Business Ethics & Corporate Governance
Sub Code- MBCIV-1

PROGRAMME EDUCATIONAL OBJECTIVES: PEO

1. Will be recognized as a creative and an enterprising team leader.
2. Will be a flexible, adaptable and an ethical individual.
3. Will have a holistic approach to problem solving in the dynamic business environment.

Course Objectives Of BECG

CO1	Student learner should be able to **contrast** the underlying theory of Ethics that is governing the organization under study.
CO2	Student learner should be able to **design** a Code of Ethics for professional behavior within an organization.
CO3	Student learner should be able to **identify** the possible ethical concerns which may be faced by an organization in given situation
CO4	Student learner should be able to **analyze** a given situation and **assess** the negative impact it may have on society.
CO5	Student learner should be able to **identify** the various issues that may arise in the domains of Marketing, Finance, HRM, Environment in a given organization/situation and suggest corrective action

Business Ethics

"Ethics is knowing the difference between what you have a right to do and what is the right thing to do."

Ethics, Morals & Law

Ethics: Rational examination of moral beliefs and behavior; the study of morality.

Morality: Standards, conduct, and systems that provide guidance on how to act.

Law: Society's standards and values that are enforceable in court

Ethics, Values & Morals

Ethics	Values	Morals
• A group of moral principles • Set of values • Define right or wrong	• Provide basis for judgment • Defines what is important • Culture based	• Describes values • Defines conduct • Sets the norms of a community

Business Ethics

System of moral principles applies in commercial world

The study of moral right or wrong

Governs decisions and actions in a company

Applies to any and all aspects of business conduct

3 C's of Business Ethics

Compliances	Contribution	Consequences
• Laws • Moral Principles • Company Policy	• Core Values • Quality of Services and Products • Employment • Community Service • Quality Work Life	• Internal and External Environment • Social responsibility • Public Image

Nature of Business Ethics

Ethics and Business goals may differ

Ethical behavior creates goodwill

People prefer ethical companies

Golden bridge between corporate interest with moral demands

Long run benefits and rewards

Need of Business Ethics 1/2

Ethical steps by business improves society

Ethical programs maintain moral course

Improve teamwork and productivity

Support growth and meaning

Ensure legal compliances

Need of Business Ethics 2/2

Avoid criminal acts and lower fines

Help manage values associated with quality management, strategic planning and diversity management

Promote a strong public image

Strengthens organizational work culture

Enhances quality of work

Kinds of Ethics

- Meta-ethics
  - Investigates where our ethical principles come from
- Applied Ethics
  - Explains how moral outcomes can be achieved
- Normative Ethics
  - Deals with determining a course of action

Normative Ethical Systems

Deontological (Duty)

Teleological (Goal)

Virtue (Moral)

Deontological Ethics 1/2

- Moral rules and duties
- Reasons why certain actions are performed
- Correct motivation is never a justification
- Duties and obligations determined objectively and absolutely
- Moral principles are completely separate from consequences of following them

Deontological Ethics 2/2

Defines Good or Right conduct in terms of universality, duty and intrinsic value

Prohibits lying under any circumstances

Consequences are not important

Eg. A drunk driver reaches home safely. This is wrong because the very action of driving under the influence is wrong.

Immanuel Kant’s Ethical Theory

Actions are morally right only when done out of duty

Moral duties are unchanging laws for human conduct

Morality is derived from the ability to think rationally

All free individuals can act out of reason

Kant’s Principles

Always act out of duty

- One does a thing because it is the right thing to do, not because it pleases you to do it or will promote good consequences

Always act according to the Universal Law, ‘thy action will become thy’

- Are you willing to let any other rational being to act on the same reasoning you used to justify your action?

Never treat a rational being as a mere means to an end

- Will you use someone to gain something you desire, even if you need it badly?

Benefits of Deontological Theories

Right and wrong are explicitly stated. However, judgment should be used to determine what applies and what does not.

The end does not justify the means. A sound principle for actions and restrictions.

Duties do not change. Life and behavior are predictable.

Good motives are valued, even if outcome was not as per expectations.

Problems with Deontological Ethics

- Conflicts with morals and duties
- Too much emphasis on customs and law (people assume that the system is always correct)
- Do no allow for grey areas, principles are absolute
- Perform all duties, but which duties and when?
- Duties do not change. They are absolute.

Teleological Ethics 1/2

- Ends or outcomes of decisions are considered
- Utilitarianism is a branch
- Approach says that a particular action is right if it is useful in bringing about best consequences overall
- Used for clinical decision making
- Allows for several alternatives to be considered

Teleological Ethics 2/2

Opposed to Deontological Ethics

Says, ‘that which is good or desirable’ should be done

Some situations may demand the performance of duties to the letter

Others may demand that rules be bent

Eg. That which adds value to a human being is considered good. Need not mean money, fame, etc.

Virtue Ethics

Emphasis on character

Rules and consequences are of lesser importance

It is about what kind of a person one should try to become

One should develop within self, the qualities of Humanity, Honesty, Fairness etc.

Utilitarianism 1/2

Interest of one is interest of all, vice versa

Interest of one or one's social group should be given more weightage than any other

Define our interests as objects of moral concern

That which feels good is good

Utilitarianism 2/2

Scope of good or bad too large

Talks of maximizing the happiness of everyone (but how is that possible?)

One’s actions to be based on consequences

Eg.: The decision of cutting down forests also affects our grand-children. That too must be taken into consideration.

Gandhian Ethics

–Gandhian Philosophy of wealth management is based on the ‘Servodaya’ principles of Truth, Non-Violence and Trusteeship; wherein class harmony between labour and management reigns supreme.

–According to Gandhiji, managers and proprietors of business firms are only the trustees of wealth of society.

–The motto of Teleology ‘greatest good of the greatest number’, Gandhiji’s motto was ‘greatest good of all’.

Freidman's Economic Theory

- The responsibility of business is to increase its profits
- 'Business' does not have 'responsibility'
- Managers/ Proprietors /Individuals do
- The only social responsibility of business is to use its resources and engage in activities designed to increase its <u>profits</u> so long as it stays <u>within the rules of the game</u>
- Engage in open and free competition
- Does not support deception or fraud

Liberalization 1/2

Dismantled excessive regulatory framework

New policy to save entrepreneurs from unnecessary harassment to start undertaking

Freed large private organizations from bureaucratic control

Freedom from ‘license raj’ led to influx of newer firms/entrepreneurs

Liberalization 2/2

Cars and white goods (refrigerators, microwaves, washing machines etc.) de-reserved

Enabled the middle class to meet their needs

License still needed for:

- Distillation and alcohol, hazardous chemicals, sugar, coal and lignite, industrial explosives, pharmaceuticals
- Electronics, aerospace, defense etc.

Globalization

- Integration of Indian economy with world economy
- Permit trade free-flow
- Permit capital free-flow
- Technological development
- Free movement of labor
- Reduction of Import Duties
- Encouragement of Foreign Investment
- Encouragement of Foreign Technology Assessment

Privatization 1/3

Process of involving private sector in the ownership or operation of a state owned or public sector undertaking

Ownership Measures:

- Extent of ownership
- Total (100%)
- Joint-Venture
- Liquidation
- Worker’s Co-operative

Privatization 2/3

Organizational Measures: Government leaves a degree of autonomy while maintaining executive control

Leasing:

1. Providing access to infrastructure for certain time-period

2. Govt. retains right to review or change rules of contract

3. Profit-sharing ratio is pre-decided

Re-structuring

1. Financial re-structuring: Writing off accumulated losses and rationalization of capital with respect to debt-equity ratio. Improves financial health

2. Basic re-structuring: Public enterprise decides to pass some activities to ancillaries

Privatization 3/3

Operational Measure:

- Grants autonomy to public enterprises in decision making
- Incentives for workers and executives
- Freedom to acquire inputs from markets to reduce cost
- Development of proper criteria for investment planning
- Permission to raise resources from capital market to execute plans for diversification/expansion

Corporate Code of Ethics

Be a socially responsible organization
Provide guidelines for employees behavior
Comply with the law and government regulations
Establish a better corporate culture
Avoid conflict of interest
Make proper use of company assets and property
Safeguard proprietary information

Need for Code of Ethics

To act as a philosophical base

To shape ethical behavior (TATA)

For self-regulation (Army/Navy/Air Force)

For improving self-image

To take moral responsibility (Flipkart-Big Billion Sale)

To provide inner strength

Considerations for Code of Conduct

Tailor Made Code

Define Scope

Employee Involvement

Stakeholder Involvement

Outsource Job

- Implementation
- Enforcement
- Education
- Review-Revise-Update

Types of Organizations

Exploitative

- Exploits workers, customers, resources, government regulations, law…

Manipulative

- Profit oriented
- May act unethically
- Selfish

Holistic

- Self-developmental
- Values-driven
- Takes everyone into consideration

Balanced

- Manages both profit and public orientation
- Ensures happiness of all stakeholders

Examples

Foxconn (Component manufacturer for Apple)

- China
- Apple component manufacturers
- Human Dignity violated

OCW-NMC-Veolia (Public-Private Partnership)

- Leasing
- Re-structuring
- Operationalization

Formulating Code of Ethics

Code of Ethics are similar yet different for all organizations

Not simply connected to Ethics

Perceived as important tool for fostering ethical conduct

Not very effective in a broad ethical sense

The Tata Code of Conduct (Tata Steel)

- TCOC – Tata Code of Conduct The values and principles, which have Governed Tata Steel's business for a century, have been deployed through the implementation of the Tata Code of Conduct (TCOC, often referred to as the 'Code'), which was first formally articulated in 1998.
- This was intended to serve as a guide to each employee on the values, ethics and business principles expected of him or her in personal and professional conduct.
- In the context of Tata Steel's increasing global presence the Tata Code of Conduct has been reviewed to accommodate required and appropriate modifications.
- The business ethos of the Tata Code of Conduct is deployed through a specially formulated structure - the Management of Business Ethics (MBE) - which is based on four pillars:

- **LEADERSHIP** - The Managing Director is also Tata Steel's chief ethics officer. A designated Ethics Counsellor, supported by Departmental Ethics Coordinators, reports directly to the Managing Director and has access to the Board of Directors.
- **COMMUNICATION AND AWARENESS -** Compliance to the Code is a condition of service for all employees and is also a pre-requisite for service for suppliers, contractors and vendors, who must agree to respect it. Employee seminars, compliance training and ethics awareness workshops are conducted at frequent intervals.
- **EVALUATION OF EFFECTIVENESS -** The MBE Program is evaluated and reviewed and new initiatives as required are introduced under the MBE Annual Business Plan.
- **COMPLIANCE STRUCTURE -** A number of systems and processes based on zero tolerance have been put into place to ensure that governance standards are met. These include Gift Policy, Whistle Blower Policy, Vendors Whistle Blower Policy, Sexual Harassment Prevention and Redressal Guidelines.

Professional Code of Conduct 1/2

Personal Code:

- Be courteous, respectful, honest and fair with customers, competitors and other employees
- Comply with safety, health and security regulations
- Mind your tongue and dress-code
- Follow directives from superiors
- Be reliable in attendance and punctuality

Professional Code of Conduct 2/2

Legal Code:

- Maintain confidentiality of information
- No personal profit
- Convey correct information only
- Do not use company resources for personal pleasure
- Provide products and services of highest quality
- Comply with all relevant rules, regulations and laws

Universal Code of Ethics

Certain ethical conduct is universally expected;

- Highest standards of personal integrity and professional conduct
- Do not discriminate on the basis of religion, caste, race, ethnic or sexual orientation
- Report questionable, unethical or illegal activities
- Participate in social service and cultural activities
- Conserve resources to protect environment

Advantages of Code of Ethics

A written Code of Conduct will help in:

- Clarifying company policies and unifying work-force
- Responding to Government regulations
- Employee self-image and improving quality of new recruits
- Promoting excellence
- Integrate culture and strengthen systems
- Promotes open communication
- Realize organizational objectives

Definition

The Securities and Exchange Board of India’s Committee on Corporate Governance defines corporate governance as:

- "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 a company."

What is Corporate Governance?

The set of systems, principles and processes by which a company is governed

The guidelines as to how the company can be directed or controlled such that it can fulfill its goals and objectives in a manner that adds to the value of the company and is also beneficial for all stakeholders in the long term

Who are the Stakeholders?

Board of directors

Management

Shareholders

Customers

Employees and

Society.

The management of the company hence assumes the role of a trustee for all the others

Principles of Corporate Governance

Integrity and fairness

Transparency with regard to all transactions

Necessary disclosures and decisions

Complying with all the laws of the land

Accountability and responsibility towards the stakeholders

Commitment to conducting business in an ethical manner

Managing the funds of the company in a fair and unbiased manner

Importance of Corporate Governance

- Level of confidence that is associated with a company
- Ensures confidence in the market
- Corporate governance is known to be one of the criteria that foreign institutional investors (FIIs) are increasingly depending on when deciding on which companies to invest in
- A positive influence on the share price of the company
- Having a clean image on the corporate governance front could also make it easier for companies to source capital at more reasonable costs

CII

In 1996, the Confederation of Indian Industry (CII) took a special initiative on corporate governance, the first ever institutional initiative in Indian Industry.

This initiative flowed from public concerns regarding the protection of investors, the promotion of transparency within business and industry, the need to move towards international standards in terms of disclosure of information by the corporate sector and, through all of this to develop a high level of public confidence in business and industry.

Recommendations by CII 1/2

Recommendations:

- A single board, if it performs well, can maximize long-term shareholder value. The board should meet at least six times a year, preferably at intervals of 2 months.
- A listed company with a turnover of 100 cr. and above should have professionally competent and recognized independent non-executive directors who should constitute at least 30 per cent of the board
- If the chairman of the company is a non-executive director then non-executive directors should constitute at least 50 per cent of the board
- A person should not hold directorships in more than 10 listed companies

Recommendations by CII 2/2

- Non-executive directors need to become active participants in boards and not just passive advisors a significant role in corporate decision making thus, maximizing long term shareholder value
- Have clearly defined responsibilities within the board such as the audit committee and know how to read a balance sheet, profit and loss account, cash flow statement and financial ratios and have some knowledge of various company laws.
- To secure better effort from non-executive directors, companies should pay a commission over and above the sitting fees for the use of the professional inputs. Commissions are rewards on current profits. Companies may consider offering stock options, so as to relate rewards to performance. Stock options are rewards contingent upon future appreciation corporate value.
- While re-appointing members of the board, companies should give the attendance record of the concerned directors. If a director has not been present (absent with or without leave) for 50 per cent or more meetings, then this should be explicitly stated in the resolution that is put to vote. One should not re-appoint any directors who has not had the time to attend even 50 per cent of the meetings

OECD

- Organization for Economic Co-operation and Development Principles of Corporate Governance—published in 1999 and revised in 2004.
- This internationally agreed benchmark consists of more than fifty distinct disclosure items across five broad categories:
  - Auditing
  - Board and management structure and process
  - Corporate responsibility and compliance in organization
  - Financial transparency and information disclosure
  - Ownership structure and exercise of control rights

OECD Guidelines

The OECD Principles of Corporate Governance (2004) describe the responsibilities of the board; some of these are summarized below:

- Board members should be informed and act ethically and in good faith, with due diligence and care, in the best interest of the company and the shareholders.
- Review and guide corporate strategy, objective setting, major plans of action, risk policy, capital plans, and annual budgets.
- Oversee major acquisitions and divestitures.
- Select, compensate, monitor and replace key executives and oversee succession planning.
- Align key executive and board remuneration (pay) with the longer-term interests of the company and its shareholders.
- Ensure a formal and transparent board member nomination and election process.
- Ensure the integrity of the corporations accounting and financial reporting systems, including their independent audit.
- Ensure appropriate systems of internal control are established.
- Oversee the process of disclosure and communications.
- Where committees of the board are established, their mandate, composition and working procedures should be well-defined and disclosed.

SEBI Code of Corporate Governance 1/2

SEBI's Code of Corporate Governance requires that the following information be placed by a company before the board of directors periodically:

- Annual operating plans and budgets and any updates
- Capital budgets and any updates
- Quarterly results for the company and its operating divisions or business segments
- Minutes of audit committee meetings
- Information on recruitment and remuneration of senior officers just below the board level
- Material communications from government bodies

SEBI Code of Corporate Governance 2/2

- Fatal or serious accidents, dangerous occurrences, or any material effluent pollution problems
- Details of any joint venture or collaboration agreement
- Labor relations
- Material transactions which are not in the ordinary course of business
- Disclosures by the management on material transactions, if any, with potential for conflict of interest
- Quarterly details of foreign exchange exposures and risk management strategies
- Compliance with all regulatory and statutory requirements

Birla Committee Report on Corporate Governance 1/2

The Securities and Exchange Board of India (SEBI) appointed a committee on corporate governance on 7 May 1999, with 18 members under the chairmanship of Kumar Mangalam Birla with a view to promoting and raising the standards of corporate governance.

The committee's terms of reference were:

- to suggest suitable amendments to the listing agreement (LA) executed by the stock exchanges with the companies and any other measures to improve the standards of corporate governance in the listed companies in areas such as continuous disclosure of material information, both financial and non-financial, manner and frequency of such disclosures, responsibilities of independent and outside directors
- to draft a code of corporate best practices and
- to suggest safeguards to be instituted within in the companies to deal with insider information and insider trading.

Birla Committee Report on Corporate Governance 2/2

Mandatory Recommendations:

- Applicability
- Board of Directors
- Audit Committee
- Remuneration Committee
- Board Procedures
- Management
- Shareholders

Non-mandatory Recommendations:

- Remuneration Committee
- Shareholders' rights
- Postal ballot

Narayana Murthy Committee Report 1/3

In order to ameliorate the condition of investor protection the Securities and Exchange Board of India ("SEBI") constituted a committee.

The Committee comprised members such as captains of industry, academicians, public accountants and people from financial press and from industry forums.

The issues discussed by the Committee primarily related to audit committees, audit reports, independent directors, related parties, risk management, directorships and director compensation, codes of conduct and financial disclosures.

The Committee's recommendations in the final report were selected based on parameters including their relative importance, fairness, and accountability, and transparency, ease of implementation, verifiability and enforceability.

Narayana Murthy Committee Report 2/3

Key mandatory recommendations focus are:

1. strengthening the responsibilities of audit committees;
2. improving the quality of financial disclosures, including those related to related party transactions and proceeds from initial public offerings;
3. requiring corporate executive boards to assess and disclose business risks in the annual reports of companies;
4. introducing responsibilities on boards to adopt formal codes of conduct; the position of nominee directors; and stock holder approval and improved disclosures relating to compensation paid to non-executive directors.

Narayana Murthy Committee Report 3/3

Non-mandatory recommendations include

- moving to a regime where corporate financial statements are not qualified;
- instituting a system of training of board members; and the evaluation of performance of board members.

SEBI Committee also recommended that the mandatory recommendations in the report of the Naresh Chandra Committee, insofar as they related to corporate governance, be mandatorily implemented by SEBI through an amendment to clause 49 of the Listing Agreement.

McKinsey Survey Results

2011

Most boards say they want to spend more time on strategy development, risk, and talent management.

At many boards, there is plenty of room to improve understanding of industry dynamics, risk, and value creation.

Boards need to shake up their composition by increasing the number with a background in the company's industry, where board knowledge seems particularly lacking.

Many directors are calling for more constructive board discussions.

Conduct annual evaluations of individual directors to assess the degree to which they contribute.

2014

No single structure works in all cases. Boards should adapt to the individuals involved rather than put a rigid structure in place.

All parties, but especially CEOs, should acknowledge different points of view and work to minimize the conflicts that inevitably arise from them.

All directors, but especially CEOs, can benefit from holding different positions, either within the company or on other companies' boards.

Boards should also encourage CEOs to serve on at least one outside board to give them the experience of being an independent director and seeing firsthand the challenges outside directors face.

Definition

Corporate social responsibility means devising corporate strategies and building a business with society's needs in mind.

Social responsibility is what an organization does which goes beyond the production of goods and services and its profit

Scope of CSR

Environmental sustainability:

- Recycling, waste management, water management, renewable energy, reusable materials, 'greener' supply chains, reducing paper use and adopting Leadership in Energy and Environment Design (LEED) building standards.

Community involvement:

- This can include raising money for local charities, providing volunteers, sponsoring local events, employing local workers, supporting local economic growth, engaging in fair trade practices, etc.

Ethical Marketing:

- Companies that ethically market to consumers are placing a higher value on their customers and respecting them as people who are ends in themselves. They do not try to manipulate or falsely advertise to potential consumers. This is important for companies that want to be viewed as ethical.

CSR Model (Steps for CSR)

Value

Where should big corporations be spending their CSR resources?

	Purpose	Impact	Benefits
CSR as value creation	Innovative and promotes sustainable business model	Fundamental strategic and operational impact	• Shared value (business – institutions and communities) • Promote competitiveness and innovation • Promotes a sustainable business model • Integrates business into the community • Develops Human Capital (key in developing countries) • Incorporated into the Business Strategy
CSR as risk management	Compliance	Medium to high strategic and operational impact	• Mitigates operational impact • Mitigates operational risks • Supports external relationships
CSR as corporate philanthropy	Providing funding and skills	Little strategic and operational impact	• Corporate Philanthropy and sponsorships • Short-term benefits / not always sustainable • Limited funds available • Impact diluted because limited budget is allocated to many charities • Corporate competencies and other business assets not fully utilized. • Misalignment between business and social responsibility strategies and functions. • Result in minimal social and business impact of social programmes.

Benefits of CSR 1/2

Triple bottom line:

- "People, planet and profit", also known as the triple bottom line form one way to evaluate CSR. "People" refers to fair labor practices, the community and region where the business operates. "Planet" refers to sustainable environmental practices. Profit is the economic value created by the organization after deducting the cost of all inputs, including the cost of the capital.This measure was claimed to help some companies be more conscious of their social and moral responsibilities.

Human resources:

- A CSR program can be an aid to recruitment and retention. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through activities for community development. CSR has been credited with encouraging customer orientation among customer-facing employees.

Risk management:

- Managing risk is an important executive responsibility. Reputations that take decades to build up can be ruined in hours through corruption scandals or environmental accidents. These draw unwanted attention from regulators, courts, governments and media. CSR can limit these risks.

Benefits of CSR 2/2

Brand differentiation:

- CSR can help build customer loyalty based on distinctive ethical values. Some companies use their commitment to CSR as their primary positioning tool, e.g. ***The Body Shop.***
- Some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions as another form of advertising.

Reduced scrutiny:

- Corporations are keen to avoid interference in their business through taxation and/or regulations. A CSR program can persuade governments and the public that a company takes health and safety, diversity and the environment seriously. This reduces the likelihood that company practices will be closely monitored.

Supplier relations:

- Appropriate CSR programs can increase the attractiveness of supplier firms to potential customer corporations. E.g., a fashion merchandiser may find value in an overseas manufacturer that uses CSR to establish a positive image—and to reduce the risks of bad publicity from uncovered misbehavior.

CSR & India

- In 2013,

Company	Amt. (cr.)
Reliance Industries	357 cr.
Coal India	151cr.
Tata Steel	146 cr.
SBI	123 cr.

In 2014,India also enacted a mandatory minimum CSR spending law. Under Companies Act, 2013 any company having a net worth of 500 cr. or more or a turnover of 1,000 cr. or a net profit of 5 cr. must spend 2% of their net profits on CSR activities. The rules came into effect from 1^{st} April 2014.

Awards for CSR

Awards in Recycling & Waste Management

BusinessGreen Leaders Award

Ethical Corporations Responsible Business Award

PEA (People & Environment) Award

Golden Peacock Awards

Ethical Marketing

Ethical marketing is less of a marketing strategy and more of a philosophy that informs all marketing efforts.

It seeks to promote honesty, fairness, and responsibility in all advertising.

Ethics is a notoriously difficult subject because everyone has subjective judgments about what is “right” and what is “wrong.”

For this reason, ethical marketing is not a hard and fast list of rules, but a general set of guidelines to assist companies as they evaluate new marketing strategies.

Principles of Ethical Marketing

All marketing communications share the common standard of truth.

Marketing professionals abide by the highest standard of personal ethics.

Advertising is clearly distinguished from news and entertainment content.

Marketers should be transparent about who they pay to endorse their products.

Consumers should be treated fairly based on the nature of the product and the nature of the consumer (e.g. marketing to children).

The privacy of the consumer should never be compromised.

Marketers must comply with regulations and standards established by governmental and professional organizations.

Ethics should be discussed openly and honestly during all marketing decisions.

Who Does Ethical Marketing?

Some companies operate according to personal principles.

Advertising in an ethical way is a natural and necessary extension of their corporate character.

Corporate responsibility can be a major selling point to consumers who are interested in more than just price and quality.

Companies that are known for treating workers fairly, sourcing sustainable materials, environmental stewardship, and charitable donation have to reflect these principles in their marketing efforts. .

Ethical Marketing Can Backfire…

Domino's pizza carried out a well known advertising campaign in which they showed consumers pictures of real Domino’s pizzas without the studio photography that makes them look so perfect.

This was a refreshing look behind the artifice of much advertising, but this did not signal a more open and honest relationship between Domino's and the pizza buying public.

The campaign was considered an attention seeking stunt at best.

Unethical Marketing

Surrogate Advertising – In certain places there are laws against advertising products like cigarettes or alcohol. Surrogate advertising finds ways to remind consumers of these products without referencing them directly.

Exaggeration – Some advertisers use false claims about a product's quality or popularity. A Slogan like “get coverage everywhere on earth” advertises features that cannot be delivered.

Puffery – When an advertiser relies on subjective rather than objective claims, they are puffing up their products. Statements like “the best tasting coffee” cannot be confirmed objectively.

Unverified Claims – Many products promise to deliver results without providing any scientific evidence. Shampoo commercials that promise stronger, shinier hair do so without telling consumers why or how.

Stereotyping Women – Women in advertising have often been portrayed as domestic servants. This type of advertising traffics in negative stereotypes and contributes to a bias.

False brand comparisons – Any time a company makes false or misleading claims about their competitors they are spreading misinformation.

Children in advertising – Children consume huge amounts of advertising without being able to evaluate it objectively. Exploiting this innocence is one of the most common unethical marketing practices.

Ethical Marketing Plan

Companies to evaluate the marketing strategies of their past, present, and future. An ethical marketing strategy can increase their profits or advance their public image, they can take steps to revise their existing marketing . Any ethical marketing effort will begin with a careful analysis of the company, its customers, and the markets it operate within.

Ethical marketing has many advantages, but few companies would undertake an ethical marketing strategy if it reduces profits. Careful research is the best way to predict the effects of a change in strategy. If ethical marketing proves to be cost prohibitive, many companies will abandon the effort.

A company will then decide which features of their advertising to perform in ethical ways. Marketing professionals must reach an agreement about how they want to deliver their campaigns. They might decide to focus on making honest claims, avoiding marketing to children, or falsely criticizing competitors. A delicate balance has to be struck between the truth of the ad and its ability to persuade the customer.

Example of Ethical Marketing

The Body Shop

- a worldwide chain of bath and body stores.
- Since inception they have been committed to treating workers fairly, avoiding animal testing, using organic products, and promoting healthy body images. These values are often at the center of their marketing efforts.

The ethical nature of the company is highlighted as a way to differentiate themselves from their competitors in the cosmetics industry.

Final Words...

Ethical marketers need to make difficult choices about how to leverage the capital of their ethical decisions.

For most companies, the simple knowledge that they are doing the right thing will not be enough of a motivating factor. Ethical marketing often highlights the ethical choices a company has made in order to improve their public reputation.

This can be a powerful way to connect with customers, but it also runs the risk of seeming self congratulatory. Any effort at ethical marketing has to balance a company's self interest with their social responsibility.

Ethical HR

Ethical HR practices relate to:

- Recruitment
- Management and
- Direction of staff

HR Issues in an Organization

Favoritism

Differences in payment, discipline, promotion

Gender Discrimination

Sexual harassment

Inconsistent application of discipline

Non-performance factors used in appraisals

Not maintaining confidentiality

Advantages of Ethical Practices

Individual needs

Training and Development

Work Life Balance

Occupational Testing

Performance

- Equality
- No Gender Bias
- No Harassment
- Employee Participation
- Loyalty

Environmental Ethics

- National Council for Environmental Policy and Planning, 1972
- Evolved into, Ministry of Environment and Forests (MoEF), 1985
  - Created State and Central Pollution Control Boards
- Environmental Action Program, 1993

National Policy, 2006

Scientific and traditional land use practices

Pilot scale demonstrations

Multi-stakeholder partnerships

Promotion of agro-forestry

Organic farming

Environmentally sustainable cropping patterns

Efficient irrigation techniques

Environmental Impact Report

EIA is mandatory

Project owner to submit report

Environment management plan

Impact of project on localized environment is detailed

Sent for review by committee of experts

Public hearing made compulsory

Types of Environmental Risks

Endangered species (plants and animals)

Flood

Water Pollution

Air Pollution

Drought

Landslide

Erosion

Deforestation

Desertification

Wildfires

Environmental Audit

Company policies and procedures on environmental matters

Applicable legislation and regulations

Environmental management practices

Steps of Environmental Audit

Understanding internal controls

Assessing strengths and weaknesses of internal controls

Gathering audit evidence

Recording audit findings

Evaluating audit findings

Reporting audit findings

Benefits of Environmental Audits

Safeguard environment

Verify compliances with local and national laws

Indicate current or potential future problems

Assess training programs and provide data to assist training

Enable better corporate performance

Identify potential cost-saving measures

Globalization and Business Ethics

Growth of Global Corporations

Globalization is the growing integration of the world's economy. It suggests that an economic decision made in one part of the world will have far-reaching effects in the rest of the world.

Reasons for the Global Corporations:

- The increasing importance of international trade
- More and more multinational companies
- More and more global strategies

Drivers of Globalization

National and International Trade

Opening up of the Economies (China, India etc.)

New forms of business organizations

Development of nations

Technological advancements

Improved transportation models

Societal changes

Cultural liberalization

Global perspective

Impact on India 1/2

Strong macro-economic growth

Foreign investment

Improved service quality (both global and national levels)

Growing consumerism

Infrastructure development

Multilateral trade agreements, manufacturing, services and intellectual properties

Impact on India 2/2

Integration of economies

Free trade

Global recognition

Outsourcing

Multiple brands

Internet/Technology/Socio-cultural changes

Impact on Indian Industry

Telecommunication

Information technology

Automobiles

Healthcare and Pharmaceuticals

Mines and Minerals

Steel and Manufacturing

Arms and Ammunition

Airlines

Transport

Entertainment

Advantages to Host Country

Improving balance of payments
Employment generation
Source of Tax revenue
Technology transfer
Increasing choice of products and services
Global reputation
Improving standard of living
Creating competition
New ideas and styles

Disadvantages to Host Country

Environmental impact

Access to natural resources

Uncertainty in global market

Increased competition

Influence and political pressure

Cultural and social impact

Transfer pricing

Health and safety

Principles of Code of Conduct

Accountability

Fairness

Integrity

Professional Development

Need for Code of Business Conduct

Code of Conduct addressed to employees

Provides a sense of direction and a moral compass

Provides guidelines/framework to employees

Builds organizational culture

Helps attain long-term sustainable growth

Better self-governance

Improved risk prevention and management

International Code of Conduct 1/2

Equal compensation, fair wages, benefit the lower income group

No discrimination between gender, orientation and nationality

Respect for cultural and social norms and traditions

Respect religious sentiments and freedoms

Full disclosure of all material facts

International Code of Conduct 2/2

Follow local laws and policies

Should not intervene in local government functioning

Preserve ecological balance, environmental policies and operations

Should not create air, water, soil pollution excessively

Avoid improper or illegal practices

Should not bribe local politicians or governments

Whistle Blowing

Whistle blowing is the exposure by an employee or professional of confidential information which relates to some danger, fraud or other illegal or unethical conduct connected with the work place, be it of the employer or of fellow employees.

When is Whistle Blowing Justified?

It is carried out based on moral motive

Inability to resort to internal channels for solution

Individual has collected enough evidence to prove violation has taken place

Individual has analyzed the gravity of the situation and determined the violation and intensity of the harm

Malpractice has been specifically identified

Examples

Satyendra Dubey: Project manager at NHAI. Spoke against misuse of funds for construction project.

Narendra Kumar: Indian police official. Spoke against mining mafia.

Reference

- Business Ethics – Concept & Practice - B. H. Agalgatti & R. P. Banerjee – (Nirali Publication)
- Business Ethics, C S V Murthy, Himalaya Publishing House