as the Iron Law of responsibility. In the long-run those who do not use power in a manner that society considers responsible, will tend to lose it.

Benefits of Corporate Social Responsibility

1. Achievement of Long Term Objectives
2. Enhanced Brand Image & Reputation
3. Checks Government Regulation and Control
4. Helps Minimize Ecological Damage
5. Improved Financial Performance
6. Reduced Operating Costs - (Recycling)
7. Increased Sales & Customers Loyalty
8. Increased Ability to Attract and Retain Employees
9. Lesser Employee Turnover
10. Iron Law of Responsibility

Few Key Strategies for Implementation of CSR Policies

1. Mission and Vision Clarity
2. Cultural Values
3. Strategic Planning
4. General Accountability
5. Employee Recognition and Awards
6. Communications, Education and Training
7. CSR Reporting

Environment & Ethics

Concept of Sustainable Growth

Literally sustainable development refers to maintaining development over time.

Most widely cited definition of sustainable development is the "Development that meets the needs of the present without compromising the ability of future generations to meet their own needs." A nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interest of future generations.

The Concept of sustainable growth leads us to form environment friendly Strategies and Plans.

Pollution and Resource Depletion

1. Air Pollution - Example Bhopal Gas Leaks
   A. Global Warming - Emission of Gases
   B. Ozone Depletion - (Ozone saves us from Harmful Ultraviolet Rays)
   C. Acid Rain – Rainfall of Nitric Acid and Sulphuric Acid

2. Land Pollution
   A. Solid Wastes
   B. Depletion of Fossil Fuels

3. Water Pollution

Ecological Ethics - Being Environment Friendly

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

Non-adoption of Environment Ethics leads to 3 P's. (Polluter Pay Principle).

Green Accounting System

Conventional accounts may result in policy decisions which are non-sustainable for the country. Green accounting on the other hand is, focused on addressing such deficiencies in conventional accounts with respect to the environment. If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behavior in a way that would reduce damage to environment, pollution and waste production. Price signal will also influence behavior to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of "Polluter Pay Principle".

Waste Management

- Minimum Production of Waste
- Maximum reuse of Waste and Recycling
- Promoting environmentally sound waste disposal practices

Ethics in Marketing and Consumer Protection

Presence of Ethical Dilemma but still Ethics in Marketing should be maintained for the following **Reasons.**

1. To reverse declining public confidence in marketing.
2. To avoid increases in government regulation.
3. To regain the power granted by society
4. To protect the image of the organization

Competition Act, 2002

It intends to protect the interests of consumers by establishing a commission to prevent practices having adverse effect on competition and to promote and sustain competition in markets. The commission is empowered to prohibit certain agreements which are considered as anti-competitive in nature, abuse of dominant position and regulation of combinations likely to cause appreciable adverse effect on competition.

Consumer Interest and Public Interest are two Different Terms and are not similar.

Parameters of Competition Law

- Prohibition of certain agreements, which are considered to be anti-competitive in nature.
- Abuse of dominant position by imposing unfair or discriminatory conditions
- Regulation of combinations which cause or likely to cause an appreciable adverse affect on competition

Consumer as per Section 2(f) of Competition Act 2002

- Any Person who buys any goods and avails any services for a consideration, whether such purchase of goods is for resale or for any commercial purpose or for personal use.

Eight Consumer Rights recognized by United Nations Guidelines:

1. Right to Basic Needs
2. Right to Safety
3. Right to Choice
4. Right to Redress
5. Right to Information
6. Right to Consumer Education
7. Right to Representation
8. Right to Healthy Environment

Eight themes of UN Guidelines

1. Physical Safety
2. Economic Interest
3. Standards
4. Essential Goods & Services
5. Redress
6. Education & Information
7. Health
8. Sustainable Consumption

Correct / Incorrect At a Glance

No.	Quote	Correct / Incorrect
1	Ethics & Moral are Synonyms.	Incorrect
2	To maintain social contract between society and business, the trusteeship relations are essential.	Correct
3	Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one.	Correct
4	In the long run those business firms which do not respond to society's needs favorably will survive.	Incorrect
5	Knowledge Without Morality is a Social Sin.	Incorrect (In Technical Sense)
6	Company management has responsibility only towards its shareholders.	Incorrect
7	The Governance Model positions management as accountable solely to investors.	Incorrect
8	Fairness and honesty are the pillars of success in business.	Correct
9	Promotion policies based on individual merit and not purely on the basis of seniority is discriminatory.	Incorrect
10	Ethical behavior is not essential to working environment at the workplace.	Incorrect
11	There is no economic growth without ecological costs.	Correct
12	Depletion of Ozone layer will have adverse effect on human beings and not on vegetation	Incorrect
13	Water pollution is also a kind of resource depletion.	Correct
14	Business does not sub-serve environmental ethics.	Incorrect
15	A good environmental practice improves corporate performance.	Correct
16	Business and industry are closely linked with environment and resource utilization.	Correct
17	Ethics are necessary in marketing to build Brand image only.	Incorrect
18	Ethical behavior in marketing is necessary to avoid Government intervention/ regulation.	Correct

19	Consumer purchases goods and health services for personal purposes only.	Incorrect
20	Consumer and Public interest are both synonymous.	Incorrect
21	Competition Act, 2002 protects the interest of consumers.	Correct
22	Consumer for personal use and consumer for commercial use are synonymous.	Incorrect
23	Window-dressing of financial statements will not be useful in the long run.	Correct
24	Ensuring fair treatment to whistle blowers will help in creating good ethical accounting environment in a business enterprise	Correct
25	Corporate Social Responsibility Minimizes Ecological Damage	Correct

<u>Disclosure:</u>

The above material is simply a Summary Presentation of Study Material and Practice Manual.
Reference of Study Material and Practice Manual will always be advisable.