PAPER: BUSINESS ETHICS AND CORPORATE GOVERNANCE
CC 304

MODULE-1: BUSINESS ETHICS

SYLLABUS AND LECTURE PLAN

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2. Components of business ethics management (2)
3. Different approaches of managing business ethics (3)
4. Managing business ethics in the context of employees, consumers and civic society (4)

Suggested Books

1. Boatright, J. R., Ethics and the Conduct of Business, Pearsonn Education
2. Crane, A. And Matten, D. Business Ethics; Oxford University Press
3. Fernando, A.C., Business Ethics: An Indian Perspective
4. Petrick,J. A and Quinn, J.F., Management Ethics: Integrity at work, response Books
5. Trevino, L.K. and Nelson, K.A. Managing Business Ethics; John Wiley and Sons
6. Velasquez, M.G., business Ethics: Concepts and Cases, Prentice Hall of India
7. Werther, W. and Chandler, D. Strategic Corporate Social Responsibility; Sage South Asia Edition

STUDY MATERIAL

Need for Business Ethics

- A larger section of the society believes that the unprecedented growth of business has an adverse effect on them. In fact, almost 75% of the residents from 20 leading economic nations believe that corporate houses influence the Government in framing policies in their favour. Business ethics may help to find out the reasons behind it.
- Business has the potential to play an important social role by producing goods or services for consumption, creating employment opportunity, paying taxes and fastening economic growth. But

whether these contributions are made and even if they are made whether it is at the cost of something else, that is decided by business ethics. In a survey by McKinsey (2008), it was observed that 50% of the corporate executives believe that contribution of the business in society is positive, whereas 25% think otherwise.

- Business ethics helps to find out the causes and consequences of business malpractices that can inflict enormous harm to individual, to communities or economy at large. Hence, business ethics is important in improving human conditions (Michalos, 1988).
- Different stakeholder groups expect the business to behave more ethically. It may sometimes create complexity and challenges for the organisation. Ethics may help to understand these challenges and fulfil the ethical expectations of the stakeholder groups.
- Few business heads have received ethical education and training. A study of business ethics may help them to identify, diagnose, analyse and solve an ethical dilemma in business decisions and help them in ethical decision making.
- Ethical violations have occurred several times in the recent years. A survey in the UK (with 1000 employees) and Hong Kong (with 2000 employees) reveals that 30-40% of the corporate houses in those two countries have committed fraud in their operation. Now, business ethics may help to find out the reasons behind these infractions and provide solutions from the point of views of the managers, regulators, and other interested parties.
- It may provide us with the ability to assess the benefits and problems associated with managing ethics in organisations.
- A study of business ethics may give us an insight into the complex problems of the society; helps to understand the modern society in a systematic way; takes us from the traditional framework of doing business to the modern ones.

Ethics Vs Law Vs Morality

Ethics and Law

- *Ethics* are the principles that define rightfulness of our actions
- *Law* is institutionalisation and codification of ethics into specific social rules, standardisation and proscription
- There are some areas in ethics *where consensus has been reached* and decisions taken are equivocally right. These are the areas where ethics and law overlap each other.
- There are a few areas where we have legislations but those may not be brought under the purview of ethics (*law regarding being on a particular side of the road may reduce chaos but it does not have an ethical implication*)
- There are also a few areas where values are in conflict and equivocally right decisions may not be taken. In these areas law has not come to a consensus about right or wrong. Hence, decisions taken in those areas may have ethical consequences (*e.g. being unfaithful to your boyfriend or girlfriend*).
- Application of a new product on animals, preventing employees from joining a union, lay-offs, child labour, executive compensation package, persuasive sales technique, selling detonators to oppressive regimes are the examples of those areas in business where decisions taken do not have a legal implication. However, there could be ethical implications in it.

Ethics and Morality

- While ethics and morality are used interchangeably, there is a fine line of difference between these two.
- Morality is concerned with norms, values and beliefs embedded in social process that define right and wrong for an individual or society. Hence, morality gives an individual or a community a sense of right and wrong.
- Ethics is concerned with study of morality and the application of reasons to elucidate specific rules and principles that determine right and wrong for a particular situation. These rules and principles are called ethical theories which are eventually used for taking ethical decisions.
- Ethics is an attempt to systematise and rationalise morality, typically into generalised rules that offer a solution to the situations of moral uncertainty.
- Hence, morality precedes ethics.

Business Ethics, Corporate Governance and Business Leadership

Corporate Governance

- A system with well-defined codes, policies and procedures, rules and structures that control goals and goal performance of the organisation, evaluate administration of the organisation; define and distribute the rights of various stakeholders, synthesis the conflict of interest among them and ensure sustainable development of the company.
- OECD, World Bank and KPMG have projected exemplary corporate governance practices.
- Corporate governance requires integrity, full disclosure, objectivity, due care, confidentiality, and professional skill which are in fact principles of business ethics.

Principles of Business Ethics

- *Integrity* (act with honesty; avoiding conflicts of interest)
- *Full disclosure* (disclosure accurate, timely, fair, understandable, relevant financial information to the regulators)
- *Objectivity (*compliance with laws of the land)
- *Professional due care* (act with good faith, competence, diligence, without representing material facts; individual judgements are not be subordinated; responsible use of assets)
- *Confidentiality* (should be maintained unless the person concerned is authorised or legally bound to divulge any information. should not be used for personal benefit)
- *Professional skill* (share skills and knowledge responsibly and update the same with changing circumstances)

Relationship between business ethics and corporate governance

- Corporate governance is a drafted and more official format of business ethics.
- Corporate governance aim at protection of stakeholders interest in a fair manner (Problems in chemical industries, ship yards, pharma companies, etc./ Role played by SEBI, RBI, SFIO).
- It goes beyond regulatory requirements, and become self-governed.
- It helps in enforcement of existing regulations and prohibits people from using the loopholes in existing regulation (Example: non-compliance with provisions of Companies Act, Ketan Parekh, Rajat Kapoor case; vanishing companies).
- All regulations are not applicable in all types of companies (SEBI not there for unlisted companies)

Kohlberg's Model

- Developed by Lawrence Kohlberg.
- There are six stages of cognitive moral development
- Moral development happens because of increase in person's knowledge and level of socialisation
- People take their ethical decision in six different ways based on the level moral development they are in.
- Individuals tend to change their ethical decisions after their formative years.

Stage-1 (Stage of Punishment and Obedience)

- Ethical decision solely governed by fear of punishment or complete obedience to the rule maker
- Mainly followed by small children
- Sometimes adults also cater to certain rules out of their fear of punishment

Stage-II (Stage of Individual Instrumental Purpose and Exchange)

- Ethical decision of the person is governed by the *reciprocity* or what he gets in return.

Stage-III (Stage of Mutual Interpersonal Expectations, Relationships and Conformity)

- Ethical decision is governed by fairness to the others without expecting anything for the self
- They try to live up to the expectations of others who are close to them
- Ethical decision taken by a friend for a friend is mainly governed by this stage

Stage-IV (Stage of Social System and Conscience Maintenance)

- Ethical decision is taken based on people's commitment towards duty, respect for authority and maintenance of social order.
- People at this stage uphold law unless they conflict with fixed social duty
- They try to uphold the existing laws and moral values even when they are at great inconvenience to them.

Stage-V (Stage of Prior Rights, Social Contract or Utility)

- Ethical decision is taken based on a broader vision on social obligation and commitment
- They develop social contracts with different conflicting groups and resolve ethical conflict based on rational calculation of utilities
- Doctors who treat critically ill patients of an accident without waiting for the police to come are operating at this stage of moral development

Stage-VI (Stage of Universal Ethical Principle)
- Ethical decision are taken based on universal ethical principles, such as equity and justice
- Social obligation gets priority to organisational obligation
- Whistle blowers demonstrate company's unethical practice without thinking about consequences

Levels of Ethical Analysis

Level 1: Global (Ethics of Leaders)
- The first level of ethical analysis deals with ethics of the leaders.
- Leaders should exhibit a personal morality as a model of ethical behaviour for those under them. The leaders are expected to uphold the law, keep the value alive which are not embedded in law, care for others, maintain honesty, integrity, tolerance and human fulfilment within the framework of values. At the same time, greater responsibility of leadership would also entail the leaders to exercise their personal value orientation on a larger base.
- There are two arguments in favour this view: (a) There is a close connection between personal moral lives of business leaders and moral behaviour as business leaders; (b) There is a close connections between leadership failure and corporate downfall.
- While the first argument talks about a fluid relationship between personal and organisational ethical sphere, the second argument vouches for moral capital of the leader which can reap the benefits of other resources in the intended ways.
- However, the counter-logic to these arguments as well. Sometimes personal moral failure may not necessarily lead to ethical failure of leadership (e.g. Bill Clinton's presidential campaign was successful despite the moral problems in his personal life. Later, his failure was attributed to the those problems, which was actually not true)
- On the hand, since leaders have to set an example of morality for others, we may expect a great deal of moral compass from them. however, we tend to forget that they are too fallible human beings. Hence, expecting too much morality from them would drove away apparently ethical men to take up leadership position.
- Lastly, performance of ethical leadership may sometimes lead a person to avoid some of his personal responsibilities leading to moral failure in his personal life.

Level II: Organisational (Means of Leadership)
- The second level of ethical analysis involves the means of leadership.
- While leadership necessarily involve moving others to act, there are different models which define the means of leadership: (a) trait vs. contingency model; (b) autocratic vs. participatory model; (c) transactional vs. transformational model, etc.
- There are two different ways of looking at means of leadership: (a) Focus on specific actions that are taken in performing leadership; (b) Focus on style of leadership.
- *First way*: Individual actions of the leader are to be evaluated in moral terms and sum of morality of their action will point towards their ethical orientation.
- *Second way*: There are two advantages to this way: (a) understanding the connections between diverse actions performed by the leader; (b) understanding the reasons behind leadership failures.
- The approaches of a leader in applying a particular mean can be categorised as: (a) strategic dimension of ethical leadership; (b) emotional dimension of ethical leadership.
- *First approach*: In the strategic sense, effective leadership contributes to the achievement of business goals. However, from the ethical standpoint, that is possible only when the business respects the intrinsic worth of each stakeholder with their own interest and values. Honesty, reciprocity, trust and integrity are two important criteria for ethical leadership. However, an unethical leadership would try to achieve this end by coercion, deception, threats, or blackmail. Since business is all about mutual interaction among conflicting agents, ethical leadership is more effective than unethical leadership in strategic sense.
- *Second approach:* leadership is not a cognitive process based on rational persuasion; rather it involves an affective connections among agents and creating a strong commitment among them towards achieving the organisational goal. Hence, emotional appeal of the leadership motivates the

team. However, it must be genuine (authentic leadership). Otherwise, it will belittle the real interest and lead to emotional dysfunction leading to unsuccessful business. (Inauthentic leadership).

Level III: Individual (Heart of Leadership)

- The third level of analysis deals with ethics of leadership in offering a common telos and in guiding others towards achievement of the same. Hence, there are at least two ways through which leadership exhibit ethical failures – (a) unethical telos and (b) unethical projections.
- *First way*: ethical leadership may fail if it is centred around a mission which is inherently unethical (ponzy schemes). While leaders are supposed to lead others towards a common mission, it is ultimately hovers around the common good of the organisation which should not take the back seat to the good of a certain individual stakeholder (lucrative compensation package for the directors against incomparable corporate performances). Ethical mission should always involve human flourishing by production and distribution of goods and services and creating opportunities for utilisation of talents
- *Second way*: It involves intrinsic disconnect between telos and projections due to questionable intentions of the executives (downfall of Enron). However, as long as the projections are made in good faith keeping in view the telos, any deviations from the projected outcome due to miscalculations or contingent flaws will be treated as strategic flaws, not ethical flaws.
- An ethical leadership will lead to a sustainable business which ultimately lead to human flourishing.

Corporate Integrity

Context of corporate integrity

Corporate integrity is to be studied in the backdrop of recent corporate accounting scandals, like Enron, WorldCom and Satyam and raised questions on corporate integrity. Corporations today have their footprints in economic, human, and natural frontiers. There are 5 dimensions to corporations – cultural, interpersonal, organisational, civic and environmental. While cultural dimension can prevent or promote a new idea, environmental dimension can reveal knowledge about sustainability of the product. While interpersonal dimension can talk about conversational pattern within the organisation, organisational dimension validates economic prospect of a plan. Finally, civic dimension ensures corporations' relationships with non-profit or Government organisations. All the dimensions influence one another. Basically, corporations are based on certain physical and communicational designs of human systems (as a part of larger social and natural system) based on verbal and non-verbal communications. While verbal communications incorporate mission and policy statement, non-verbal communications include work designs, daily schedules, and practical systems. The process of this communication and the resultant growth of the organisation depend on the integrity of the corporations. In usual meaning, integrity refers to the degree of interpersonal trust in the organisation. However, corporate integrity refers to integrating the apparently part human systems into whole. Corporate integrity is the foundation of ethical leadership and corporate citizenship.

Meaning of integrity

Integrity refers to integrating parts into whole towards achieving a result which is right from ethical standpoint. Integrity can be viewed from 4 different approaches – (a) consistency; (b) relational awareness; (c) inclusion; and (d) pursuing worthwhile purpose. While all the approaches are important to understand the meaning of integrity, from corporate point of view, relational awareness is more important, since corporations have multiple relationships. However, others are also not far behind.

Consistency (what we do?)

Integrity as consistency refers to coherence between words and works. A person should do only what he purports to honour and in this achievement of high goal, he should not be intimidated by the own personal gain and should have unbending conformity to the existing standards. However, if a person is unaware of his duties and responsibilities, he may think that others also have the same powers and responsibilities. Hence, he may perform his responsibilities as per his own belief which may not integrate him with the whole. Hence, corporate leaders, while exercising integrity in the meaning of consistency should consider their self as a part of a system, in reality it may not always be possible. When leaders identify themselves as honest, caring, hardworking, they are focussing on the aspect of consistency. In terms of organisation as well, when we see organisation as an agent or focus on organisational purpose, it is consistency.

Relational awareness (who we are?)

Every individual can be viewed as a part and parcel of a greater society. Naturally, when they practice integrity, they should identify themselves as brother, father, mother, sister, etc. They should be conscious of their relational self in terms of their existence and their interactions. In corporate sector, relational awareness refers to multiple relationships with stakeholders.

Inclusion

Inclusion refers to the mentality of accepting disapprovals or disagreements at individual or organisational levels. Inclusion is union of compliance practices by the managers in their day to day activities and thereby achieving ethical performance. In an organisation, people believe in different ethical theories. Balancing all these ethical theories towards a greater corporate performance is the main idea of inclusion. Corporations may achieve inclusion if they are efficient. However, efficiency does not always ensure integrity (e.g. drug dealers may be efficient in their job but they don't have integrity).

Pursuing worthwhile purpose

While integrity is one of the greatest virtues to be pursued, it is also one of the ethical principles that define rightfulness of our action. So, our actions are right only when we pursue a worthwhile purpose, something that can ensure greater welfare for a greater section of the society.

Dimensions of corporate integrity

As mentioned earlier, there are 5 dimensions to corporate integrity – (a) cultural; (b) natural; (c) social; (d) organisational; (e) interpersonal. Cultural dimension in terms of language, ritual and patters of communication provide perspective to other 4 dimensions in which we discover how to relate person, experience and things. The following dimension is natural dimension which dictates the relationship of the corporations with environment especially in the backdrop of growing environmental problems. The following dimension talks about the relationship of the corporations with the society. In fact organisation here works as an agent which must have integrity in their actions (consistency) and must be able to identify their relational self as compared to other members of the society. The following dimension organisational dimension focus on including different ethical claims in their organisational performance for achieving a worthwhile purpose. Finally, the interpersonal dimension focuses on the relationship that defines a particular self within an organisation. All these dimensions have contextual interpersonal relationships with one another.

Challenges of corporate integrity

All the 5 dimensions pose a few challenges to the concept of corporate integrity. From cultural dimension point of view, we live in a society with multi-cultural background. Hence, in such society, with a view to achieving integrity, we need to be able to accept differences and disagreement. Hence, integrity in the form of inclusion is difficult to achieve in cultural dimension. Environmental dimension pose a challenge to the concept of integrity since environmental degradation cause a challenge to the corporate sustainability. However, corporations seem to be unaware of it. Hence, corporations should ensure worthwhile purpose by imbibing environmental cause in the business decisions. From social point of view, once again, the corporation is supposed play as a cooperative role in the society. Here again, it is difficult to undermine the interest of a particular social member in the way of fulfilling the interest of other. Once again, integrity in the form of inclusion is impaired in this dimension. From organisational point of view, the challenge is to bind organisational purpose with conduct. However, even if the mission and decisions to achieve them are in tandem, it is challenge to prove that the mission form a worthwhile purpose. Finally, from the interpersonal level, the challenge is to identify the relational self. Actually, in the workplace people recognise themselves as per their work identity. However, they also have their family as well as a civic identity as a whole. These other relational status of a person also influences their work relationships. The whole process makes them aware of their position in the relational sphere in the organisation.

Concept and Types of Stakeholders

Concept of stakeholder

In business, a stakeholder is any individual, group, or party that has an interest in an organization and the outcomes of its actions. Common examples of stakeholders include employees, customers, shareholders, suppliers, communities, and governments. Different stakeholders have different interests, and companies often face tradeoffs when trying to please all of them.

Types of Stakeholders

#1 Customers
Stake: Product/service quality and value
Many would argue that businesses exist to serve their customers. Customers are actually stakeholders of a business in that they are impacted by the quality of service and its value. For example, passengers travelling on an airplane literally have their lives in the company's hands while flying with the airline.

#2 Employees
Stake: Employment income and safety
Employees have a direct stake in the company in that they earn an income to support themselves, as well as other benefits (both monetary and non-monetary). Depending on the nature of the business, employees may also have a health and safety interest (for example, transportation, mining, oil and gas, construction, etc.).

#3 Investors
Stake: Financial returns
Investors include both shareholders and debt holders. Shareholders invest capital in the business and expect to earn a certain rate of return on that capital. Investors are commonly concerned with the concept of shareholder value. Lumped in with this group are all other providers of capital, such as lenders and different classes of shareholders.

#4 Suppliers and Vendors
Stake: Revenues and safety
Suppliers and vendors sell goods and/or services to the business and rely on it for revenue generation and on-going business. In many industries, the suppliers also have their health and safety on the line, as they may be directly involved in the company's operations.

#5 Communities
Stake: Health, safety, economic development
Communities are major stakeholders in large businesses. They are impacted by a wide range of things, including job creation, economic development, health, and safety. When a big company enters or exits a small community, they will immediately feel the impact on employment, incomes, and spending in the area. In some industries, there is a potential health impact, as companies may alter the environment.

#6 Governments
Stake: Taxes and GDP
Governments can also be considered a major stakeholder in a business as they collect taxes from the company (corporate income), as well as from all the people it employs (payroll taxes) and other spending the company incurs (goods and services taxes). Governments benefit from the overall Gross Domestic Product (GDP) that companies contribute to.

Ranking/Prioritizing Stakeholders
Companies often struggle to prioritize stakeholders and their competing interests. Where stakeholders are aligned, the process is easy. However, in many cases, they do not have the same interests at stake. For example, if the company is pressured by shareholders to cut costs, it may lay off employees or reduce their wages, which presents a difficult trade-off.
Jack Ma, the CEO of Alibaba, has famously said that in his company, they rank stakeholders in the following priority sequence:

1. Customers
2. Employees
3. Investors

Many other CEOs also tout shareholder primacy as their number one interest. Much of the prioritization will be based on the stage a company is at. For example, if it's a startup or an early-stage business, customers and employees are more likely to be first. If it's a mature publicly traded company, shareholders are likely to be first. At the end of the day, it's up to a company, the CEO, and the board of directors to determine the appropriate ranking of stakeholders when competing interests arise.

Stakeholder vs Shareholder

This is an important distinction to make. A stakeholder is anyone who has *any type of stake* in a business, while a shareholder is someone who owns *shares* (stock) in a business and thus has an equity interest.

Ethical Reasoning Approaches

Ethics is a systematic attempt to study individual, group, organisational, social, market and global moral experience in such a way as to determine and prioritize desirable ends that are worth pursuing in formulating right rules that ought to govern human conduct and act on virtuous intentions and character traits leading to development of life.

Morality on the other hand is the rules or the values that differentiate right customary, sociological practices and activities from the wrong ones. While we use ethics and morality interchangeably, in some sphere are diametrically different.

Example 1: At the time of civil war, the fugitive slaves were incapacitated by cutting off their toes. While it was considered to be right from the existing sociological point of view, hence moral, it was not right from ethical standpoint, since ethics is more sensitive and reflective and systematic endorsement of the moral norms.

Example 2: Henry Ford wanted to share a portion of the profit with their employees to improve their quality of lives. It was an ethical standpoint. But one of the investors, Dodge filed a suit against this decision and court stood by Dodge, since the manager has a fiduciary moral responsibility towards their shareholders first.

The study of ethics can be made based on three levels of analysis:

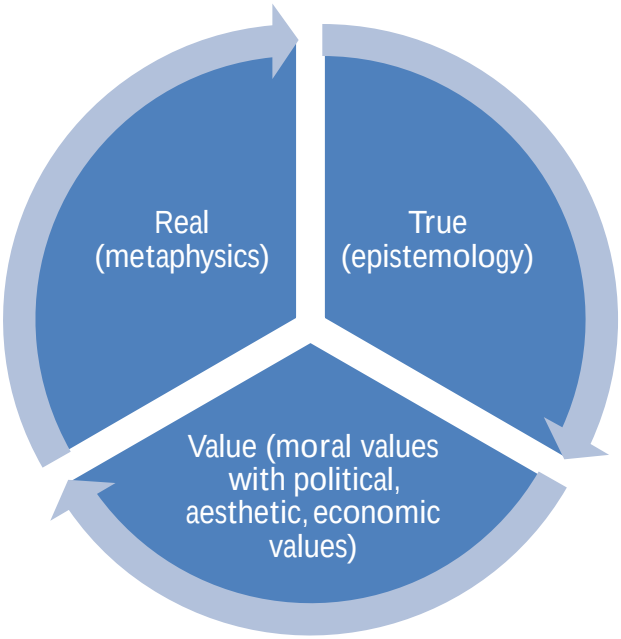
(a) *Global*: It focuses on global economic context; conflict between market and command economies
(b) *Organizational*: company codes; ethical issues in mergers and acquisitions
(c) *Individual*: lying, cheating and stealing at work

Philosophy is the critical reflection of logically fundamental beliefs regarding what is real, true and of value and acting with reasoned commitments.

Example 3: A person who believes god is real; truths are known by divine revelation contained in sacred writings, and have an ethical value that spiritual salvation is achieved after death believes in religious foundation of ethics. On the other hand, a person who believes that nature is real, truths are known through science and reason highest value is ethical integrity believes in secular foundation of ethics. Both the person can act ethically from different metaphysical and epistemological points of views.

Management ethics is a descriptive and normality study moral awareness, judgment, conduct and character of all levels of managerial practices. It reduces tangible and intangible costs in management practices and improves individual, group and organisational performances through the following ways:

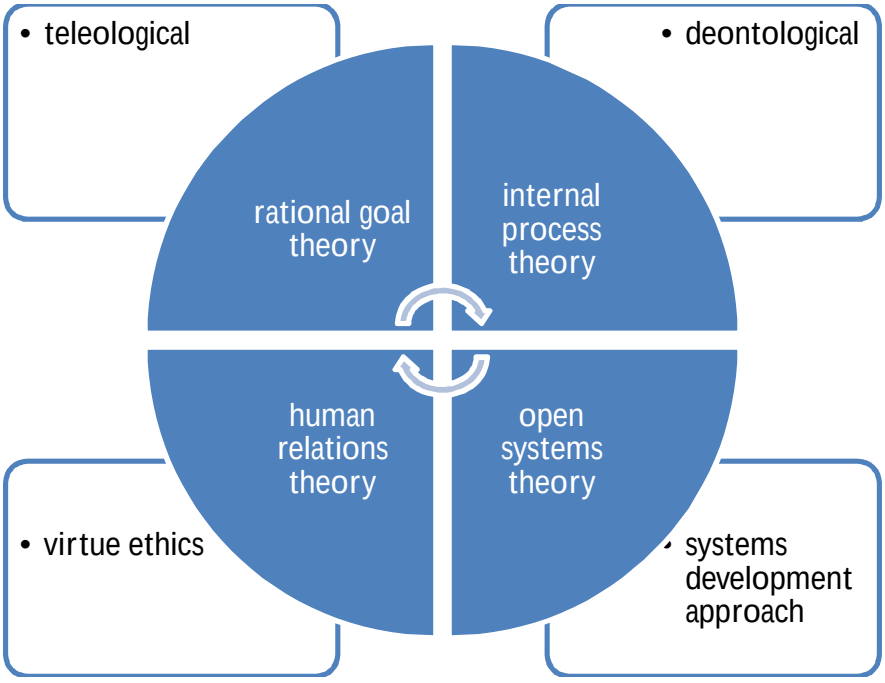
(a) Simulation of moral imagination
(b) Moral identification and ordering
(c) Moral evaluation
(d) Tolerating moral disagreement and ambiguity
(e) Integrating managerial competence and moral competence
(f) Eliciting sense of moral responsibility



Rational business decisions are not only influenced by economic and legal factors, but also by moral factors. Managers may exhibit their ethical integrity from 4 specific approaches:

(a) Outcome oriented (teleological theories): achieving good consequences or ends. Example: Production/ sales managers who focus on bottom line
(b) Duty oriented (deontological theories): adhering to standards of right conduct. Example: internal process managers who monitor and co-ordinate different activities and strictly follow internal policies of the organization
(c) Character oriented (virtue ethics theories): developing virtuous character traits. Example HR managers facilitating and mentoring human talents
(d) Systems oriented (systems development theories): being motivated by ethically supportive, holistic context. Systems managers involved in innovating and brokering for resources to improve the system continuously

Understanding of all the ethical theories is necessary for balanced ethical judgments.



Approaches of ethical reasoning

1. Teleological theories

If on balance more benefit than cost is achieved by the relevant stakeholder for pursuing a choice, teleological theory endorses goodness that choice. Managers who endorses this theory focus on productivity, organisational deadlines and profits without considering the means for achieving them. Types of teleological theories are: (a) ethical egoism; (b) utilitarianism; (c) eudaimonism

A. Ethical egoism

Ethical egoism refers to a choice that maximizes self-interest from an individual's point of view, sometimes even at the cost of others. If no benefit is achieved by helping others, then it is not worth pursuing. Ethical egoism is different from psychological egoism. *Psychological egoism* refers to a state where people pursue some activity only when they get something in return. It is just the opposite of *altruism* which refers to sacrificing one's self for the benefit of others. Taking the essence of both the concepts together, we may have *enlightened egoism* which refers to doing something for the others which would ultimately improve one's own self-interest. For example, getting involved in community support programme within an organization may help an employee to enhance his image in the organization which would ultimately help him in his career advancement.

B. Utilitarianism

It is a theory that holds that an action is ethical if it results in maximum satisfaction for the maximum number of stakeholders affected by it. For example, if I am a HR manager of an organization and decided the annual vacation schedule of the employees after soliciting their individual preferences, then my action would benefit a maximum number of employees. Most of the economic theories are based on this aspect since the sole motive of the business is maximization of investors' wealth through growth in sales, market share and profit.

C. Eudaimonism

According to this theory an action is ethical if leads to happiness of human beings. If a person maximizes his pleasurable utility to have a good time (excessive consumption of alcohol or drugs) it may give him pleasure for a limited time but ultimately he won't be able to live a happy life which necessarily constitute health, safety, wealth, friendship, knowledge, good luck and virtue. For example, an HR manager may constitute a health and safety programme for all the employees. As it may improve human happiness, it is an ethical action from Eudaimonism point of view.

2. Deontological theories

According to these theories an action is ethical if the action itself fulfills the moral dictums irrespective of the benefits or cost coming out of it. For example, a secularist would always fulfill his promises; a religious person would follow the 10 commandments regardless of the personal benefits or cost. Types of deontological theories: (a) negative and positive rights theories; (b) social contract theories; (c) social justice theories.

A. Negative and positive rights theories

Negative right theories advocates that an action is ethical if it prevents unwarranted interference from the Government or any other individual in exercising one's right (right not to get killed by someone, right to privately use, sell or dispose own property without being interrupted by anyone else). Hence, excepting the stakeholder in question, all other have a negative duty not to prevent him from exercising his right. On other hand, as per positive rights theories, an action is ethical if it provides an individual to whatever he needs to exist (right to have a better healthcare, education, etc.). Hence, all other person and the Government have a positive duty to fulfill the needs of an individual. While there has always been some conflict in the global-economic front as to which duty should be practiced more rigorously. However, it has been accorded that the Government normally performs their positive duties. But they should also take adequate measures so that people can exercise their negative rights as well.

B. Social contract theories

According to this theory, an action is ethical if it conforms to the agreed upon norms, guidelines, contracts or rules that govern general well-being of the contracting parties. For example, US Commercial Code or UN Code of Conduct for Transnational Corporations incorporate guidelines for the contracting based on their agreement arrived at a consensus.

C. Social justice theories

According to this theory, an action is ethical if it reflects social justice in terms of distributive, retributive and compensatory dimensions. For example, if a non-smoker gets affected by a chain smoker, the theory advocates not only for the punishment of the later but also adequate protection to the former.

3. Virtue ethics

Virtue ethics focus on wholesome readiness to act out of good intensions that justifies the character of an ethical person. Character is a combination of intension, inclinations and virtues that readies an individual

or an organization to act ethically. Person with strong character imbibes intellectual, moral, emotional and social virtues that self-discipline them to go the right thing or do something which is good for them. On the other hand, persons with weak character traits will do something which is harmful for them or make excuses for being able to do the right thing. While character provides a moral foundation of one's self, personality is an impression on the surface. For example, a manager may be fair but may not look fair. A proper inclination of character and personality is reflective of one's true integrity. Virtue ethics focuses on team building, interpersonal relationships, and support character development, build employee morale, facilitate participative decision making, foster dispute resolution and recognize employees' contribution on a regular basis. Types of virtue ethics: (a) personal; (b) work; (c) professional.

A. Personal character ethics

A person who has imbibed the virtuous characteristics (e.g. courage, moderation, justice, and self-discipline, sense of humour, reliability, benevolence, authenticity, caring, sincerity, understanding and wisdom) are bound to act ethically. For example, a person may loose his health, wealth or loved ones through no fault of his; but his prospects for living a happy life will remain the same the same if he retains his dignity.

B. Work character ethics

Virtuous characteristics in the workplace (e.g. competence, creativity, honesty, fairness, trustworthiness, co-worker appreciation, task completion, honor, loyalty, shared work pride, diligence, resourcefulness, levelheadedness, tolerance, dependability, civility, empathy, conscientiousness, discretion, patient urgency, cooperativeness and supportiveness, etc.) are reflective of the ethical performance of the work managers. For example, a manager under the pressure of global competitions, high productivity expectations and need for teamwork must exhibit a work character trait that would serve as role model for achieving organisational goals, and marinating stable human relations. As the organizations are becoming more professionals, the managers are enjoying technical autonomy, developing organisational networks and expecting to be treated in a more professional ways, expectations from work character ethics have increased manifolds.

C. Professional character ethics

Every profession has a code that determines the virtuous characteristics of the people who belong to that profession (e.g. credentialed expertise, licensed monopoly, self-regulation, collegiality, altruism, trust, truthfulness, autonomy, impartiality, loyalty, independence of judgment, and public service). Every person belonging to a profession must try to ethically resolve an issue within the profession, unless it is necessary to blow the whistle if it is going against the ethical code. For example, the manager in a firm of surgeons must identify the double billing of the firm in medi-care insurance and draw the attention of the members of the firm to resolve the issue. Individual moral performance may also influence the group's morality.

4. Systems development approach

The approach maintains an environment where ethical conduct within a group or organization is correlated to the framework conducive for ethical performance. If the managers rely on the individual ethical orientation of the employees and does nothing for improving the ethical systems, it will create future ethical risk and the manager will be held responsible of moral and managerial failure. Hence, the managers should assess the need for an ethical system within the organization and implement morally supportive intra-organisational systems with least deviations (recognition of exemplary moral performance or swift and fair enforcement of sanctions for the wrongdoers). The approach advocates for creative change management, entrepreneurial resourcefulness, respectful and sophisticated global negotiation, and collaborative networking with diverse global interest. Types of systems development approach: (a) personal improvement; (b) organisational; (c) extra-organisational.

A. Personal improvement ethics

An action is considered to be ethical if it promotes the personal responsibility for holistic development, continuous and moral excellence. For example, A manager may promote his own expertise on coming up with new ideas based on the educational package provided by the company. The expertise may well be directed in achievement of organisational goals. In western and non-western traditions, family and friends provide resources for individual moral development.

B. Organisational ethics

An action is considered to be ethical if it is directed towards improvement of organisational processes with respect to procedural excellence, systemic justice, respectful caring and building of ethical culture. For example, a manager is appointed to improve reward and employee system within the organization as it may lead to organisational moral development.

C. Extra-organisational ethics

An action is considered to be ethical if it recognizes the ever increasing congruence between organisational and natural factors. For example, a manager must respect the collaborative partnership

among all economic, political, legal, social, philanthropic and ecological constituencies in an organizational performance.

Stakeholder Salience

According to stakeholder salience theory proposed by Mitchell, Agle and Wood (1997), a stakeholder is a group or individual who can affect or is affected by the achievement of the organisations objectives. There are three major stakeholder attribute as per this theory based on which the stakeholders are identified – (a) power; (b) legitimacy; (c) urgency. The attributes are variable and can change for any entity or stakeholder manager relationship. The existence of each attribute is actually a matter of multiple perceptions. An entity may not be conscious of possessing these attributes and even if they are conscious, they may not choose to enact any implied behaviour.

Power

Power is a relationship among social actors in which one social actor (A) can get another social actor (B) to do something that B would not otherwise have done. In an organisational setting, based on the type of resources used to exercise power can be categorised as (a) coercive power based on physical resources of force, violence and restraints; (b) utilitarian power based on material or financial resources; (c) normative power based on symbolic resources. These different powers can be individual or in combination. They can be non-existent or complete. It can be acquired or can be lost. Possession of power does not always mean its intended use. Sometimes, the person with power may not be conscious about it.

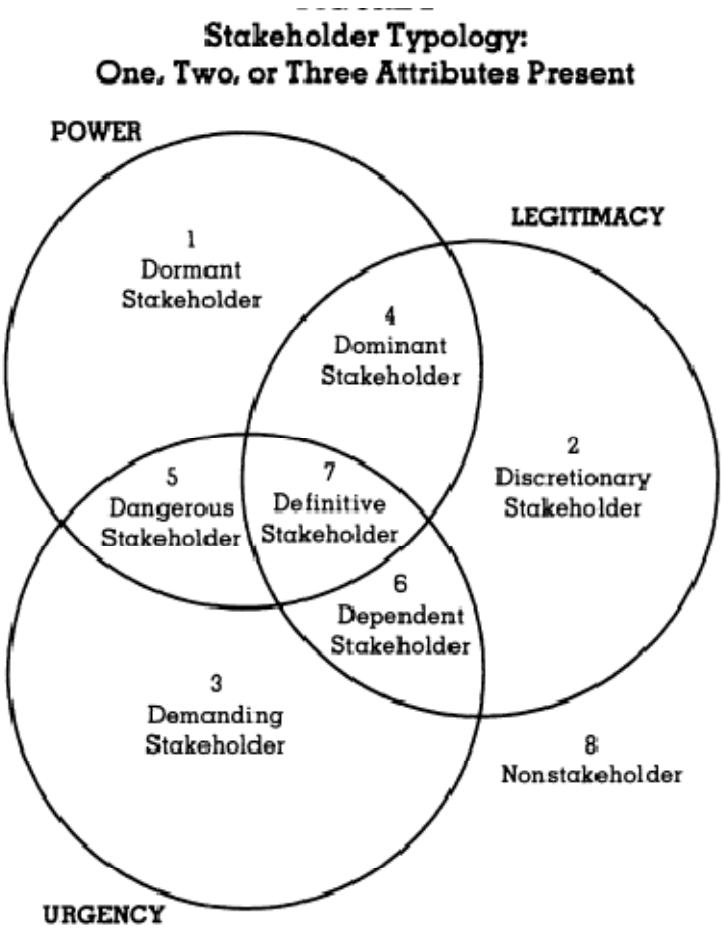
Legitimacy

Power by itself does not guarantee high salience in stakeholder management relationship. It gains authority through legitimacy. Legitimacy is a perception or assumption that the actions or an entity are desirable, proper or appropriate within some socially constructed norms, values, beliefs and definitions. A social system within which legitimacy is attained is a system with multiple levels of analysis – the most common of which are individual, organisational and societal. It implies that legitimacy may be defined and negotiated in different ways in levels of the social organisations. Claimants may not correctly perceive the legitimacy of their claims. Managers may have perceptions of stakeholder legitimacy that may be different from that of the stakeholders.

Urgency

Urgency is the degree to which the stakeholder claims call for immediate attention. Urgency is a socially constructed perceptual phenomenon and may be perceived correctly or falsely by the stakeholders, managers or others in the environment (e.g. neighbours of nuclear power plant have a serious claim on it. However, they may not be aware of it). Urgency exists when two conditions are met: (a) when a relationship or claim is of a time-sensitive nature; (b) when that relationship is important or critical to the stakeholder. So, urgency is based on two attributes: (a) time sensitivity – the degree to which managerial delay in attending to the claim is unacceptable to the stakeholders; (b) criticality – the importance of the claim or the relationship to the stakeholders. The stakeholders view their relationship with the management as critical due to the following reasons: (a) the stakeholders are in possession of firm specific assets which cannot be used in a different way without loss of value; (b) stock is held by generations of owners in the company irrespective of the stock's performance; (c) the stakeholder expects that the firm will continue to provide him with great value; (d) the importance that the stakeholder attaches to something that may pose a risk to his relationship with the firm. Urgency alone cannot create stakeholder salience. However, urgency in combination with legitimacy promotes access to decision making channels and in combination with power, it encourages one-sided stakeholder attention.

Based on these three attributes, the degree to which managers give priority to competing stakeholders' claims is called stakeholder salience. Based on the level of stakeholder salience, stakeholders can be categorised under three groups: (a) latent stakeholders whose stakeholder salience is low due to presence of any one of the aforesaid three attributes; (b) expectant stakeholders whose stakeholder salience is moderate due to presence any two of the aforesaid attributes; (c) definitive stakeholders whose stakeholder salience is high due to presence of all three attributes.



Based on the nature of attribute, latent stakeholders can be categorised as (a) dormant stakeholders; (b) discretionary stakeholders; and (c) demanding stakeholders.

Dormant stakeholders
They possess power to impose their will on a firm but without legitimacy or urgency, their power is of no use. For example, if a present employee is fired or laid off from an organisation, he is a dormant stakeholder. He can shoot at the company premises or company official (coercive); file a suit in the court of law (utilitarian); or speak out in the public media against the company (symbolic).

Discretionary stakeholders
They possess the attribute of legitimacy but no power to influence the firm or no urgent claims. Without this, management has no reason to get engaged with these stakeholders but they may do so as corporate philanthropy. Non-profit organisations, like schools, hospitals are the examples of discretionary stakeholders.

Demanding stakeholders
They possess the attribute of urgency without any power or legitimacy. This is actually disturbing for the managers. For example if any picketing of a lone person is organised against a particular product citing its disastrous effect, it is disturbing for the manager but the claims are not required to be considered.

Expectant stakeholders on the other hand can be categorised under three groups: (a) dominant stakeholders; (b) dependent stakeholders; (c) dangerous stakeholders.

Dominant stakeholders
If the claims of the stakeholders are both powerful and legitimate, they form a dominant coalition in the enterprise. They have some formal mechanism in place that recognises their relationship with the organisation. Owners other investors, significant creditors, employees are the dominant stakeholders of the firm. They keep their representative in the company's board and departments are set up within the

organisation to address their grievances and problems. The company also publishes annual reports to disclose their operations to the dominant stakeholders.

Dependant stakeholders
They have urgent legitimate claims to the organisation but lack power to exercise the same and depend on those who have that power. Hence, claims of the dependant stakeholders are settled based on advocacy of other stakeholders or guidance of management's internal values. For example, citizens, animals and ecosystems are part of dependant stakeholders since they cannot exercise their claim all by themselves. Their claim towards the organisation depends on the benevolence of other dominant stakeholders or internal values of the management.

Dangerous stakeholders
A stakeholder with urgency and power but without any legitimacy becomes dangerous to the organisation. For example employees involved in strike, community leaders involved in employee sabotage or religious or political leaders involved in terrorism are dangerous stakeholders to the organisation.

A definitive stakeholder (e.g. stockholders) exerts absolute claim over the enterprise because they are powerful and their claims are legitimate and urgent. While, power and legitimacy makes them dominant stakeholders, actions taken when their claims are not fulfilled also makes their claims urgent to the organisation. Any expectant stakeholders can become definitive stakeholders, if it acquires the other attribute. For example, dependant stakeholders may become definitive if he gets support from a powerful stakeholder. On the other hand, a dangerous stakeholder may become definitive stakeholder, if they are recognised by the country's legal system.

Stakeholder Theory

Stakeholder theory has developed by Donaldson and Peterson (1995) is based on four theses.

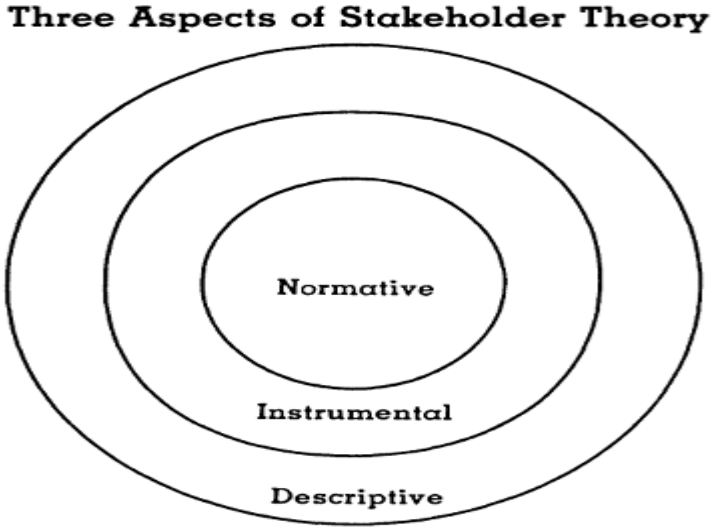
Thesis-1: Descriptive
Stakeholder theory is unarguably descriptive in nature. It presents a model describing corporation as a constellation of cooperative and competitive interests possessing intrinsic value. It is used to describe specific corporate characteristics and behaviours, like nature of the firm, the way managers think about managing, how board members think about interests of corporate constituencies, how some corporations are actually managed, etc. It explains the past, present and future states of affairs of the organisation and their stakeholders. Different legal developments support the fact that stakeholders are defined by their legitimate interests. Even if the stakeholder concept is implied in different managerial and legal trends, it cannot form a theory. Descriptive theory suffers from naturalistic fallacy (lack of intervening explanations) or hasty generalisation. If the survey results show that managers are abandoning stakeholder orientation and legal support for stakeholders' interest is weakening, then the theory will be invalidated.

Thesis-2: Instrumental
Stakeholder theory is also instrumental. It establishes a framework for examining the connections between the practices of stakeholder management and achievement of various corporate performance goals. The principal proposition of this theory is that the corporations practising stakeholder management are relatively successful than those not performing it in terms of profitability, stability and growth (e.g. HP, Wal-mart, Dayton Hudson). However, satisfaction of multiple stakeholders in this model may not be a zero-sum-game. Corporate managers induce constructive contributions by the stakeholders for achievement of their own desired goals. However, instrumental approach is not necessarily hypothetical in nature. Stakeholder management can be linked with organisational success in analytical arguments. In this two theories are worth mentioning: (a) agency theory; (b) firm as contract theory. Both the theories share a common phrase – efficiency. Agency theorists argue that corporations are structured to minimise the cost of getting some participants do what other participant desire. In this theory, managers can be seen as agents of all other stakeholders. Stakeholders differ among themselves in terms of their relative stake in their firm and power over the management. There is possibility of friction in stakeholder-agent negotiation process, since stakeholders themselves are not always aware of their rights. Hence, stakeholder-agent relationship is not in equilibrium. Firm as contract theory on the other hand argue that participants would cooperate with each other through the market to minimise the cost of search, coordination and insecurity. In this theory, all parties have an equal right to bargain and hence the

possibility of acceptance of their claims is least. Management has a duty towards welfare of the entity and make a balance between conflicting interests of the stakeholders. In order to ensure the same, there must be devices for reducing information asymmetry; and enforcement mechanism to avoid credible threat of withdrawal from a relationship. Actually, voluntary and mutual bargains by all contracting stakeholders are necessary criterion of efficient contracts.

Thesis-3: Normative

The theory is used to interpret functions of the organisations and identify the moral and philosophical guidelines for the operation and management of corporations. It is not hypothetical in nature. The normative aspects of the stakeholder theory involves acceptance of the following ideas: (a) stakeholders are persons or groups with legitimate interest in procedural and substantive aspects of corporate activity. Stakeholders are identified by their interest in the corporations, whether the corporations have any corresponding functional interests in them; (b) the interests of all the stakeholders are of intrinsic value. Each group of stakeholders merits consideration for their own stake not because they further the interest of some other stakeholder group, like shareholders. A normative foundation for the stakeholder model is established by identifying its principal competitor of the stakeholders – management control. However, management serving the stakeholder interest is not accepted by normative theorists. Hence, fulfilment of stakeholder goals cannot be the only objective of the organisation. It must be coupled with the compliance with other social and ethical norms which may enhance firms performance in the long run as well.



Thesis-4: Managerial

Stakeholder theory does not describe the existing situation or predict the cause-effect relationship, but also recommends attitude, structures and practices that comprise the stakeholder management. Stakeholder management involves simultaneous attention to the legitimate claims of the stakeholders in establishment of organisational structure and general policies and case-specific decision making. This requirement is applicable for anyone responsible for framing of corporate policies, such as shareholders, Government, professional managers and others. Stakeholder theory does not necessarily believe that shareholders are at the locus of corporate control and governance. It basically involves understanding the long standing problems of the stakeholders and indentifying rightful stake in the organisation and providing simultaneous attention to them. However, the theory does not imply that all the stakeholders are required to be incorporated in the process of decision making.

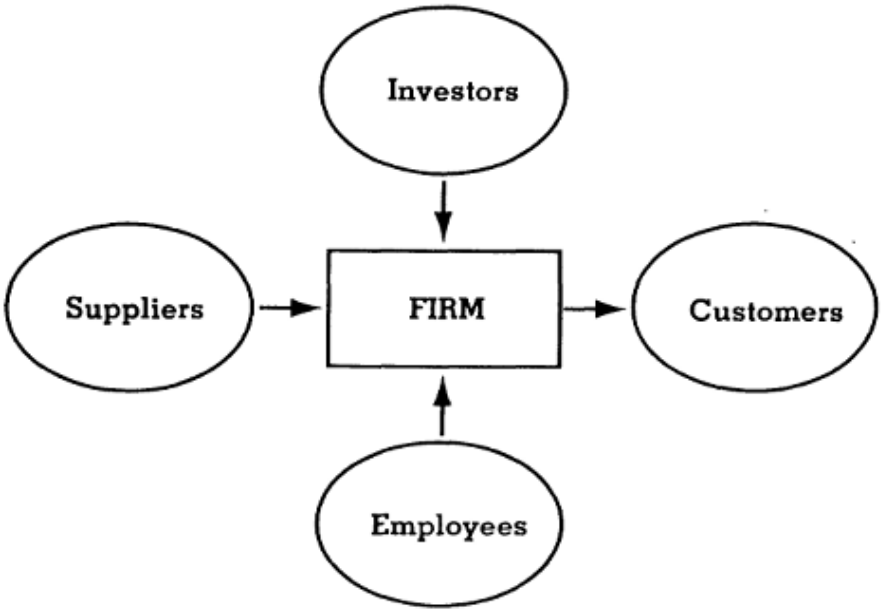
Based on the aforementioned theses – mainly two models are identified: (a) input-output model and (b) stakeholder model.

Input-output model

In input-output model, investors, suppliers and employees are considered as suppliers of input which the black-box of the firm converts into the final output for the consumers. Each contributor of inputs requires compensation for their contribution. However, their marginal contribution is market competitive which means they are entitled to have the compensation which they may had by alternative use of the same

resources. If the contributor possesses any scarce factors of production, in that case, he may claim additional reward. Hence, the benefit would ultimately go to the customers.

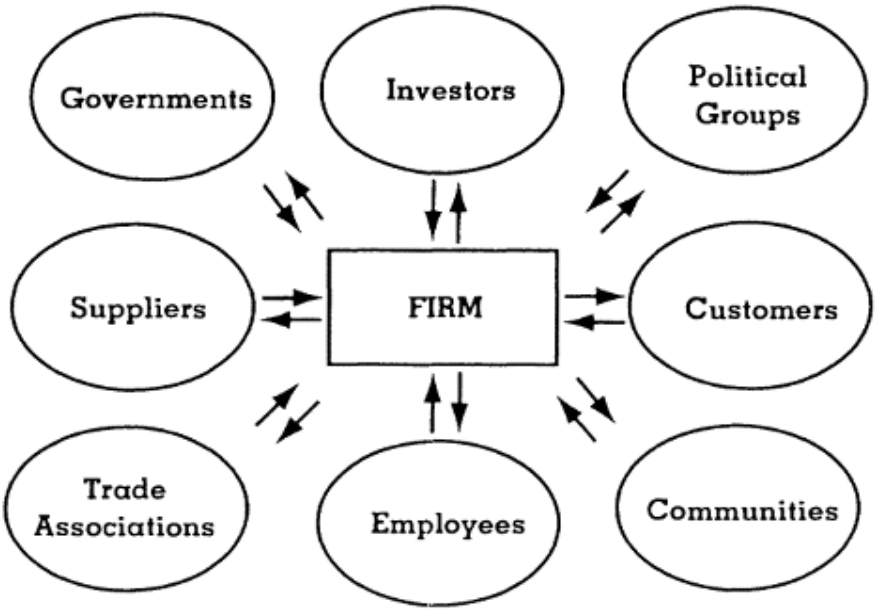
Contrasting Models of the Corporation: Input-Output Model



Stakeholder model

According to this model, all groups with legitimate interests participate in the entrepreneurial process with expectations of benefits and there is no prima-facie priority of interest of one group to another.

Contrasting Models of the Corporation: The Stakeholder Model



PAST YEAR QUESTIONS

Theory

1. Compare and contrast a 'definitive' stakeholder and a 'dependent' stakeholder.
2. Bring out the significance of (a) rewards and punishments and (b) moral authority in 6-stage cognitive moral development model by referring to stage 3 and stage 5 specifically. How does this model serve as a basis for determining the degree of development integrity of an organization?
3. Comment on the validity of the following statements:

(a) What is moral is always ethical
(b) Ethical leadership is inclusive of follower values
(c) Corporate responsibility is a concept associated with the individual level of analysis in business ethics.
(d) Ethical pluralism claims that there are no universal rights and wrongs associated with moral problems because they are context dependent.
(e) Stakeholder salience criteria are crucial for stakeholder identification.
(f) Ethical leadership is values-based, but values-based leadership may not be ethical.
(g) Business ethics is unrelated to corporate governance.
(h) Enlightened egoism advocates that benefits to the majority of society are justified even though the minority is harmed.
(i) Corporate integrity as 'consistency' is concerned with the 'relational self' aspect of the individual.

4. Cite an example and explain the following:

(a) A 'positive right' and 'negative right' to information of a company's employee.
(b) Professional character virtues of a marketing manager in a pharmaceutical company that manufacturer drug for diabetes control.
(c) Extra-organisational ethics practiced by a global footwear manufacturer.

5. Indicate the relevance of (a) self-improvement; (b) moral intelligence; (c) corporate vision in defining business ethics at multiple levels of organisational action.
6. Bring out the interrelationships between business ethics and law. Give an example of business behaviour that is (a) legal but not ethical; (b) ethical but not legal.
7. What, according to you, is the appropriate stage of moral development in Kohlberg's model, necessary for a responsible corporate manager of a global multinational company operating in countries that are culturally dissimilar? Give two reasons in support of your answer.
8. How would you define business ethics from the viewpoint of an individual?
9. Given that most business decision makers are neither inherently stupid nor evil, how can Kohlberg's model of CMD be used to explain the existence of unethical business practices?
10. Explain the logic of (a) Utlilitarianism and (b) professional character ethics for judging whether a business decision/ action is ethically right or wrong. Give a suitable example of each in support of your answer.
11. Distinguish between the following:

(a) Integrity as consistency and integrity as relational awareness
(b) Ethical issue and ethical dilemma
(c) Positive right and negative right.

12. Write short notes on the following:

(a) Relationship between business ethics and corporate governance
(b) Stakeholder theory
(c) 'BELIEVE' approach to ethical problem solving
(d) Ethical relativism

Case Studies

1. Mr. A is a shareholder activist who disrupts the progress of the company's AGM by voicing a major social concern about product safety. He has arranged to draw broad media attention for this issue. How would you identify Mr. A as a stakeholder according to stakeholder salience model of Mitchell, Agle and Wood? What is an appropriate way to manage stakeholder relationship with Mr. A?
2. Ms. S is a purchasing manager of GL, a large European retailing company, that is currently revamping its line of own level anti dandruff shampoos. This line is important in the product mix as far as the recent expansion of the company is concerned. The existing supplier of the own level shampoo, GC has been the company's supplier for the last 12 years and 80% of their business is made up of order from GL. During the last 10 years, Ms. S has developed a good relationship with Ms. G, the accounts manager of GC. As a part of the revamping operation, Ms. S is required to consider the competing supplier HM, who have contacted the company to offer an identical product as GC with equivalent supply arrangements, except for a 2% lower price per bottle of shampoo. In the next accounting year, this could amount to a substantial savings on cost of Rs. 20 lakhs. Moreover, HM declares that it is committed to go beyond industry standards by avoiding animal testing of its product inputs. Does Ms. S faces an ethical dilemma? Why or why not. Briefly argue what is an appropriate course of action for Ms. S to take based on an ethical reasoning approach that combines (a) extra-organisational systems development ethics with (b) positive rights/ negative rights deontological ethics. When mapping stakeholders, whom Ms. S would include as key-players to be managed closely.
3. Mr. A is marketing executive of XCLNT, a firm engaged in the supply of customized office accounting information systems. In the recent past, the company has been facing intense competitive pressure. Mr. A gets a chance to sign a Rs. 2 crore deal with ER, an educational institution, to supply an office AIS to be installed over a 15 month period. The machines for the first delivery are in the company's warehouse, but the reminder has to be ordered from the manufacturer, who is facing difficulty in meeting the heavy demand for the popular model. So, subsequently deliveries are uncertain and may not be made on time. Any delay in converting to the new system would be very costly to the customer. Should Mr. A close the deal without advising the customer of the problem? Validate your answer by applying stage 5 of Kohlberg's model of cognitive moral development and applying ethical/ enlightened egoism approach to ethical reasoning.
4. You are appointed the president of the students' council because of your helpful attitude and exceptional organisational skills. While taking your business ethics examination, you find that one of your class-mates sitting beside you is intently reading and copying from your paper. You do not know the student very well, you do not try to cover your paper. Subsequently the invigilator charges the other student guilty of academic dishonesty. Examine your role as ethical leader in terms of the three levels of leadership.
5. FMC, one of the largest corporate advertisers in the USA, published its first corporate citizenship report in the year 2000. In this report, FMC admitted that SUVs emit 5.5 times more pollution load than regular cars, an obtain only 10-13 miles per gallon of petrol. Despite this, FMC's chairman, Mr. W has defended the manufacturers of SUVs as FMC's dominant product in the following words: "if we did not provide this vehicle, someone else would, and they would not provide it as responsibly as we do" In 2001, FMC spent more than $ 2million on SUV advertisement to create rather than respond to customer demand for SUVs. Based on the above mentioned facts, you are required to answer the following questions: How will you assess FMC's corporate integrity profile based on the perspective of pursuit of a worthwhile organisational purpose? Examine to what extent, FMC provides SUVs to customers responsively. Present a stakeholder map of for SUVs by means of 2X2 matrix, which can be published in corporate citizenship report.
6. On Monday morning, you find that your coworker's salary cheque in an unsealed envelope is delivered at your office desk, by mistake. No one in the room is watching you. Applying the 'interpersonal concordance orientation' in Kohlberg's model, argue your case for returning the pay-cheque to its rightful recipient, without looking into the contents of the unsealed envelop.