

GOVERNANCE BUSINESS ETHICS AND SUSTAINABILITY

Time allowed: 3 hours

Maximum marks: 100

PART—A

(Answer Question No.1 which is **COMPULSORY** and **ANY TWO** of the rest from this part.)

Question 1

- (a) *"The silver lining in the Satyam episode is that it has opened a window of opportunity for corporate governance reforms in the country. Even though there has been a failure of the checks and balances in corporate governance, this crisis provides a great opportunity to rebuild our governance framework and regulatory control." In the context of this statement, examine the issues and challenges in corporate governance with special reference to the role of independent directors.* (10 marks)
- (b) *State, with reasons in brief, whether the following statements are correct or incorrect:*
- (i) *An independent director is a director who has been an executive of the company in the immediate preceding three financial years.*
 - (ii) *Organisation for Economic Co-operation and Development (OECD) is not connected with corporate governance.*
 - (iii) *Insurance is a method of risk avoidance.*
 - (iv) *In India there is no legal requirement for separation of the role of the Chairman and Chief Executive officer.*
 - (v) *Shareholders Grievance Committee is a non-mandatory committee.*
- (2 marks each)

Answer 1(a)

The Satyam case led to a re-look at the corporate governance practices and framework prevalent in the country. This event highlighted the lack of independent directors interest in the Board processes, they did not play their role in efficient manner and the consequences proceeded.

The mere meeting of criteria of independence does not ensure that an independent director is acting independently. They should play a vigilant role by attending the meetings, studying and analysing the agenda papers, ask the right questions at the right time, insist that dissent if any is recorded, and have separate sessions of independent directors and act with integrity.

Some issues and challenges that need scrutiny are:

(i) The process of nomination and selection of independent directors

Globally it is considered a good practice to constitute a nomination committee, comprising a majority of independent directors. Such committee shall be responsible for nomination and selection of independent directors on the basis of certain specified criteria relating to age, qualifications etc.

(ii) Tenure of independent directors

Excessively long tenure of independent directors may compromise their independence. On being associated for a long period with a company, there is a strong likelihood of independent directors to lose their objectivity. Clause 49 does specify as a non-mandatory requirement that the maximum term should not exceed nine years.

(iii) Role of independent directors in audit committee

Independent directors' play a very crucial role in Audit Committee. The audit committee is responsible to ensure the integrity of financial reporting, therefore, each independent director who is a member of audit committee should be able to read and understand financial statements.

(iv) Training to Independent Directors

It is important that independent directors should undergo induction training which will enable new directors to gain understanding of

- company's financial, operational, strategic risk management position
- the rights, responsibilities and duties
- the role and responsibilities of senior executives
- the role of board committees.

In addition, all directors should undergo training from time to time.

(v) Flow of information to the board

Companies should ensure that timely, relevant and complete information is made available to independent directors so that they are able to make informed decisions. The independent directors on their part should also question and seek clarifications whenever in doubt.

(vi) Recording of dissent:

It is important that where an independent director is not in agreement with the decision of the majority, he should insist that his dissent be recorded.

Answer 1(b)(i)

Incorrect

Clause 49 of the Listing Agreement has provided that an 'Independent Director' shall mean a non-executive director of the company. Independent director is defined as a director who has not been an executive of the company in the immediately preceding 3 financial years.

Answer 1(b)(ii)

Incorrect

The Organisation for Economic Cooperation and Development (OECD) was one of the first non-governmental organizations to spell out the principles that should govern the corporate and issued the OECD Principles of Corporate Governance.

Answer 1(b)(iii)

Incorrect

Insurance is not a method of risk avoidance but it is a method of risk transfer. In this the risk is transferred to an organization that specializes in accepting risk at a price.

Answer 1(b)(iv)

Correct

There is no legal requirement of separation of roles of Chairman and CEO. However, the separation of the roles of the Chairman and CEO determines the composition of the Board of Director as per Listing Agreement.

Answer 1(b)(v)

Incorrect

Shareholders' Grievance Committee is a mandatory committee which has to be constituted by a listed entity, to which Clause 49 of the Listing Agreement is applicable.

Question 2

- (a) Write notes on **any two** of the following:
- (i) Role of Company Secretary in ensuring risk management
 - (ii) Corporate governance in public sector undertakings
 - (iii) The Greenbury Report. (5 marks each)
- (b) Describe composition of the 'audit committee' and 'remuneration committee' as per clause 49 of the listing agreement. (5 marks)

Answer 2(a)(i)

ROLE OF COMPANY SECRETARY

As a top level officer and board confidante, a Company Secretary can play a significant role in ensuring that a sound enterprise wide risk management which is effective throughout the company is in place. The board of directors may have a risk management sub-committee assisted by a Risk Management Officer. As an officer responsible for coordination and communication for effective corporate functioning and governance, a Company Secretary shall ensure that there is an Integrated Framework on which a strong system of internal control is built. Such a Framework will become a model for discussing and evaluating risk management efforts in the organization. Risk and control consciousness should spread throughout the organization. A Company Secretary can ensure that this happens so that the risk factor will come into consideration at the every stage of formulation of a strategy. It will also create awareness about inter-relationships of risks across business units and at every level of the organization.

Answer 2(a)(ii)

CORPORATE GOVERNANCE IN PUBLIC SECTOR UNDERTAKING

The Ministry of Heavy Industries and Public Enterprises, Department of Public Enterprises has issued Guidelines on Corporate Governance for Central Public Sector Enterprises.

For the purpose of evolving Guidelines on corporate governance, Central Public Sector Enterprises (CPSEs) have been categorized into two groups, namely,— (i) those listed in the Stock Exchanges; (ii) those not listed in the Stock Exchanges.

CPSEs listed in Stock Exchanges

In so far as listed CPSEs are concerned, they have to follow the SEBI guidelines on corporate governance. In addition, they may follow those provisions in guidelines issued by Department of Public Enterprises which do not exist in the SEBI guidelines and also do not contradict any provisions in the SEBI guidelines.

Non-listed CPSEs

As per DPE directive, each PSE should strive to institutionalize good corporate governance practices broadly in conformity with the SEBI guidelines. The listing of the non-listed CPSEs in the stock exchanges may also be considered within a reasonable time frame to be set by the Administrative Ministry concerned in consultation with the CPSEs concerned. The non-listed CPSEs may follow the Guidelines on Corporate Governance, which are voluntary in nature.

The guidelines for listed and unlisted CPSEs deal with the subject of Corporate Governance, under the following headings:

- Board of Directors
- Audit Committee
- Subsidiary Companies
- Disclosures
- Report, Compliance and Schedule of Implementation.

Answer 2(a)(iii)

The Greenbury Report (1995)

The confederation of British Industry set up a group under the Chairmanship of Sir Richard Greenbury. It was set up to examine the remuneration of the directors, particularly compensation packages, large pay increases and share options.

The Committee's findings were documented in the Greenbury Report, which incorporated a Code of Best Practice on Director's Remuneration.

Specifically, four main issues were dealt with, as follows:

- the role of a Remuneration Committee in setting the remuneration packages for the CEO and other directors;
- the required level of disclosure needed to shareholders regarding details of director's remuneration and whether there is the need to obtain shareholder approval;
- specific guidelines for determining a remuneration policy for directors; and
- service contracts and provisions binding the Company to pay compensation to a director, particularly in the event of dismissal for unsatisfactory performance.

The important recommendation was the establishment of Remuneration Committee composed of Non-Executive Directors which would be responsible for deciding the remuneration of executive directors. The majority of the recommendations of the Committee were incorporated in the Listing Rules of the

London Stock Exchange.

Answer 2(b)

Audit Committee

1. The audit committee shall have minimum three directors as members. Two-thirds of the members of audit committee shall be independent directors.
2. All members of audit committee shall be financially literate and at least one member shall have accounting or related financial management expertise.

Explanation 1: The term “financially literate” means the ability to read and understand basic financial statements i.e. balance sheet, profit and loss account, and statement of cash flows.

Explanation 2: A member will be considered to have accounting or related financial management expertise if he or she possesses experience in finance or accounting, or requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities.

3. The Chairman of the Audit Committee shall be an independent director;
4. The audit committee may invite such of the executives, as it considers appropriate (and particularly the head of the finance function) to be present at the meetings of the committee, but on occasions it may also meet without the presence of any executives of the company. The finance director, head of internal audit and a representative of the statutory auditor may be present as invitees for the meetings of the audit committee;
5. The Company Secretary shall act as the secretary to the committee.

Remuneration Committee

Constitution of Remuneration Committee is a non-mandatory requirement in terms of Clause 49 of the Listing Agreement. With regard to composition, it provides as under:

- (i) The remuneration committee, which would determine the remuneration packages of the executive directors may comprise of at least three directors, all of whom should be non-executive directors, the Chairman of committee being an independent director.

Question 3

- (a) *“The Chairman's primary responsibility is to lead the Board and ensure its effectiveness.” Elucidate this statement. (5 marks)*
- (b) *Discuss the principles of corporate governance evolved by the Institute of Company Secretaries of India. (5 marks)*
- (c) *“Corporate Social Responsibility (CSR) is also called corporate citizenship or corporate responsibility.” Discuss. (5 marks)*

Answer 3(a)

The responsibility for ensuring that boards provide the leadership which is expected of them is that of its Chairperson. A Chairman though has no legal position; he is the person elected by the board to take the chair at a particular meeting.

Boards are not bound to continue with the same chairman for successive meetings. In law, all directors have broadly equal responsibilities and chairmen are no more equal than any other board member. Chairmen are an administrative convenience and a means of ensuring that board meetings are properly conducted.

The Chairman's primary responsibility is for leading the Board and ensuring its effectiveness.

The role of the Chairman includes:

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

Answer 3(b)

The principles of corporate governance evolved by the ICSI are as under:

- Sustainable development of all stakeholders – to ensure growth of all individuals associated with or effected by the enterprise on sustainable basis.
- Effective management and distribution of wealth – to ensure that enterprise creates maximum wealth and judiciously uses the wealth so created for providing maximum benefits to all stakeholders and enhancing its wealth creation capabilities to maintain sustainability.
- Discharge of social responsibility – to ensure that enterprise is acceptable to the society in which it is functioning.
- Application of best management practices – to ensure excellence in functioning of enterprise and optimum creation of wealth on sustainable basis.
- Compliance of law in letter and spirit – to ensure value enhancement for all stakeholders guaranteed by the law for maintaining socio-economic balance.
- Adherence to ethical standards – to ensure integrity, transparency, independence and accountability in dealings with all stakeholders.

Answer 3(c)

Corporate Social Responsibility (CSR) is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. The main function of an

enterprise is to create value through producing goods and services that society demands, thereby generating profit for its owners and shareholders as well as welfare for society, particularly through an ongoing process of job creation.

Corporate Social Responsibility can be explained as under:

Corporate means organized business.

Social means dealing with the people/society including environment.

Responsibility means accountability of the corporate towards society.

The term corporate citizenship implies the behaviour which would maximize a company's positive impact and minimize the negative impact on its social and physical environment.

CSR means open and transparent business practices that are based on ethical values and respect for employees, communities and the environment.

Corporate Social Responsibility is also called corporate citizenship or corporate responsibility.

Question 4

(a) Describe briefly **any three** of the following :

- (i) Barriers to 'visionary leadership'.
- (ii) Social accountability and the 'AA 1000'.
- (iii) Diligence report in banks.
- (iv) Scope of work of the Asian Corporate Governance Association.

(3 marks each)

(b) Describe and differentiate 'risk reduction' and 'risk retention'. (6 marks)

Answer 4(a)(i)

Barriers to Visionary Leadership

Frank Martinelli - Lists the barriers with a view to helping companies identify them in their organizations and to remove them to facilitate visionary board leadership:

1. Micro Management - It is necessary that the board focuses its attention on items of critical importance to the organization. If the board is tempted to micro manage or to meddle in lesser matters, an opportunity to provide visionary leadership is lost.
2. Clinging to Tradition – Boards often resist change in order to preserve tradition. However, changing environment requires the Boards to be open to change.
3. Confused Roles - Some boards assume that it is the job of the executive director to do the visionary thinking and that the board will sit and wait for direction and inspiration.
4. Time Management - Lack of time to attend meetings, read materials and maintain contact with each other in between meetings.
5. Resistance to risk taking - Board leadership must strike a balance between taking chances and maintaining the traditional stewardship role.

6. Strategic Planning - Strategic planning offers boards an opportunity to think about changes and trends that will have significant impact and develop strategies to respond to challenges.
7. Complexity - Board members frequently lack a deep understanding of critical changes, trends and developments that challenge fundamental assumptions about how it defines its work.

Answer 4(a)(ii)

The Social Accountability - SA 8000 is a certification standard based on the UN Universal Declaration of Human Rights, Convention SA 8000 seeks to provide transparent, measurable and verifiable performance standards in the areas of child labour; forced labour; health and safety; compensation; working hours; discrimination; discipline; free association and collective bargaining; and management systems.

The AA 1000 - framework developed by the Institute of Social and Ethical Accountability provides a standard for social and ethical accounting, auditing and reporting, including mandatory external verification and stakeholder engagement.

It aims to assist an organisation in the definition of goals and targets, the measurement of progress made against these targets, the auditing and reporting of performance and in the establishment of feedback mechanisms. This is done by

- Developing stakeholder engagement strategy - an integrated strategy for stakeholder engagement that strengthens both their relationships with stakeholders and their internal decision making processes.
- Facilitation of Stakeholder Dialogues - support through the planning, design, capacity building, facilitation and follow-up stages of stakeholder engagement to create processes that create change.
- Capacity building for stakeholder engagement - Engaging with stakeholders requires new skills and ways of thinking. Through in-house training in stakeholder engagement, as well as ongoing mentoring support for leadership teams.

Answer 4(a)(iii)

The Reserve Bank of India recently has advised all the scheduled commercial Banks to obtain regular certification (Diligence Report) by a professional, preferably a Company Secretary, regarding compliance of various statutory prescriptions that are in vogue. The Diligence Report will not only act as an effective mechanism to ensure that the legal and procedural requirements under the respective legislations are duly complied with but also instill professional discipline in the working of the companies that have taken loan, besides building up the necessary confidence in the state of affairs of the companies.

Answer 4(a)(iv)

Asian Corporate Governance Association's scope of work covers three areas:

1. Research:

Tracking corporate governance developments across 11 markets in Asia and producing independent analyses of new laws and regulations, investor

activism and corporate practices.

2. **Advocacy:**

Engaging in a constructive dialogue with financial regulators, stock exchanges, institutional investors and companies on practical issues affecting the regulatory environment and the implementation of better corporate governance practices in Asia.

3. **Education:**

Organising conferences and seminars that foster a deeper understanding of the competitive benefits of sound corporate governance and ways to implement it effectively.

Answer 4(b)

Risk Reduction

The Physical risk reduction (or loss prevention, as it is often called) is one of ways of dealing with any risk situation. It is done in steps to reduce the probability of loss. The ideal time to think of risk reduction measures is at the planning stage of any new project when considerable improvement can be achieved at little or no extra cost. Risks are reduced by taking actions to lessen the probability of negative consequences associated with a risk. The only cautionary note regarding risk reduction is that, as far as possible expenditure should be related to potential future saving in losses and other risk costs; in other words, risk prevention generally should be evaluated in the same way as other investment projects.

Risk Retention

It is also known as risk assumption or risk absorption. It is the most common risk management technique. This technique is used to take care of losses ranging from minor to major break-down of operation. There are two types of retention methods for containing losses as under:

- (i) Risk retained as part of deliberate management strategy after conscious evaluation of possible losses and causes. This is known as active form of risk retention.
- (ii) Risk retention occurred through negligence. This is known as passive form of risk retention.

PART—B

(Answer ANY TWO questions from this part)

Question 5

- (a) *You are the Company Secretary of Universal Development Ltd. The company often faces ethical dilemma. The Board wants to circulate a guidance note for its managers to resolve ethical dilemma. Draft guidance note for the consideration and approval of the Board. (7 marks)*
- (b) *Write notes on any two of the following :*
 - (i) *Ethics in finance*
 - (ii) *Ethics training and communication*
 - (iii) *Stakeholder orientation. (4 marks each)*

Answer 5(a)

Universal Development Limited

Draft of the guidance note for resolving an ethical dilemma

Steps to Resolving an Ethical Dilemma:

(i) What are the options?

List the alternative courses of action available.

(ii) Consider the Consequences

Think carefully about the range of positive and negative consequences associated with each of the different paths of action available.

- Who/What will be helped by what is done?
- Who/What will be hurt?
- What kinds of benefits and harms are involved and what are their relative values?
- What are the short-term and long-term implications?

(iii) Analyse the actions

Actions should be analysed in a different perspective i.e. viewing the action per se disregard the consequences concentrating instead on the actions and looking for that option which seem problematic. How do the options measure up against moral principles like honesty, fairness, equality and recognition of social and environmental vulnerability?

In the case you are considering, is there a way to see one principle as more important than the others?

(iv) Make decision and act with commitment

Now, both parts of analysis should be brought together and a conscious and informed decision should be made once the decision is made, act on the decision assuming responsibility for it.

(v) Evaluate the system

Think about the circumstances which led to the dilemma with the intention of identifying and removing the conditions that allowed it to arise.

Sd/-

ABC

(Company Secretary)

For Universal Development Limited

Answer 5(b)(i)

Ethics in Finance

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

- In accounting – window dressing, misleading financial analysis.
- Related party transactions not at arms length

- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, kickbacks, over billing of expenses, facilitation payments.

Answer 5(b)(ii)

ETHICS TRAINING AND COMMUNICATION

A major step in developing an effective ethics program is implementing a training program and communication system to communicate and educate employees about the firm's ethical standards.

Training can educate employees about the firm's policies and expectations, as well as relevant laws and regulations and general social standards. Training programs can make employees aware of available resources, support systems, and designated personnel who can assist them with ethical and legal advice. They can also empower employees to ask tough questions and make ethical decisions. Many companies are now incorporating ethics training into their employee and management development training efforts.

If ethics training is to be effective, it must start with a foundation, a code of ethics, a procedure for airing ethical concerns, line and staff involvements, and executive priorities on ethics that are communicated to employees. Managers from every department must be involved in the development of an ethics training program. Training and communication initiatives should reflect the unique characteristics of an organization: its size, culture, values, management style, and employee base. It is important for the ethics program to differentiate between personal and organizational ethics.

To be successful, business ethics programs should educate employees about formal ethical frameworks and more for analyzing business ethics issue. Then employees can base ethical decisions on their knowledge of choices rather than on emotions.

Answer 5(b)(iii)

STAKEHOLDER ORIENTATION

The degree to which a firm understands and addresses stakeholder demands can be referred to as a stakeholder orientation. This orientation comprises three sets of activities: (1) the organization wide generation of data about stakeholder groups and assessment of the firm's effects on these groups, (2) the distribution of this information throughout the firm, and (3) the organization's responsiveness as a whole to this intelligence.

A stakeholder orientation is not complete unless it includes activities that actually address stakeholder issues. The responsiveness of the organization as a whole to stakeholder intelligence consists of the initiatives the firm adopts to ensure that it abides by or exceeds stakeholder expectations and has a positive impact on stakeholder issues. Such activities are likely to be specific to a particular stakeholder group (e.g., family friendly work schedules) or to a particular stakeholder issue (e.g., pollution reduction programs). Noticeably, these responsiveness processes may involve the participation of the concerned stakeholder groups.

Question 6

- (a) *Explain the Clarkson principles of stakeholder management.* (5 marks)
- (b) *"A commitment by corporate management to follow an ethical code of conduct confers a variety of benefits." What are these benefits?* (5 marks)
- (c) *What is 'social and ethical accounting'?* (5 marks)

Answer 6(a)

THE CLARKSON PRINCIPLE OF STAKEHOLDER MANAGEMENT

Max Clarkson (1922-1998) founded the Centre for Corporate Social Performance and Ethics in the Faculty of Management.

Principle 1: Managers should acknowledge and actively monitor the concerns of all legitimate stakeholders, and should take their interests appropriately into account in decision-making and operations.

Principle 2: Managers should listen to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation.

Principle 3: Managers should adopt processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder constituency.

Principle 4: Managers should recognize the interdependence of efforts and rewards among stakeholders, and should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among them, taking into account their respective risks and vulnerabilities.

Principle 5: Managers should work cooperatively with other entities, both public and private, to insure that risks and harms arising from corporate activities are minimized and, where they cannot be avoided, appropriately compensated.

Principle 6: Managers should avoid altogether activities that might jeopardize inalienable human rights (e.g., the right to life) or give rise to risks which, if clearly understood, would be patently unacceptable to relevant stakeholders.

Principle 7: Managers should acknowledge the potential conflicts between (a) their own role as corporate stakeholders, and (b) their legal and moral responsibilities for the interests of all stakeholders, and should address such conflicts through open communication, appropriate reporting and incentive systems and, where necessary, third party review.

Answer 6 (b)

ADVANTAGES OF BUSINESS ETHICS

More and more companies recognize the link between business ethics and financial performance. Companies displaying a "clear commitment to ethical conduct" consistently outperform companies that do not display ethical conduct. Code of Conduct is formal statement that describes what an organization expects of its employees.

Adherence to a Code of Conduct offers the following advantages:

It deters wrongdoing and promote:

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
2. Full, fair, accurate, timely, and understandable disclosure in reports and documents that a company files with, or submits to, the Commission and in other public communications made by the company;
3. Compliance with applicable governmental laws, rules and regulations;
4. The prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and,
5. Accountability for adherence to the code.

Answer 6 (c)

SOCIAL AND ETHICAL ACCOUNTING

Social and ethical accounting is a process that helps a company to address issues of accountability to stakeholders, and to improve performance of all aspects i.e. social, environmental and economic. The process normally links a company's values to the (i) development of policies and, performance targets and (ii) to the assessment and communication of performance.

Social and ethical accounting has no standardized model. There is no standardized balance sheet or unit of currency. The issues are defined by the company's values and aims by the interests and expectations of its stakeholders, and by societal norms and regulations. With the focus on the concerns of society, the social and ethical accounting framework implicitly concerns itself with issues such as economic performance, working conditions, environmental and animal protection, human rights, fair trade and ethical trade, human resource management and community development, and hence with the sustainability of a company's activities.

The dominant principle of social and ethical accounting is inclusivity. This principle requires that the aspirations and needs of all stakeholder groups are taken into account at all stages of the social and ethical accounting process.

Question 7

- (a) *Elaborate the various 'ethics philosophies'.* (5 marks)
- (b) *"An organisation's structure is important to the study of business ethics."*
Comment. (5 marks)
- (c) *Explain and differentiate 'ethical decisions' and 'ethical dilemma'.* (5 marks)

Answer 7(a)

The following are some of the ethics philosophies.

Deontological ethics or deontology (Greek: (deon) meaning 'obligation' or 'duty') is an approach to ethics that focuses on the rightness or wrongness of actions themselves, as opposed to the rightness or wrongness of the consequences of those actions. This can be clarified with an example – if a manager decides that it is his duty to always be on time to meetings is running late for reasons not in his control,

how is he supposed to drive to reach the meeting on time? Is he supposed to speed, breaking his duty to uphold the law, or is he supposed to arrive at his meeting late, breaking his duty to be on time?

Teleology (Greek: telos: end, purpose) is the philosophical study of design and purpose. A teleological school of thought is one that holds all things to be designed for or directed toward a final result, that there is an inherent purpose or final cause for all that exists.

Enlightened-egoism. This model takes into account harms, benefits and rights. Therefore, under this model an action is morally correct if it increases benefits for the individual in a way that does not intentionally hurt others, and if these benefits are believed to counterbalance any unintentional harms that ensue. For example, a company provides scholarships for education to needy students with a condition that the beneficiary is required to compulsorily work for the company for a period of 5 years. Although, the company's providing the scholarship benefits the needy students, but ultimately it is in the company's self interest.

Utilitarianism is the idea that the moral worth of an action is solely determined by its contribution to overall utility, that is, its contribution to happiness or pleasure as summed among all persons. It can be described by the phrase "the greatest good for the greatest number". For example, one may be tempted to steal from a rich wastrel to give to a starving family.

Relativism is the idea that some elements or aspects of experience or culture are relative to, i.e., dependent on, other elements or aspects. The term often refers to truth relativism, which is the doctrine that there are no absolute truths, i.e., that truth is always relative to some particular frame of reference, such as a language or a culture. For example, killing animals for sport (like bull fighting) could be right for one culture and wrong in another culture.

Virtue Ethics theory is a branch of moral philosophy that emphasizes character, rather than rules or consequences, as the key element of ethical thinking. An example of this – when a person of good standing is found possessing a valuable article belonging to someone else it will be presumed that the article was loaned to him or kept with him for safe-keeping, whereas if it were in the possession of a person of doubtful or dubious character it would be presumed that he has stolen article.

Justice is the concept of moral rightness in action or attitude; it is closely linked to fairness. A conception of justice is one of the key features of society.

Answer 7(b)

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

These organizations are usually extremely bureaucratic, and the division of labour is typically very well defined. Each worker knows his or her job and what is

specifically expected, and each has a clear understanding of how to carry out assigned tasks. Centralized organizations stress formal rules, policies, and procedures, backed up with elaborate control systems. Their codes of ethics may specify the techniques to be used for decision making.

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

In a **decentralized organization**, decision-making authority is delegated as far down the chain of command as possible. Such organizations have relatively few formal rules, and coordination and control are usually informal and personal. They focus instead on increasing the flow of information. As a result, one of the main strengths of decentralized organizations is their adaptability and early recognition of external change. With greater flexibility, managers can react quickly to changes in their ethical environment. Weakness of decentralized organizations is the difficulty they have in responding quickly to changes in policy and procedures established by top management. In addition, independent profit centers within a decentralized organization may deviate from organizational objectives.

Answer 7(c)

By definition, an ethical dilemma involves the need to choose from among two or more morally acceptable courses of action when one choice prevents selecting the other or the need to choose between equally unacceptable alternatives.

Ethical decision is arrived at by resolving the ethical dilemma, by following a certain predetermined procedure or a method.

An ethical dilemma is a situation that will often involve an apparent conflict between moral imperatives, in which to obey one would result in transgressing another. While ethical decision involves selection of one moral imperative by abandoning the other.

An ethical dilemma involves a situation that makes a person question what is the ‘right’ or ‘wrong’ thing to do, while ethical decision results in selection of right thing to do.

Ethical dilemmas make individuals think about their obligations, duties or responsibilities. Most ethical decisions have personal implications.

PART—C

Question 8

*Attempt **any four** of the following:*

- (i) Write note on ‘life cycle assessment’.*
- (ii) Discuss the concept of ‘sustainable development’.*
- (iii) What is the main function of ‘global reporting initiatives’?*
- (iv) State any five principles of Rio Declaration on Environment and Development.*
- (v) Once the activity carried out by any person is hazardous or inherently dangerous, the person carrying on such activity is liable to make good the loss caused to any other person by his activity. Whether in such case the*

*plea that reasonable care was taken while carrying out such activity is valid?
Discuss in the light of decided case law. (5 marks each)*

Answer 8(i)

Life Cycle Assessment (LCA)

Life Cycle Assessment tracks the environmental impacts of a product from its raw materials through disposal at the end of its useful life. LCA is an important tool for developing an environmental self-portrait and for finding ways to minimize harm. A good LCA can shed light on ways to reduce the resources consumed and lower costs all along the value chain.

A Life Cycle Assessment looks at this complete circle and measures environmental impact at every phase. It provides the foundation for understanding the issues a company must address and clues to help find Eco-Advantage.

Answer 8(ii)

Sustainable development is a broad concept that balances the need for economic growth with environmental protection and social equity. It is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations. Sustainable development is a broad concept and it combines economics, social justice, environmental science and management, business management, politics and law.

In 1987, a report of the World Commission on Environment and Development of the United Nations (popularly known as Brundtland Report) first introduced the concept. The Commission describes Sustainable Development as a process of change in which the exploitation of resources, the direction of investments, and the orientation of technological development ... instrumental change and the ability of biosphere to absorb the effects of human activities are consistent with future as well as present needs.

It indicates development that meets the needs of the present generation without compromising the ability of the future generations to meet their needs.

Answer 8(iii)

GLOBAL REPORTING INITIATIVE

The Sustainability Reporting Guidelines developed by the Global Reporting Initiative (GRI), the Netherlands, is a significant system that integrates sustainability issues in to a frame of reporting.

The GRI also admits that in the era of unprecedented economic growth, achieving this goal can seem more of an aspiration than a reality.

Organisation's purpose is not more merely to engage in a creative operation or activity. Be it a business organization or a non-profit or non-government organization its operation must also address the concerns of sustainable development.

The GRI Reporting framework intends to serve as a generally accepted framework for reporting on an organization's economic, environmental and social performance. Organisations of any size, sector or location can use it. The framework

contains general and sector specific content for reporting an organization's sustainability performance.

The GRI sustainability Reporting Guidelines consist of Principles for defining report content and for ensuring the quality of reported information.

Answer 8 (iv)

The Rio Declaration on Environment and Development consists of following 27 principles intended to guide future sustainable development around the world.

1. Human beings are at the centre of concerns for sustainable development. They are entitled to a healthy and productive life in harmony with nature.
2. States have, in accordance with the Charter of the United Nations and the principles of international law, the sovereign right to exploit their own resources pursuant to their own environmental and developmental policies, and the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction.
3. The right to development must be fulfilled so as to equitably meet developmental and environmental needs of present and future generations.
4. In order to achieve sustainable development, environmental protection shall constitute an integral part of the development process and cannot be considered in isolation from it.
5. All States and all people shall cooperate in the essential task of eradicating poverty as an indispensable requirement for sustainable development, in order to decrease the disparities in standards of living and better meet the needs of the majority of the people of the world.
6. The special situation and needs of developing countries, particularly the least developed and those most environmentally vulnerable, shall be given special priority. International actions in the field of environment and development should also address the interests and needs of all countries.
7. States shall cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem. In view of the different contributions to global environmental degradation, States have common but differentiated responsibilities. The developed countries acknowledge the responsibility that they bear in the international pursuit to sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command.
8. To achieve sustainable development and a higher quality of life for all people, States should reduce and eliminate unsustainable patterns of production and consumption and promote appropriate demographic policies.
9. States should cooperate to strengthen endogenous capacity-building for sustainable development by improving scientific understanding through exchanges of scientific and technological knowledge, and by enhancing the development, adaptation, diffusion and transfer of technologies, including new and innovative technologies.
10. Environmental issues are best handled with participation of all concerned citizens, at the relevant level. At the national level, each individual shall have appropriate access to information concerning the environment that is held by

public authorities, including information on hazardous materials and activities in their communities, and the opportunity to participate in decision-making processes. States shall facilitate and encourage public awareness and participation by making information widely available. Effective access to judicial and administrative proceedings, including redress and remedy, shall be provided.

11. States shall enact effective environmental legislation. Environmental standards, management objectives and priorities should reflect the environmental and development context to which they apply. Standards applied by some countries may be inappropriate and of unwarranted economic and social cost to other countries, in particular developing countries.
12. States should cooperate to promote a supportive and open international economic system that would lead to economic growth and sustainable development in all countries, to better address the problems of environmental degradation. Trade policy measures for environmental purposes should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade. Unilateral actions to deal with environmental challenges outside the jurisdiction of the importing country should be avoided. Environmental measures addressing transboundary or global environmental problems should, as far as possible, be based on an international consensus.
13. States shall develop national law regarding liability and compensation for the victims of pollution and other environmental damage. States shall also cooperate in an expeditious and more determined manner to develop further international law regarding liability and compensation for adverse effects of environmental damage caused by activities within their jurisdiction or control to areas beyond their jurisdiction.
14. States should effectively cooperate to discourage or prevent the relocation and transfer to other States of any activities and substances that cause severe environmental degradation or are found to be harmful to human health.
15. In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation.
16. National authorities should endeavour to promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment.
17. Environmental impact assessment, as a national instrument, shall be undertaken for proposed activities that are likely to have a significant adverse impact on the environment and are subject to decision of a competent national authority.
18. States shall immediately notify other States of any natural disasters or other emergencies that are likely to produce sudden harmful effects on the

environment of those States. Every effort shall be made by the international community to help States so afflicted.

19. States shall provide prior and timely notification and relevant information to potentially affected States on activities that may have a significant adverse transboundary environmental effect and shall consult with those States at an early stage and in good faith.
20. Women have a vital role in environmental management and development. Their full participation is therefore essential to achieve sustainable development.
21. The creativity, ideals and courage of the youth of the world should be mobilized to forge a global partnership in order to achieve sustainable development and ensure a better future for all.
22. Indigenous people and their communities and other local communities have a vital role in environmental management and development because of their knowledge and traditional practices. States should recognize and duly support their identity, culture and interests and enable their effective participation in the achievement of sustainable development.
23. The environment and natural resources of people under oppression, domination and occupation shall be protected.
24. Warfare is inherently destructive of sustainable development. States shall therefore respect international law providing protection for the environment in times of armed conflict and cooperate in its further development, as necessary.
25. Peace, development and environmental protection are interdependent and indivisible.
26. States shall resolve all their environmental disputes peacefully and by appropriate means in accordance with the Charter of the United Nations.
27. States and people shall cooperate in good faith and in a spirit of partnership in the fulfilment of the principles embodied in this Declaration and in the further development of international law in the field of sustainable development.

Note: Candidates can list out any five of the above principles.

Answer 8(v)

The Apex Court held that the rule laid down by Supreme Court in Oleum gas leak case (AIR 1987 SC 1086), namely that once the activity carried on is hazardous or inherently dangerous, the person carrying on such activity is liable to make good the loss caused to any other person by his activity irrespective of the fact whether he took reasonable care while in carrying his activity is by for the more appropriate one and binding, the rule is premised upon the very nature of the activity carried on. In the words of the Constitution Bench, 'such an activity can be tolerated only on the condition that the enterprise engaged in such hazardous or inherently dangerous activity indemnifies all those who suffer on account of the carrying on of such hazardous or inherently dangerous activity regardless whether it is carried on carefully or not. The Constitution Bench has also assigned the reason for stating the law in the said terms. It is that the enterprise (carrying on the hazardous or inherently dangerous activity) alone has the resource to discover and guard against hazards and dangerous and not the person affected and the practical difficulty on the part of

the affected person, in establishing the absence of reasonable care or that the damage to him was foreseeable by the enterprise.
