

Subject – Business Ethics and CSR October 2012 Solution

N.B. (1) In Section A, all questions are compulsory.

(2) In Section B, attempt any 3 questions.

Section A

Q.1) What do you mean by the following terms? (15)

(a) Rights of Investors

Technically speaking, with respect to joint stock company, the term 'investor' include those person who invest finance in a company by means of purchasing its debentures or bonds or participating in its public deposits scheme. Typically invested are interested earning high returns on their investment and not frightened to take risks. This is because, often they are interested in making short term gains, out of their investment.

To safeguard their interest, the companies act as well as their articles of a company has recognized the following rights :

1. To appoint nominee directors
2. To get payment to their investment along with regular returns on their investment as per the stated terms and conditions.
3. To file suit case against the company like register of debenture holders, register of charges, etc.
4. To approach High Court for an order to wind up the company.

(b) Environment Audit

Ans.

Environmental auditing involved reviews of independent experts assessing whether companies operated in line with the demands of the environmental legislation. Presently the companies decide to undertake environmental audits in order to obtain an independent external assessment whether the management has created efficient environmental policy and provided for acceptable environmental attitude. The most important results of the environmental audits are recommendations how a company can reduce the damaging impacts on the environment in an efficient and cost-benefit manner, and how it can in a long-term save funds by using environment

friendly technology. The implementation of the environmental audits is not obligatory for the companies never the less it shows high awareness of the companies on their social responsibilities and an overall attitude towards the environment.

(c) Normative Ethics

Ethics is a normative science. It means it lay down the norms or standard of what is good and what is bad. It specifies what we ought to do and what we ought not to do, in a certain situation. Normative ethics is the branch of philosophical ethics that investigates the set of Questions that arise when we think about the question "how should one act, morally speaking?" Normative ethics is the discipline that produces moral norms or rules as it end product. Normative ethics prescribe moral behaviour. It is a branch of ethics concerned with classifying actions as right and wrong, attempting to develop a set of rules governing human conduct, or a set of norms for action'

(d) Triple Bottom Line

CSR is the deliberate inclusion of public interest into decision-making, and the honoring of a triple bottom line: People, Planet, and Profit.

Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is nothing more than superficial window-dressing; others yet argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations. Corporate Social Responsibility has been redefined throughout the years. However, it essentially is titled to aid to an organization's mission as well as a guide to what the company stands for and will uphold to its consumers.

(e) Internal Stakeholders

Internal stakeholders include shareholders, employees and management. Any decision taken by the managements has a direct impact on them.

Responsibilities towards Internal Stakeholders:

- Shareholders
- Employees
- Management

Section B

Q.3) Discuss the relevance of Business ethics in the modern world of materialism. (10 marks)

Ans.

Role of Ethics :

- To avoid expensive court cases is a powerful incentive.
- To prevent damage to reputation and bad publicity due to perceived irresponsibility.
- Increased shareholder scrutiny puts companies under a sharper spotlight.
- Brands associated with ethical behaviour have higher brand values.
- Employees prefer working for firms they perceive as ethical.
- Fund managers also look favorably on firms with an eye on the Triple Bottom Line.
- MNC's now need to ensure their entire supply chains across the globe live up to ethical standards.

Relevance of Ethics in the modern world of materialism :

In today's competitive business world, every businessman expects that his organization need to be abide by ethics or rule of law, engage themselves in fair practices of competition; all of which will benefit the consumers, the organization and finally to the society

Primarily it is the individual, the consumer, the employee or the human, social unit, the society who benefits from ethics. Following are the benefits of ethical practices :

- i) Satisfying Basic Human needs :** Being honest, fair, and ethical is one of the basic human needs. Every employee desires to be such himself of work for an organization that is fair and ethical in its practices.
- ii) Creating credibility :** An organization that is believed to be driven by moral values is respected in the society even by those who may have no information about the working and the businesses or an organisation. Infosys, for example is perceived as an organisation for good corporate governance and social

responsibility initiatives. This perception is held far and wide even by those who do not even know what business the organisation is into.

- iii) **Uniting people and Leadership :** An organisation driven by values is respected by its employees too. They are the common thread that bring the employees and the decision makers on a common platform. This goes along way in aligning behaviours within the organisation towards achievement of one common goal or mission.
- iv) **Improving Decision Making :** A man's destiny is the sum total of all the decisions that he / she takes in course of his life. The same hold true for organisations. Decisions are driven by values. For example, an organisation that does not values competition will fierce in its operations aiming to wipe out its competitors and establish a monopoly in the market.
- v) **Long Term Gains :** Organisation guided by ethics and values are profitable in the long run. Though in the short run they may seem to loose money. Tata group, one of the largest business conglomerates in India was seen on the verge of decline at the beginning of 1990's, which soon turned out to be otherwise. The same Co.'s TATA NANO car was predicted as a failure, and failed to do well but the same is picking up fast now.
- vi) **Securing the Society :** Often ethics succeeds law in safeguarding the society. The law machinery is often found acting as a mute spectator, unable to save the society and the environment. Technology, for example is growing at such fast pace that by the time law comes up with a regulation, we have a newer technology with new threats replacing the order Lawyers and public interest litigations may not help a great deal but ethics can.

Q.4) What is Corporate Governance? How does it affect the image of the company? (10 marks)

Ans.

Meaning

Corporate Governance can be defined as a set of systems and processes which ensures that a company is managed in the best interest of all its stakeholders. When one talks of Stakeholders, it does not essentially mean a shareholder. A company typically has five stakeholders, namely, the employees, the shareholders, the customers, the creditors and the community. The Other actors who also play an important role in Corporate Governance are the CEO and the Board of Directors.

Business author Gabrielle O'Donovan defines Corporate Governance as "an internal system encompassing policies, processes, and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a health board culture which safeguards policies and processes".

Report of SEBI committee (India) on Corporate Governance defines corporate Governance as "the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of company." The definition is drawn from the Gandhian principle of trusteeship and the Directive Principles of the Indian Constitution.

Corporate Governance is viewed as business ethics and a moral duty. There has been renewed interest in the corporate governance practices of modern corporations since 2001, particularly due to the high profile collapses of a number of large U.S. firms such as Enron Corporation and MCI Inc. (formerly WorldCom). In 2002 the U.S. federal government passed the Sarbanes-Oxley Act, intending to restore public confidence in corporate governance. After that, it is being largely adopted by companies across the globe as a differentiating strategy and to show its commitment to its social responsibilities.

According OECD definition "Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provides the structure through

which the company objectives are set, and the means of attaining those objectives and monitoring performance is done".

Scope of Corporate Governance in Building Company Image

The scope of corporate governance extends:

1. To enhance the long term value and economic efficiency of the company. It encompasses all shareholders and integrates all the participants involved in the process.
2. To elevate the reputation of the corporation and the esteem of its management.
3. To attract the reputation of the corporation and the esteem of its management.
4. To attract, employ and retain talent and motivate employees to give their best.
5. A more open and participative style of management ensures free exchange of ideas and frank appreciation at all levels.
6. To create and adopt code of conduct with wholehearted commitment and improve the moral and ethical standards of performance to the utmost level.
7. To have a right balance, knowledge and compete to set strategies and lead the organization.
8. To use the resources entrusted to the management, in the most economic, efficient, productive and effective ways, for the benefit of shareholders as well as for the society at large.
9. To set the high standards of business ethics based upon humanity, honesty and handwork.
10. To improve the standards of living and life of the society, industry, commerce and professional services.
11. To increase the market confidence of the firm.

Q.5) Discuss the role and responsibilities of society in C.S.R. (10 marks)

Ans.

Corporate Social Responsibility (CSR) is an expression used to describe company's obligation to be sensitive to the needs of all the stakeholders in its business operations.

A corporate must commit to behave ethically towards its internal and external environment and contribute to improving the socio- economic fabric of society. What lies at the very core of corporate social responsibility is an ethical approach to business and it encompasses areas of concern about how a corporate serves the interest and r of the people at large. CSR is a company's voluntary actions over and above its legal requirements with the aim of meeting the ethical needs of its employees, customers, society, locality and environment. It is the index of good corporate citizenship.

Relevance of CSR in contemporary society :

Social responsibility may sound like a moralistic term with little meaning for a pragmatic corporate; yet it is the bird word in corporate circles today. The corporation has been defined as a legal entity with unlimited life, limited liability and divisibility of ownership. Thus, as a corporate citizen, every business must act in a responsive way. With corporates playing and increasingly important role in the affairs of the world, it is today imperative that they should become conscious and responsible for the consequences their activities and decisions have on society. Contemporary society expects that businesses operate within society, are dependent on society for getting their inputs as well as for marketing their goods and services. Therefore, in addition to providing goods and services, business needs to look after welfare of the various stakeholders.

1. **Survival and Growth :** In recent times the concept of CSR has turn out to be a vital strategy for companies to survive in. A ruthless market environment. In today's environment where markets shift and consumers preferences become even more unpredictable and complex, CSR can become a powerful tool for survival and growth.
2. **Enhanced Corporate Image and Reputation :** CSR activities of a business are aim towards the welfare of society and this help develop a positive image for the firm. Enhanced Goodwill and Reputation will, on the one hand attract better employees to join such firms, and on the other hand attracts more customers- people do prefer to patronize a firm because of its positive image in society.
3. **Avoid government Regulation :** If firms discharges their duties voluntarily and responsibly, much government regulations can be avoided. A lot of legislation has been enacted with respect to waste management, air and water pollution. If a firm is proactive and incorporates environment-friendly practices voluntarily, it can save itself from the forced implementation of strict government regulation, which sometimes may pose the business to close down.
4. **Change Consumer expectation :** Today's consumer have become more conscious about their rights and are also more demanding. They protest against supplier of harmful/inferior goods and services and other unethical practices of business.

5. **Moral Responsibility :** Business is an integral part of society, dependent on it for getting its input as well as for marketing its goods and services. Therefore, business managers have a moral responsibility to protect the interests of society, and look after the welfare of their different stakeholders apart from providing goods and services.
6. **Huge Resources :** Large organization have human talent and financial resources to solve societal problems, hence they should be socially responsive. They are also more efficient and ensure a business and result oriented approach towards social projects.
7. **Attracts better human resources :** CSR is seen to be a great way to attract "good" talent and to retain them. Social initiatives are a good way to satisfy the emotional and social needs of employees by helping them contribute towards the good of society.

Q.6) Explain ethics in Global Marketing and Advertising with suitable examples. (10 marks)

Ans.

Ethics in Global Marketing

Marketing is the process of bringing together businesses with customers and involves numerous components. There is product development, deciding what is needed. There is public relations, trying to get along smoothly with others so they will help send you business. Then there is advertising, which is telling everybody what you have and why they need it, and need it from you! There is a lot of cross over between these areas, but combined they are marketing.

Marketing was generally local and done customer by customer. While there was competition, it was usually someone you knew. With the Internet, that has changed and marketing has gone Global! Now it seems a fee for all with Mexico competes with China and both struggling to out produce India. But what about the ethics or principles that once governed marketing and business, have they gone global as well? Unfortunately ethics seems to have been lost in the Global Business World of today! What happened to ethics?

The problem with ethics is that they are variable from culture to culture and place to place. Because they are not uniform around the world, many places seem to feel they no longer apply. It is further compounded by religious issues as well. What one religion feels is great, others consider sacrilege. Business is the same.

In most places, people trade with those," they know and develop relationships over time. One man may build your house while, landscapes the yard and the uncle runs the supermarket. Each

one knows that if something goes too wrong, they will look bad to the rest of the family and lose respect., You also will usually not cheat some one that goes to the same religious service. On the global market, there are more options, but they are often hard to reference and each one oft n does as they please because the consequences are not as bad, they can always go to another country or region. A Christian may not cheat another Christian, but shipping low standard to a Hindu in India is "shifting inventory", ethics go out the window.

One can also now hire some very high powered PR firms to help promote your business or do damage control, hide the unethical things that may have happened. These firms can hire professional writers that will write anything, and make it a glowing report even for a rotten product. These persons were once difficult to get and limited in what they could do, but not with the Internet!

Ethics In Advertising :-

Advertising tries to convince the audience to do something. Therefore it is not objective. This fact disturbs those who think that advertising ought to be objective neutral, and informative. Besides, the easily make certain claims in an advertising message are perception of matters. Such messages can be implied by the situations pictured in the advertisements. Subtle messages are limited experience. Advertising should permit progressive society to see and select among different products. If advertising product is look as violating ethical standards, customers are able to exert pressure refusing to buy the product. They are able to complain to the company and other regulatory bodies. The following are example of advertising ethics:

1. Advertising restrains from making misleading, false or inaccurate claims or statements about his products and services or a competitor.
2. Advertising must reveal the fact the neglect would mislead the public.
3. Advertising claims are exonerated by evidence in possession of the advertising agency and the advertiser making such claims.
4. Advertising of guarantees should be explicit, with sufficient, information to evaluate customers of their explicit terms and limitations the advertisements must clearly reveal where the full text of the guarantee is able to examine before buying.

Q.7) Write short notes on any 2 of the following: (10 marks)

(a) Ethical issues in E-commerce

Ans.

Electronic commerce, commonly known as e-commerce or e-commerce, or e-business consists of the buying and selling of products or services over electronic systems such as the Internet and other computer networks. The amount of trade conducted electronically has grown extraordinarily with widespread Internet usage. The use of commerce is conducted in this way, spurring and drawing on innovations in electronic funds transfer, supply chain management, Internet marketing, online transaction processing, electronic data interchange (EDI), inventory management systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at some point in the transaction's lifecycle, although it can encompass a wider range of technologies such as e-mail as well.

Code of Ethics

Pretty simple, actually: We don't post things we don't believe. All content is editorial, never pay-to-play. We have never been paid to promote a product or service in our writings, and we don't publish press releases, "advertorials," or sponsored posts. (We've been offered, but we always refuse.) That means no quid pro quo, no "link exchange" posting, and no paid reviews. If we like something, 'we praise it and link to it for free. If we don't like something... that's free too.

The site receives remuneration from advertising on the site. Advertisements do not affect editorial content. Ads may be served by Google, Yahoo!, Linkshare, Commission Junction, Blogads, or others. Ad content is generated by these companies, often automatically on the basis of a search of blog post content. Some images are affiliate marketing ads, generated randomly. Links to third party sites may be affiliate links. However, this site will never recommend or praise a company because of an advertising or affiliate relationship. A regularly-updated list of companies with whom we have affiliate relationships, and whose ads may appear on the site, can be found on the "Book and Buy" page.

Privacy Policy

Mostly simple, too: Upgrade: Travel Better does not store any personally-identifying information about visitors who browse to the site. The only information we ay keep is the e-mail we receive and the content of comments left by site visitors. Tips, opinions, or other messages e-mail to the site owner may be published. If you do not to have your messages

publicized, you are welcome to indicate that you wish your comments to be kept private. We respect all such requests. We adopt a journalistic policy regarding sources : if confidentiality is requested, it is respected as far as legally permissible.

Leaving a comment on the site requires an e-mail address. (The WordPress publishing system requires e-mail addresses for commenters, in part to reduce spam.) These e-mails are kept in the blog database, but will never be used for any marketing purpose. Commenters' and posters' IP addresses are recorded in our database. Please note that we are not responsible for the content of other users' comments written as responses to posts.

Standards organization

A standards organization, standards body, standards developing organization or SDO is any entity whose primary activities are developing, coordinating, promulgating, revising, amending, reissuing, interpreting, or otherwise maintaining standards that address the interests of a wide base of users outside the standards developing organization.

Most voluntary standards are offered for use by people, regulators, or industry. When a published standard achieves widespread acceptance and dominance it can become a broader de facto standard for an industry. This has happened with the modem protocol developed by Hayes, Apple's TrueType font standard and the PCL protocol used by Hewlett-Packard in the computer printers they produced.

Normally, the term standards organization does not include the parties participating in the standards developing organization in the capacity of founders, benefactors, stakeholders, members or contributors, who themselves may function as the standards organizations.

(b) Purushartha

Ans.

The four purusharthas are really the objectives of God, of the Supreme Self, the qualities of God. And since an individual person is a reflection of God, is a part of God, it is the rightful pursuit of a person to fulfill these four purusharthas.

Dharma:

A person is born on this earth to perform certain duties. The soul houses itself into the physical vehicle that is the body which most suits for performing these duties. The physical work that a person needs to do, the duties of the person on this earth plane are termed as the Dharma of the person. Dharma is a difficult term to translate into English, but can roughly be translated as the rightful duty of a person. This is the true calling of a person, what they are born to do.

Examples of a person's dharma are to be a doctor, teacher, writer, warrior, priest, parent etc. Sometimes a person's dharma is decided by their birth, but it need not necessarily so. A person's dharma can be a combination of things, and as a person progresses through life, different stages of life may call for different dharma and purposes. Tuning into the inner guide of the heart allows a person to identify their dharma, their true calling.

Artha:

Artha is the pursuit of material wealth, which brings material comforts to a person. People sometimes believe that the paths of spiritual growth and pursuit of material wealth are mutually exclusive, or even that a spiritual seeker needs to be in poverty. But that is not true. If we look at the Universe, it is a reflection of abundance. Nature is abundant in everything, poverty is nothing but a state of consciousness. If abundance is the quality of the Divine, how is pursuit of abundance in contrast with the pursuit of the Divine? If one is in poverty in a state of constantly worrying about how to support and feed, if that is where the focus is on, how can one pursue spirituality? Only when there are no worries is one able to focus their attention to the goal of union with the Divine. The important thing to remember not to be attached to the possession or attainment of wealth. It can be sought with detachment and with awareness, and when done in this state of mind, the pursuit of wealth is not-different from the pursuit of the Divine, because one sees abundance or wealth as a form of the Divine. And in this state of detachment, one recognizes when one has attained their financial objectives, and hence the desire to pursue more automatically dies away, paying the way for Moksha.

Kama:

Kama is fulfilling one's desires. Desires are in various forms -- to be wealthy, powerful, sexual needs, recognition, service. The Kama purushartha advocates that one's desires in this lifetime need to be fulfilled, albeit in a state of awareness and without harming anyone in the process. For a person to evolve spiritually and to reach the ultimate destination, the barrier of desires needs to be crossed. This can be done either by fulfilling the desires, or by sublimating them. Suppressing of desires is certainly not recommended because it is like a fully coiled spring that is held down by force, it can erupt unpredictably causing undesirable consequences. As one becomes aware of their desires and one goes about fulfilling them in awareness and without judgment, one soon reaches the stage of being able to sublimate them. The Divine, the Universe, lends a big hand in the process.

Moksha:

Moksha means liberation, realizing of the Self, and is the ultimate destination for this human birth. It is the stage of inner realization that the individual self is the same as the Supreme Self. It is the experience of the cosmos within one's self. It is the experience of the flow and fusion of the Shiva and Shakti energies in one's self. It is the experience of union, oneness, Ekatvam, with the Universe.

As all the rivers must eventually lead to the sea, there are many spiritual paths leading to the same destination. Some paths are shorter than others; some are more arduous than others. The path can be difficult to navigate, and the path may not always be visible. A guide, in the form of a Guru is needed to traverse this path, someone who holds the person and shows the way. It is Ekatvam's mission; it is the Dharma of Amma and Swamiji to help people find their way to Moksha.

(c) Safety at work

Ans.

Protecting employee's health and safety is certainly one of the business's major ethical responsibilities. Thus, to ensure this some of the issues that need to be taken care are:

1. Protect the health and safety of all individuals affected by its activities including the employees and the public at large.
2. Provide a safe and healthy working environment
3. Review of compliance with local and national requirements with respect to health and safety.
4. To ensure that sufficient and clearly marked exits allowing for the orderly evacuation of workers in case of fire or other emergencies are in place and emergency exit routes are posted and clearly marked in all sections of the factory.
5. Aisles, exits and stairwells are kept clear at all times, boxes and all other objects that could obstruct the orderly evacuation of workers in case of fire or other emergencies are removed. The company should indicate with a "yellow box" or other markings that the area in front of exits, fire fighting equipments, control panels, and potential fire sources are to be kept clear.
6. Doors and other exits are kept accessible and unlocked during all the working hours for orderly evacuation in case of fire or other emergencies. All main exit doors should open to the outside.

7. Fire extinguishers should be appropriate, regularly maintained, and charged, and should display the date of their last inspection. It should be mounted on walls and columns throughout the company so that they are visible and accessible to, all employees in all areas
8. Fire alarms should be in each floor and emergency light should be placed above exits and on staircases.
9. Evacuation drills should be conducted at least annually
10. Machinery should be inspected with operational safety devices and should be inspected and serviced on a regular basis.
11. The company should have at least one well-stocked first aid kit on every floor and train specific staff in basic first aid, The company should have procedures for dealing with serious injuries that require medical treatment outside the company.
12. The company should store hazardous and combustible materials in secure areas and should be disposed in a safe and legal manner.
13. The company shall establish systems to detect, avoid, or respond to potential threats to the health and safety of personnel. The company shall maintain written records of all accidents that occur in the workplace and in company-controlled residences and property.
14. The company shall provide at its expense appropriate personal protective equipment to personnel. In the event of a work related injury the company shall provide first aid and assist the worker in obtaining follow-up medical treatment.
15. The company shall undertake to assess all the risks to new, and expectant mothers arising out of their work activity and to ensure that all reasonable steps are taken to remove or reduce any risks to their health and safety.
16. The Company shall appoint a senior management representative to be responsible for ensuring a safe and healthy workplace environment for all personnel, and for implementing the Health and Safety standards.
17. The company shall provide to personnel on a regular basis effective health and safety instructions, including on-site instruction and where needed job –specific instructions. Such instructions shall be repeated for new and reassigned personnel and in cases where accidents have occurred.

(d) Audit Committee

Ans.

1. The committee was set up in May 1991 by the Financial Reporting Council, the London Stock Exchange and the accountancy profession to, address the financial aspects of corporate governance. The Committee's membership and terms of reference are set out in Append. Its sponsors were concerned at the perceived low level of confidence both in financial reporting and in the ability of auditors provide the safeguards, which the users of company reports sought and expected
2. These concerns about the working of The corporate system were heightened by some unexpected failures of major' companies and by criticism of the lack of effective board accountability for such matters directors pay. Further evidence of the breadth of feeling that action had to be taken to clarify responsibilities and to raise standards came from a number of reports, on different aspects of corporate governance which had either been published or were in preparation at that time.
3. The committee wherever possible drew on these documents, and a wide range of submissions from interested parties, in producing its draft report which was issued for public comment on 27 May, 1992.
4. Since then, the committee has received over 200 written response to its proposals, the great majority of which broadly support the committee's approach, and has carefully considered the balance of opinions expressed on particular issue. The committee is most grateful to all those who have taken the time and trouble to give us their comments. They have helped to shape our final report and, in addition, they are a valuable reference source for our successors.
5. Corporate governance is the system by which companies are directed and controlled. Board of directors is responsible for the governance of their companies. The shareholders role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance in place.
6. Within that overall framework, the specifically financial aspect of corporate governance (the Committee's remit) are the way in which boards set financial policy and oversee its implementation, including the use of financial controls, and the process whereby they report on the activities and progress of the company to the shareholders.
7. The role of the auditors is to provide the shareholders with an external and objective check on the director's financial statements, which form the basis of that reporting system. Although the reports of the directors are addressed to the shareholders, they are important to a wider audience, not least to employees whose interest's boards have a statutory duty to take into account.
8. The committee's objective is to help to raise the standard corporate governance and the level of confidence in financial reporting and auditing by setting out clearly what it sees

as the respective responsibilities of those involved and what it believes is expected of them.