

CA IPCC

Group I

Law, Ethics & Communication

ETHICS

(including RTPs & previous year exam questions)



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Preface

Dear Students,

This book covers the **ETHICS part of CA IPCC Paper 'Law, Ethics and Communication'**. There has been a dedicated and sincere effort to create these notes. The main focus has been kept on the Presentation part as 100% notes are in **Tabular Form with inclusion of Charts and diagrams**.

The notes are the most updated ones. Additionally, for practice more than 200 Questions have been provided, which includes **Exam Questions asked by ICAI upto May 2018 Exam and RTP questions upto Nov 2018**.

Though considerable care has been taken to make the book error free yet some unintended errors may have crept in for which I feel apologies. But as **'the road to improvement is never ending'**, I would welcome the suggestions, criticism and feedback of this book for the incorporation of necessary changes in a timely manner. The readers may post their suggestions, feedback and queries on email id shikhabhati27@gmail.com.

“Lehron se darkar nauka paar nahin hoti, koshish karne walon ki kabhi haar nahin hoti. Milte nahin sahaj hi moti gehre pani mein, mutthi uski khaali har baar nahin hoti, koshish karne walon ki kabhi haar nahin hoti.”

With Best Wishes

Shikha Garg

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Principles of Business Ethics

⇒ Ethics

- The word Ethics has been derived from the greek word 'ethos' which means character.
- It is a subject that deals with human beings and their behavior; which may be right or wrong, good or bad etc.
- It is concerned with human character and conduct.
- Ethics provides the basis for deciding whether a particular action is morally good or bad.



- Ethics act as a guiding force in taking an unbiased decision for a given problem.
- Ethics refers to standards of behavior that tell us how human beings ought to act in the many situations in which they find themselves-as friends, parents, children, citizens, businesspeople, teachers, professionals, and so on.

⇒ Fundamental Principles Relating To Ethics

Principle	Description
The Principle of Integrity	It calls upon all accounting and finance professionals to adhere to honesty and straightforwardness while discharging their respective professional duties.
The Principle of Objectivity	This principle requires accounting and finance professionals to stick to their professional and financial judgment.
The Principle of Confidentiality	This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.
The Principle of Professional Competence & due care	Finance and accounting professionals need to update their professional skills from time to time in order to provide competent professional services to their clients.
The Principle of Professional Behaviour	This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result in discrediting the profession.



⇒ Business Ethics

- There are codes of principles and values that govern decisions and actions related to business.
- It covers the application of ethical principles and morals to the ethical problems and issues that arise in the business environment.
- Thus, it tries to resolve the moral issues which arise in business.
- Business ethics is that set of principles which should govern the conduct of business; both at the individual and collective level by the application of ethical reasoning to specific business situations and activities.



- These are extremely needed for the well being of organization as well as community as a whole.
- The recent scams of Satyam, Enron, Worldcom have heavily stressed upon the need of business ethics.
- The study of business ethics is understood in the light of the following :
 - Corporate governance
 - Corporate social responsibility
 - Environment ethics
 - Workplace ethics
 - Ethics in marketing and consumer protection
 - Ethics in accounting and finance
- These encompass written as well as unwritten principles and code of conduct to be observed by the various parties involved in business.



⇒ Requirements of Business Ethics

Being ethical in business requires acting with an awareness of :-

- The need for complying with rules
 - laws of the land,
 - customs and expectation of the community
 - principles of morality
 - policies of the organization and
 - general concerns such as the needs of others and fairness.
- How the products, services and actions of a business enterprise, can affect its stakeholders (i.e. employees, customers, suppliers, shareholders and community society as a whole) either positively or negatively.

⇒ Mahatma Gandhi's Ethical Principles/ 7 Sins As Per Mahatma Gandhi

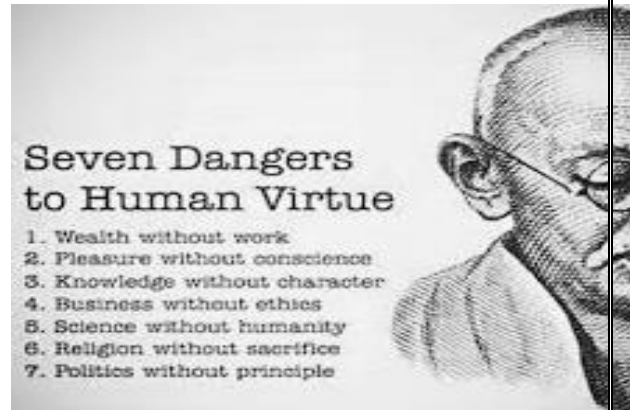
- Famous thinkers like Socrates, Gautam Budh, Swami Vivekananda and Mahatma Gandhi have given much needed attention to ethics and considered these above all
- Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. Satyagraha, Gandhi's approach to conflict, was to "hold firmly to Truth." He stressed that people follow ethical principles and listed following seven Social Sins that destroy us :



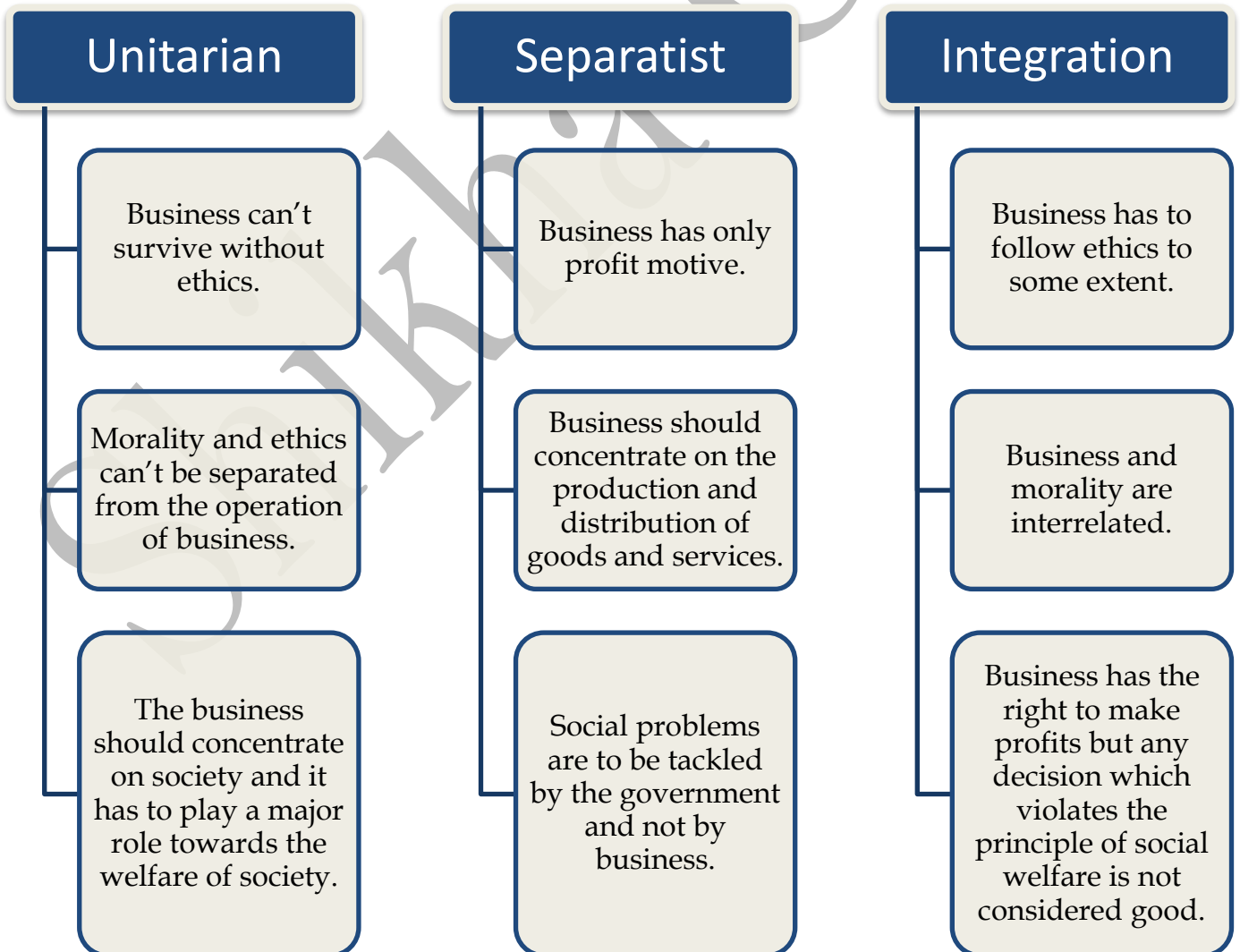
1.	Politics without principles	The head i.e. the supreme person (as there used to be kings in Indian Tradition) has to be dedicated to principles while discharging his duties towards the people.
2.	Wealth without work	Gandhi Ji said that earning and creating wealth by a person without doing any work is a sin. The Bhagavad Gita also declares that he who eats without offering sacrifice eats stolen food.
3.	Commerce without morality	Business without applying ethics is a sin as per Gandhi Ji. A business man has to act only as a trustee of the society for whatever he has gained from the Society. "Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one".

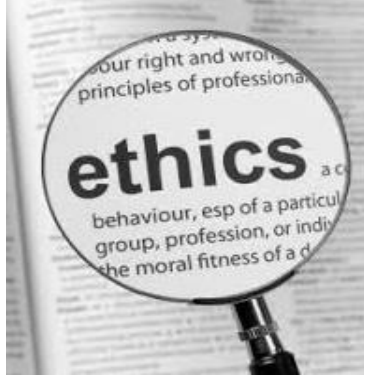


4.	Knowledge without character	Gandhi Ji focused on education as it builds character. The basic education develops one's character. True knowledge leads to the development of one's character where one evolves his 'Rational self.'
5.	Pleasure without conscience	Doing the acts giving pleasure to the human being out of greed, selfishness and wrong principles have been held a sin by Gandhi Ji.
6.	Science without humanity	It was held by Gandhi Ji that Science without the thought of the welfare of humanity is a Sin. Science and humanity together pave the way for welfare of all.
7.	Worship without sacrifice	As per Gandhi Ji thoughts, to worship is good but one should also do the social service i.e. sacrifice. Just to worship, without paying any heed to social service is a sin.



⇒ Various Ethical Approaches/ Sources of Ethical Standards



<p>The Utilitarian Approach</p>	<p>The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.</p> <p>The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected; customers, employees, shareholders, community and the environment.</p>	
<p>The Rights Approach (The Deontological Approach)</p>	<p>The followers of this approach believe that the ethical action is the one that best protects and respects the moral rights of those affected.</p> <p>This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends.</p> <p>Thus, the humans have rights and also one important duty to respect others' rights.</p>	
<p>The Fairness or Justice Approach</p>	<p>As per this approach, all equals should be treated equally.</p> <p>If the human beings are being treated unequally, then it must be fairly based on some standard that is defensible.</p> <p>Thus, giving more amount to people on the basis of their hard work or their contribution to the organization is fair. But, giving the amount to secure some sensitive information (let's say unpublished price sensitive information) is unfair.</p>	
<p>The Common Good Approach</p>	<p>Thinkers of this approach suggest that all our actions should aim towards doing common good for all.</p> <p>One must respect all and must have compassion for all others.</p> <p>This approach also calls attention to the common conditions that are important to the welfare of everyone.</p> <p>Thus, there must be a system of Laws, effective police and fire departments, health care, a public educational system or even public recreation.</p>	
<p>The Virtue Approach</p>	<p>As per this approach, ethical actions should be consistent with certain ideal virtues that provide for the full development of our humanity.</p> <p>Honesty, courage, compassion, generosity, tolerance, love, integrity, fairness, self-control, and prudence are all examples of virtues.</p> <p>These virtues enable us to act according to the highest potential of our character.</p>	

⇒ **Need for Business Ethics/ Businessman as a Trustee**

- As per Mahatma Gandhi, "Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one."
- Thus, he has considered the businessman as a trustee of the society in the sense that the businesses use various natural resources which are provided to them by the society and hence they are responsible to protect, preserve and make the best optimum use of such resources.
- They owe a duty to the society and have to provide a fair and reasonable return on these resources.
- Society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community.
- Thus, we may say that there exists a social contract between society and businesses.



NEVER GIVE UP. BE POSITIVE.

⇒ Ethics And Feelings

- Ethics is not the same as feelings.
- Feelings provide important information for our ethical choices.
- Some people feel bad when they do something wrong, but many people feel good even though they are doing something wrong.



⇒ Ethics And Religion

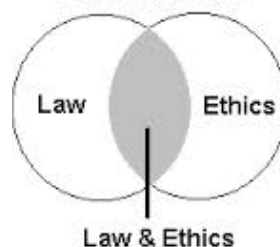
- Usually, ethics and religion are considered as overlapping terms.
- Religion is a much wider term than ethics.
- Ethics is independent of any religious considerations.
 - Religion is incomplete without ethics.
 - Religion involves faith and rituals, not present in the ethics.
 - A thing which is ethically right may be wrong as per particular religion and also an issue considered non religious may be ethical.
 - Usually, people follow ethics due to religion!
 - Also, when confronting an issue to be ethical or unethical; religion comes to the rescue.



⇒ Ethics And Law



- Law means and consists of a set of rules and regulations.
- It is enforced by various acts, courts and authorities.
- It's violation may lead to fine and imprisonment.
- Ethics are written or unwritten code of conduct.
- These can't be legislated i.e. can't be compelled or forced.
- These are developed over a period of time.
- A thing which is legal may not be ethical.
- Also, a thing which is ethical may be illegal.
- Sometimes, the ethics are enforced through laws.

Relationship Between Law and Ethics



⇒ Ethics And Morals

- Sometimes, both these terms are used interchangeably yet there are following differences between the two :

S. No.	Basis	Ethics	Morals
1.	Origin	It is derived from greek word <i>ethos</i> which means character.	It is derived from latin word <i>mos</i> , which means custom.
			
2.	Depends on	These depend on the thinking of individual.	It depends on the thinking of society.
3.	Creation	These are created by individuals.	These are created by society.

4.	Scope	The scope of ethics is wider.	Their scope is narrower in comparison.
5.	Deals with	It deals with right and wrong conduct.	It deals with the principles of right and wrong.
6.	Situation Applicability	It is a response of the individual to a specific situation.	These are the general principles to be applied always.
7.	Attribute	It is a personal attribute and internally developed over a period of time.	These are externally imposed on the people.
8.	Pressure	These are adopted without any pressure.	These are accepted due to some authority like religion or culture.

⇒ **Stakeholders**

→ **Meaning**

- These are all those constituents which :
 - can influence the organization.
 - can be influenced by the organization.
- These may be in the form of :
 - person
 - organization
 - entity
- It includes all those, who have a legitimate interest in the company (business).
- While taking the decisions, the business has to consider all the stakeholders and ultimately that decision is to be taken which meets the interest of majority of stakeholders.



→ **Categories Of Stakeholders**

- A stakeholder is not only the shareholder, but it covers the following parties as well :

shareholders	customers	competitors	creditors
government	investors	suppliers	employees
trade unions	mass media	community	regulatory authorities

⇒ Common Unethical Business Practice

- Environmental degradation
- Different employment conditions for same work
- Racial or sexual harassment
- Misleading advertisements
- Unfair trade practices
- Restrictive trade practices
- Fraudulent financial dealings (financial scandals)
- Window dressing
- Insider trading
- Passing confidential information
- Window Dressing



⇒ Benefits of Ethics (Need of Ethics)

- Enhancement in goodwill
- Increased customer satisfaction
- Contented investors
- Increased revenue
- Strong public image
- Better service to society
- Congenial environment for working
- Avoidance of criminal acts and hence less litigation
- Compliance of all legal formalities
- Improvement in productivity
- Increased positivity
- Better change management
- Higher profits
- High morale of employees and strong teamwork
- Enhanced employee growth
- Quality management
- Reduced wastage
- Ethical image in all activities
- Discharge of social responsibility
- Less government intervention
- All stakeholders are satisfied
- Achievement of long term objectives



⇒ Ethical Dilemma

→ Ethical issue

- An ethical issue is an identifiable problem, situation or opportunity that requires a person to choose from two or more alternatives, judging what is right and what is wrong.



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→ **Ethical dilemma**

- It is any situation where there is choice between two or more courses of action but it is difficult to determine, which course of action is right or wrong.
- The choice is not to be made between right and wrong, but also between right and right.
- These are very complex situations having no clear guidelines because each course of action has some merits and demerits.

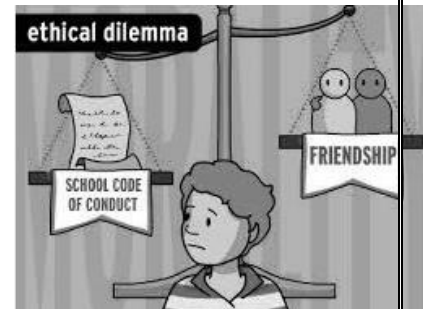
→ **Way of Resolving**

- That course of action is usually given more weightage which leads to the organisational or professional success.
- Also, the best decisions are to be taken with the long run benefits and not those decisions which look beneficial in the short run.



→ **Suggested course of action to resolve**

- Gather all the facts.
- Understand the problem clearly.
- Identify the factors which led to the problem.
- Identify the various courses of action available.
- Identify the interested parties of each decision.
- Understand the effects; good or bad of each decision on all parties.
- Identify the ethical norms overlooked by each decision.
- Possibility of discussing the problems with all the stakeholders.
- Possibility of revealing the decisions to boss, CEO and other top mgt.
- Check company's ethical codes and guidelines.
- Judge the effect of each decision in the long run and short run.
- Possibility of communicating the decision in clear and understandable terms along with the benefits to be achieved and harms to be avoided.



Blast From The Past

1.	J 09 (5 M)	To maintain social contract between society and business, the trusteeship relations are essential". Describe the role of business ethics in this reference.
2.	J 09 (2.5 M)	In the long run those business firms which do not respond to society's needs favourably will survive. Correct or Incorrect.
3.	J 09 (5 M)	What is meant by "Stakeholders"? Describe those stakeholders who are affected by or can affect the organization?
4.	N 09 (2.5 M)	Fairness and honesty are the pillars of success in business. Correct or Incorrect! <i>The success of the business depends very much on fairness and honesty in the business. Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. At a minimum, business professionals and persons are expected to follow all applicable laws and regulation. Even then, they are expected not to harm customers, employees, clients or competitors knowingly through deception, misrepresentation, coercion or discrimination. Fairness and honesty pay in the long run; they secure the stability of the business and overall reputation in the business world.</i>
5.	N 09 (2.5 M)	There is no difference between ethics and morals. Correct or incorrect!
6.	N 10 (4 M)	Explain the fundamental principles relating to ethics.
7.	N 10 (4 M)	Explain the Social Sins listed by Mahatma Gandhi.
8.	N 10 (2 M)	Trusteeship provides a means of transforming the present capitalist order of

		society into an egalitarian one.
9.	M 11 (2 M)	The responsibility of the corporate management lies towards shareholders only. Correct or Incorrect!
10.	N 11 (2.5 M)	Business ethics helps to promote public reputation. Correct or Incorrect!
11.	N 11 (4 M)	What are the differences between "Morals" and "Ethics"?
12.	M 12 (2.5 M)	Fairness and honesty are the pillars of success in the business. 15Correct or Incorrect!
13.	N 12 (4 M)	What is meant by 'Stakeholders'? Give the list of such stakeholders.
14.	N 12 (5 M)	The institution of business exists only if it fulfils the society's expectations.
15.	M 13 (5 M)	State suggested guidelines to handle communication ethics dilemmas.
16.	M 13 (4 M)	Distinguish between 'Moral' and 'Ethics'.
17.	M 13 (4 M)	Explain five sources of ethical standards.
18.	N 13 (4 M)	Describe the seven social sins listed by Mahatma Gandhi.
19.	N 13 (4 M)	Describe any four benefits which may be obtained by paying attention to business ethics.
20.	M 15 (3 M)	'Fairness and Justice' are two different approaches as a source of ethical standards. Correct or Incorrect!
21.	N 15 (3 M)	Business Ethics helps to promote public reputation. Correct or Incorrect!
22.	N 15 (4 M)	Explain any four sources of ethical standard.
23.	N 16 (4 M)	Mr. Ram is a CEO of a pharmaceutical company. His R & D Department, while experimenting with a chemical molecule, sees the possibility that the molecule may be developed in to drug for a rare, painful, life-threatening genetic disease that afflicts one child only in ten million. But to develop the drug, his company, may have to invest huge sum of the shareholder's money, despite the drug not having wide salability. Is Mr. Ram confronted by an Ethical Dilemma? If yes, how should he resolve the issue?
24.	N 16 (4 M)	"To maintain social contract between society and business, the trusteeship relations are essential". Discuss the role of business ethics in this reference.
25.	M 17 (5 M)	Explain the term "Virtue Approach" as one of the sources of Ethical Standards?
26.	M 17 (4 M)	"Certain fundamental principles need to be adhered with for behaving in an ethical manner." Explain the Principle of Integrity and the Principle of Objectivity in this respect.
27.	N 17 (5 M)	"Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management." Do you agree? Give reasons.
28.	N 17 (4 M)	Mr. 'X' is the Chief Financial Officer of a Public Limited Company and the management of the Company orders him to do certain changes in the financial statements against the prescribed Accounting Standards which was refused by him. Mr. 'X' is against those changes. In the light of the above situation, explain the pressures which are normally faced by the finance and accounting professionals in an organization in the compliance of fundamental principles of ethics.

Check Your Progress... (Other Important Questions)

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1.	<p>Answer 'yes' or 'no' with brief reasons:</p> <p>a. Knowledge without morality is a social sin.</p> <p>b. 'Ethics and morals are synonymous'.</p> <p>c. In long run the business firms which don't respond to society's needs favourably will survive.</p>
2.	State the guidelines to address ethical dilemmas to recognize ethical issues in understanding the business ethics? (RTP N 11)
3.	How business ethics may be significant 'to promote a strong public image' and 'results in the formation of an improved society'. (RTP N 11)
4.	<p>Explain the following principles required to the professionals for behaving in an ethical manner.</p> <p>(i) The principle of Integrity</p> <p>(ii) The principle of confidentiality (RTP N 11)</p>
5.	<p>Examine the following hypothetical situation and give a brief analytical note on it.</p> <p>Mr. Sam is a CEO of a pharmaceutical company. His R&D department, while experimenting with a chemical molecule, sees the possibility that the molecule may be developed into a drug for a rare, painful, life-threatening genetic disease that afflicts only one child in ten million. But to develop the drug, his company may have to invest huge sums of the shareholders' money, despite the drug not having wide salability. Is Mr. Sam confronted by an ethical dilemma? How should he resolve the issue? (RTP M 12)</p> <p><i>Mr. Sam is in a situation where he has to choose between carrying on the development of a drug for a painful and life threatening disease which may cause trouble one in ten million and the action of spending huge sum of shareholders' money for such development. As we can see, both are positive and ethically right choices. As a socially responsible person he has to think in terms of eliminating a serious illness but at the same time he must be careful in dealing with shareholders' money. This is a classic case of an ethical dilemma. Such an ethical dilemma must be resolved by addressing the following main points :</i></p> <ol style="list-style-type: none"> 1. Defining the problem clearly. 2. How did the situation arise? 3. What is his intention in making this decision? 4. How does this intention compare with the probable results? 5. Whom could his decision or action may injure?
6.	<p>State with reasons, whether the following statements are correct or incorrect:</p> <p>(1) Ethics is following the law.</p> <p>(2) Ethics is not science. (RTP M 12)</p>
7.	State the ancestry of the ethical standards. (RTP M 12)
8.	'All equals should be treated equally'. How much it is practicable in the present business environment? (RTP N 12)
9.	<p>Explain briefly the matters to be considered and the steps that may be taken by a Finance and Accounting professional when he is required to resolve an ethical conflict in the application of fundamental principles. (RTP M 13)</p> <p><i>While evaluating compliance with the fundamental principles, a finance and accounting professional may be required to resolve a conflict on the application of fundamental principles. The following need to be considered, either individually or together with others, during a conflict resolution process :</i></p> <ol style="list-style-type: none"> (a) Relevant facts (b) Ethical issues involved (c) Fundamental principles related to the matter in question (d) Established internal proceedings and (e) Alternative course of action <p><i>Having considered these issues, the professional should determine the appropriate course of action that is consistent with the fundamental principles identified. The professional should weigh the consequences of each</i></p>

	<p><i>possible course of action. If the matter remains unresolved, the professional should consult other appropriate persons within the firm or employing organization for help in obtaining resolution. During times where a matter involves a conflict with or within an organization, the finance and accounting professional should also consider consulting those charged with governance of the organisation, such as the Board of directors. It may be in the best interests of the professional to document the substance of the issues and details of any discussions held or decisions taken, concerning that issue. If a significant conflict cannot be resolved, a professional may also obtain professional advice from the relevant professional body or legal advisors and thereby obtain guidance on ethical issues without breaching confidentiality. If, after adopting all strategies, the ethical conflict still remains unresolved, a professional should try to disassociate from the matter causing the conflict or even from the organization, if need be.</i></p>
10.	<p>"To pay proper attention to business ethics is certainly beneficial in the interest of business." Describe four such benefits which may be obtained by paying attention to business ethics. (RTP M 13)</p>
11.	<p>Company management has responsibility only towards its shareholders. Comment. (RTP N 13)</p>
12.	<p>'Window-dressing of financial statements will not be useful in the long run'. Comment. (RTP N 13)</p> <p><i>Correct: In window-dressing, entries are manipulated to show a 'good balance-sheet'. It can help the companies to boost their market image and obtain further capital from the market for some time i.e. on temporary basis. Window dressing is done on the assumption that next year performance will be better and accounts will be regularized. Window dressing can go on for 2 or 3 years but not more than that. Eventually, it will lead to the downfall of the company.</i></p>
13.	<p>Explain the statement "Ethical behaviour creates a positive reputation that expands the opportunities for profit". (RTP M 14)</p>
14.	<p>Explain the meaning of the terms 'ethics' and 'business ethics' and also state the requirements of 'business ethics'. (RTP N 14)</p>
15.	<p>Comment on the statement "Business is all green, only philosophy is grey". (RTP N 14)</p>
16.	<p>Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers. Discuss. (RTP M 15)</p>
17.	<p>What are the advantages of adopting the business ethics? (RTP M 15)</p>
18.	<p>Explain the meaning of the terms 'ethics' and 'business ethics'. What kind of awareness is required for being ethical in business? (RTP N 15)</p>
19.	<p>To pay proper attention to business ethics is certainly beneficial in the interest of business. Describe four such benefits which may be obtained by paying attention to business ethics. (RTP M 16)</p>
20.	<p>What is the difference between 'Morals' and 'Ethics'? (RTP N 16)</p>
21.	<p>Explain the fundamental principles relating to ethics. (RTP M 17)</p>
22.	<p>What is the difference between 'Morals' and 'Ethics'? (RTP N 17)</p>
23.	<p>"Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management." Do you agree? Give reasons. (RTP N 18)</p> <p><i>Incorrect : Ethics programs help identifying the preferred values and ensuring that organizational behaviours are aligned with those values. This includes recording the values, developing policies and procedures to align behaviours with preferred values and then providing training to all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviours to be aligned with values, including quality management, strategic planning and diversity management.</i></p> <p><i>For example, total quality management initiatives include high priority on certain operating values, e.g. trust among stakeholders, performance, reliability, measurement and feedback.</i></p>

Corporate Governance

⇒ Background

- The rise of 20th century was witnessed by the dawn of big giants in corporates, namely Enron, Worldcom, Maxwell, Polypeck and Satyam.
- Public trust was badly broken by these corporate scandals and the questions were being raised about the values of business leaders and their contribution to the society.
- To overcome these, lot of steps were initiated; not only nationally but globally (to be discussed later in this chapter).



Satyam Computers
Corporate Governance Fiasco (A)
Siblings Are Dearer Than Shareholders



⇒ Meaning

- 'Governance' means the process of decision making and the process by which decisions are implemented.
- Corporate governance means a systematic process which enables an organisation to operate in a manner that meets the business legal and ethical expectations.
- It aims at promoting corporate :
 - fairness
 - accountability
 - transparency
- It can be considered as the best system by which the corporates are directed and controlled.
- It maximises the value for all the stakeholders by building an environment of trust and confidence.
- It aims at full and honest disclosure of financial data and complete compliance with all the statutory and legal requirements.

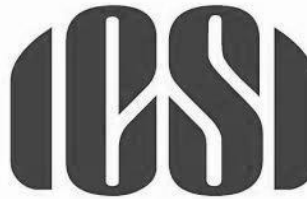


- Corporate Governance can also be defined “as the formal system of accountability and control for ethical and socially responsible organisational decisions and use of resources.”
 - Accountability relates to how well the content of workplace decisions is aligned with the organisation’s stated strategic direction.
 - Control involves the process of auditing and improving organisational decisions and actions.

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⇒ Definition

- As per ICSI, "Corporate governance management practices, compliance adherence to ethical standards for distribution of wealth and discharge sustainable development of all



is the application of best of law in true letter & spirit and effective management and of social responsibility for stakeholders."

⇒ Objectives of CG

- To confirm that all rules are followed.
- To confirm that proper accounting is done.
- To confirm that responsibilities are followed.
- To confirm that proper control is created.
- To ensure consistency and efficiency.
- To ensure creation of an ethical organisation.

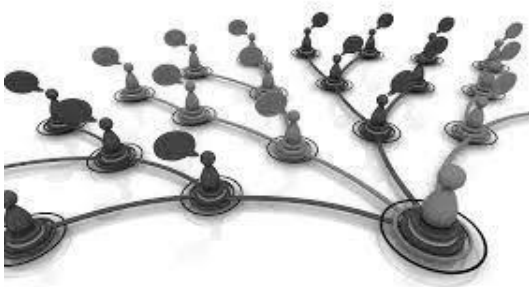


⇒ Benefits of CG



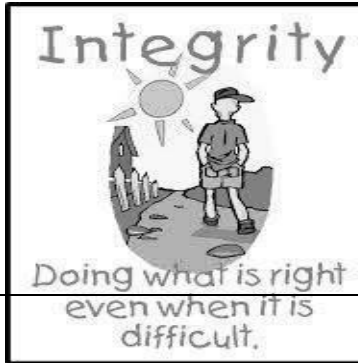

- Protection of investor interests and strong capital markets
- Good governance is rewarded with a higher market valuation
- Ensure commitment of the board in managing the company in a transparent manner
- Enhancement in goodwill
- Increased customer satisfaction
- Contented investors
- Increased revenue
- Strong public image
- Better service to society

- Congenial environment for working
- Avoidance of criminal acts and hence less litigation
- Compliance of all legal formalities
- Improvement in productivity
- Increased positivity
- Better change management
- Higher profits
- High morale of employees and strong teamwork



- Enhanced employee growth
- Quality management
- Reduced wastage
- Ethical image in all activities
- Discharge of social responsibility
- Less government intervention
- All stakeholders are satisfied
- Achievement of long term objectives

⇒ Characteristics of Good CG/ Fundamental Principles of Good CG/ Factors Influencing Quality of CG/ Key Issues Addressed while Evaluating CG

<p>Integrity of management</p>	<p>A good CG presupposes the existence of committed top management. As the shareholders put trust on the management, it is imperative for the management not to misuse the funds. The code of conduct developed should promote ethical and reasonable decision making.</p>	
<p>Accountability</p> 	<p>Good CG is characterised by the presence of well informed BOD; being accountable to the stakeholders. The task to frame all corporate management policies is fulfilled by BOD; thus they can have direct impact in framing the policies that meet the objective of good CG. The inclusion of independent directors in the BOD provides strength to this.</p>	
<p>Transparency (Disclosure/ Reporting)</p>	<p>It means timely, balanced and accurate disclosure of the relevant information to stakeholders. Public confidence boosts by the openness in corporate world. The roles and responsibilities of the top management must be made public.</p>	
<p>Participation of stakeholders in mgt.</p>	<p>The organisations exist because of the stakeholders & for the stakeholders and continuously thrive to maximize the value for them. Thus, their little participation may lead to achievement of sound CG.</p>	
<p>Legal compliances</p>	<p>The key to CG is to adhere to all the applicable rules and regulations. The timely requirements of achieving compliances of various laws lead to an acceptable CG.</p>	
<p>Ethical conduct</p>	<p>It means and includes such a conduct by the business which can foster positivity amongst all the stakeholders. It aims at providing not only timely information but also accurate and reliable information, which can be made use of for taking sound and well informed economic decisions.</p>	




⇒ Measures / Strategies of CG

→ Foreign practices

- The Cadbury committee was set up in UK in 1991 to suggest a code of good CG and the ways and means to enforce it.
- The OECD (Organisation For Economic Cooperation and Development) evolved principles for CG in 1998; revised in 2004.
- The 'Blue Ribbon Committee' set up in the U.S. in 1998 by New York Stock Exchange and National Association of Securities Dealers studied the effectiveness of audit committees and provided recommendations for improvement. In response to these recommendations, New York Stock Exchange and National Association of Securities Dealers as well as other exchanges revised their listing standards relating to audit committees.
- A major step has been the formation of Sarbanes Oxley Act (SOX Act) in 2002 in USA.

→ Indian practices

- SEBI did form some committees time to time to formulate the required code of conduct to achieve CG; prominent of these being :

<p>Kumar Mangalam Birla Committee</p>	<p>The recommendations of this committee on Corporate Governance were accepted by SEBI in December 1999, and enshrined in Clause 49 of the Listing Agreement of all Stock Exchanges in India.</p>	
<p>Naresh Chandra Committee</p>	<p>In August 2002, the Department of Company Affairs, Government of India, constituted a nine-member committee under the chairmanship of Mr. Naresh Chandra, to examine :</p> <ul style="list-style-type: none"> : the Auditor- Company relationship : role of independent directors : disciplinary mechanism for auditors committing irregularities and : the CEO/CFO certification introduced by SOX 	
<p>N R Narayana Murthy Committee</p>	<p>SEBI having analysed disclosures made by many companies under Clause 49 constituted a review committee under the chairmanship of Mr. N. R. Narayana Murthy. The Narayana Murthy Committee report, 2003, suggested further improvements and in alignment with these recommendations, the revised Clause 49 has been made effective.</p>	



- The ICAI (The Institute of Chartered Accountants of India) has issued lots of accounting standards and the most of these being mandatory in nature.

The secretarial standards issued by ICSI (The Institute of Company Secretaries of India) and cost accounting standards issued by ICAI (The Institute of Cost Accountants of India)

are also paving the way for furthering the aspect of CG.

- The introduction of New Companies Act, 13 points towards the will of legislators of managing the corporates as per best practices.
- One of the most effective measure of CG till date has been the Clause 49 of Listing agreement.




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Listing agreement means the agreement entered into by a corporate with the stock exchange, at the time of getting its securities listed.

- In India, CG is being implemented through Clause 49 of listing agreement; major provisions of which are as follows :
 - There should be optimum combination of executive and non-executive directors in the BOD with atleast 50% of board comprising of non-executive directors.
 - There should be 1/3 independent directors, if chairman is non-executive and ½ independent directors in case of executive chairman.
 - Atleast 4 board meetings are to be conducted per year with maximum gap of 4 months. Also, the information to be placed in the meeting has been specified.
 - A director can't be the :
 - member in more than 10 committees
 - chairman in more than 5 committees
 - All listed companies have to constitute the "Audit Committee Of Directors", of which atleast 2/3rd directors shall be independent. The member of this committee can be the director only. All such members shall be financially literate and atleast 1 member shall have accounting or financial management expertise. It shall meet atleast 4 times a year, with maximum gap of 4 months between 2 meetings.
 - The remuneration of directors require previous approval of shareholders in general meeting.
 - 'Management Discussion and Analysis Report' shall form a part of director's report and such report shall have specified matters.
 - The shareholders shall be given the relevant information about every person who is proposed to be appointed as a director.
 - 'Shareholders Grievance Committee' shall be set up to look into the complaints of investors.
 - Director's report shall comprise a separate section on CG with detailed compliance report.
 - Compliance Certificate is to be obtained from the statutory auditors/practicing CS regarding compliance of conditions of clause 49.
 - A Quarterly Compliance Report is to be sent to stock exchange, signed by compliance officer or CEO of the company.
 - A code of conduct for the board members and senior management shall be laid down and posted on website. A declaration as to annual affirmation of same by all board members shall be signed by the CEO and will be placed in Annual Report.
 - Special focus has been given to disclosures amongst the holding company and material unlisted Indian subsidiary company.
 - The CEO and CFO have to certify the review of the financial statements of the company.
 - Whistle Blower Policy plays its own role in exceptional reporting.

⇒ Role of Different Committees in Regulating Corporate Governance

S.No.	Committee	Function
1.	Board of Directors	The ownership in the organisations is separated from the management i.e. the shareholders do invest the money which is managed on their behalf by the board of directors. The Board's role is that of trusteeship i.e. to protect and enhance shareholders value through strategic supervision. The strategy should aim at accountability and fulfillment of goals.

<p>2.</p>	<p>Audit Committee</p> 	<p>Section 292A of the Companies Act, 1956 and Clause 49 talk in detail about this committee.</p> <p>The members being only the directors with majority being independent and all having financial knowledge ensure a good CG.</p> <p>They have to provide assurance to Board on adequacy of internal Control systems and financial disclosures.</p>
<p>3.</p>	<p>Compensation Committee</p>	<p>The committee has to recommend to the Board compensation terms for executive Directors and the senior most level of management below the Executive Directors.</p> 
<p>4.</p>	<p>Nomination Committee</p>	<p>It is to recommend to the Board nominations for membership of the Corporate Management Committee and the Board, and oversee succession to the senior most level of management below the Executive Directors.</p>
<p>5.</p>	<p>Investor Services Committee</p>	<p>The shareholders being the important constituents of the stakeholders, the organization has to make sure that they are served well.</p> <p>Thus, this committee looks into redressal of Shareholders' and Investors' grievances, approval of transmissions, sub-division of shares, issue of duplicate share certificates etc.</p> 
<p>6.</p>	<p>Corporate Management Committee</p>	<p>Its primary role is strategic management of company's businesses within Board's approved direction/framework.</p>
<p>7.</p>	<p>Divisional Management Committee</p>	<p>It's aim is to realize tactical and strategic objectives in accordance with Corporate Management Committee/Board approved plan.</p>

Corporate Social Responsibility

⇒ Important Definitions

- CSR is the obligation of the business to consider the interests of society and of its major groups and give due weightage to them while making its economic decisions and undertaking economic activities.
- CSR is achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment.
- CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.



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⇒ Meaning



- A business has social obligations over and above the aim of making profits and it has to integrate various social, environmental and ethical concerns into its decisions.
- It is not accountable only to the shareholders but to all the stakeholders.
- A business has to maintain a balance between financial viability and service to the society.
- It can also be called corporate citizenship, social performance etc.

Meaning of CSR for different people...

For....	It means...
An employee	fair wages, no discrimination, acceptable working conditions etc.
A shareholder	making responsible and transparent decisions regarding the use of capital
A supplier	receiving payment on time
A customer	delivery on time etc.
Local communities and authorities	taking measures to protect the environment from pollution
Non-governmental organisations and pressure groups	disclosing business practices and performance on issues ranging from energy conservation and global warming to human rights and animal rights, from protection of the rainforests and endangered species to child and forced labour, etc.
A company	responding to the needs and concerns of people who can influence the success of the company and/or whom the company can impact through its business activities, processes and products

⇒ Examples

- ITC ltd. contributes rupee 1 for every 4 classmates register sold to its rural development initiative, precisely for primary education in villages.
- Reliance group is providing drinkable water by converting the sea water in Jamnagar.



⇒ Need of CSR

- The Iron law of responsibility
- To fulfill long term self-interest
- To establish a better public image
- To avoid government regulation and control
- To avoid misuse of national resources and economic power
- To convert resistances into resources
- To minimise environmental damage

⇒ Areas of CSR

→ Economic responsibilities

- The organization must be economically viable i.e. must be profitable
- As all the other activities will be supported by finance; thus being profitable is core responsibility.



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→ Legal responsibilities

- It means to follow the laws of the respective country.
- Anything done should be within the legal boundaries.
- All the rules & regulations of applicable laws must be complied with.

→ Ethical responsibilities

- A business should not only appear to be ethical, but must be ethical in actual as well.
- Every decision & every transaction taken must be fair, just & honest.

→ Discretionary (Philanthropic) responsibilities

- It covers the non-mandatory responsibilities which are to be voluntarily discharged by the business.
- A business uses the resources of the community, thus has to contribute to it as well.



⇒ Corporate Citizenship

→ Meaning

- The term corporate citizenship denotes the extent to which businesses meet the legal, ethical, economic and voluntary responsibilities placed on them by their stakeholders.
- Companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary responsibilities.






→ Benefits

- A stable socio-political-legal environment for business
- Enhanced competitive advantage through better corporate reputation and brand image
- Improved employee recruitment, retention and motivation
- Improved stakeholder relations
- A more secure environment in which to operate



⇒ Developments Leading to CSR

<p>Increased awareness amongst stakeholders</p>	<p>Stakeholders have focused attention on companies' commitment to ethical and socially responsible behavior after Corporate accounting scandals. Corporations which are not being socially responsible are being targetted through actions such as public demonstrations, public exposes, boycotts, shareholders' resolutions, and even "denial of service" attacks on company websites. Companies are therefore focusing on meaningfully engaging with their various stakeholders.</p>
<p>Focus on transparency & reporting</p>	<p>Various interest groups have raised the demands for transparency and reporting about the social, environmental and economic performance. Many companies are also instituting various types of audit and verification as further means of increasing the credibility of their transparency and reporting efforts.</p>

<p>Accountability</p>	 <p>A word cloud centered around the word 'accountability'. Other words include: pledge, enforcement, promise, subjection, loyalty, obedience, amenability, understanding, obligation, responsibility, adherence, bond, and conscience.</p>	<p>Stakeholders hold companies accountable for the practices of their business partners throughout the entire value chain with special focus on suppliers, environmental and labour practices.</p>
<p>Increase in codes & guidelines</p>	<p>After the major corporate scandals there have been plethora of guidelines, standards, codes etc. which makes it almost compulsory for an organization to pay attention to CSR, in order to be accepted in the society.</p>	
<p>Convergence of governance & CSR (Independent directors etc.)</p>	<p>CG addressed the issues of board diversity (i.e. the need for having non-executive and independent directors on the board of directors and executive compensation. Also, more and more CSR activists have begun to stress the importance of board and management accountability for effective institutionalisation of CSR.</p>	
<p>Increased investor pressure</p>	<p>The shareholders are using resolution process to pressurize the companies to change policies and increase disclosure on a wide range of CSR issues, including environmental responsibility, workplace policies, community involvement, human rights practices, ethical decision-making and corporate governance.</p>	
<p>Advances in information technology & communication</p>	<p>The advances in IT sector have made it easy and convenient for the stakeholders to demand the information about CSR activities as well as the information flows at a high speed and can be gone through at one's disposal.</p>	 <p>An illustration showing several stylized human figures holding up large, 3D block letters that spell out the word 'IT'.</p>
<p>Concept of social accounting</p>	 <p>An illustration showing two pairs of hands, one from above and one from below, gently cradling a small globe of the Earth.</p>	<p>It is the process of communicating the social and environmental effects of organisation's economic actions to particular interest groups within the society like charities, NGOs and government agencies. It has the potential to expose the gap between the economic profit and social & environmental objectives.</p>

⇒ **Iron Law of Responsibility**

→ **Meaning & Nature**

- When a business comes into existence; there arises an implied right for the business to consume the resources of the society but businesses tend to overlook that side, by forgetting that there arises an implied duty on them to meet the needs & expectations of the society.
- Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations.
- A business is not supposed to consider only the financial outcomes of its decisions but also the social & environmental outcomes as well.



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- A business without any concern for the society can survive only in short run & not in the long run.
- Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively.
- This concept is also called *sustainable development* or *iron law of responsibility*.

→ **Benefits**

A business organisation which is sensitive in its own self interest like to have a better the business may be conducted and a better better environment in which the business maximization. This way, the resulting



to community needs, would community within which society would produce a may gain long term profit benefits would be:



- Decrease in crime
- Easier labour recruitment
- Reduced employee absenteeism
- Easier access to international capital, better conditions for loans on international money markets.
- Dependable and preferred as supplier, exporter, importer and retailer of responsibly manufactured components and products.


⇒ **Benefits of CSR (in addition to those mentioned in chapter 1)**

- Access to capital
- Reduced operating costs (reducing emission of gases, effective waste disposal etc.)
- Retaining & attracting best talent
- Minimum ecological damage
- Socially acceptable by stakeholders



⇒ **Strategies in Implementation of CSR**

S.No.	Strategy	Description
1.	Mission, Vision & Value Statements	 <p>These core statements should reflect the ethical, social & responsible business practices which justifies its existence in the long run.</p>
2.	Top Management Initiative	 <p>The issues like CSR are managed best if tackled by top management. The other levels also show interest & commitment if they have the support of top management.</p>
3.	Strategic Planning	The business has to incorporate the CSR into long term planning. The progress w.r.t. various specific & quantifiable goals should be measured time to time.
4.	Management Structure	CSR committee may be set up : to identify key CSR areas : to evaluate the manner of their fulfillment & accordingly : to integrate the same in company's values, culture & operations at all levels.
5.	Corporate & cultural values	It tends to narrow the gap between the aims & actual realization of aims of business. Ambitious goals may be set but care has to be taken that cultural values are not dampened.

6.	Accountability	The level of commitment required by each employee towards the CSR initiative of the business must be identified & the same must be incorporated in the job profile by spelling it out in job description.
7.	Recruitment & Promotion	Involvement by a particular person in CSR activity must be given weightage while selecting & promoting.
8.	Education & Training Programmes	 <p>The employees should be informed about the desired & accepted behavior. Any views, suggestions must be welcomed & those found innovative must be benchmarked. Comprehensive training programmes must be organized to publicise the crucial importance of CSR.</p>
9.	Employee Recognition & Rewards	The employees having active participation & extraordinary contribution in CSR aspects must be publicly honoured & suitably rewarded.
10.	Leadership Role	In the whole industry, a single organization undertaking CSR steps can easily influence the others to follow the same & the standards set by former encourage others to honour the same.
11.	CSR Reporting	The timely & regular CSR reports assure all the stakeholders about the commitment of business towards society. It should highlight : : key areas identified for CSR in past & future : measures taken by company towards achievement of same : employees playing active & responsible role in these.
12.	CSR Audit	To show its absolute sincerity, the organization may get the audit done of it's CSR report by the external party.

⇒ **CSR Policy**



→ **Meaning**




- CSR means a commitment to developing policies that integrate responsible practices into daily business operations, and to reporting on progress made toward implementing these practices.

→ **Common Policies under CSR are as under**

- Commitment to diversity in hiring employees and barring discrimination
- Adoption of internal controls after the major accounting scandals
- Management teams that view employees as assets rather than costs
- To integrate the views of line employees into decision- making processes;
- Adoption of operating policies that exceed compliance with social and environmental laws;
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling)
- Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad

⇒ International Standards & Guidelines For CSR Reporting

- The emerging issue of CSR has gained lot of importance, which can be seen by the continuous publications of standards, guidelines by the governmental or non governmental organizations.
- Such publications help in implementing & reporting the CSR activities effectively.

S.No.	Initiative	Description
1.	 <p>Global Reporting Initiative (GRI)</p>	<p>This standard was established in 1997 by CERES (Coalition For Environmentally Responsible Economies). It is applicable globally, helping in preparing sustainability reports by companies.</p> <p>It incorporates the active participation of corporations, non-governmental organizations, international organizations, United Nations agencies, consultants, accountancy organizations, business associations, universities, and other stakeholders from around the world.</p> <p>The Global Reporting Initiative's (GRI) vision is that reporting on economic, environmental, and social performance by all organizations becomes as routine and comparable as financial reporting.</p>
2.	<p>AA 1000</p>	<p>It was launched by John Killington in 1999. It is an accounting standard.</p> <ul style="list-style-type: none"> : to complement GRI guidelines : to improve accountability & performance. <p>The AA1000 Assurance Standard was launched in 2003 as the world's first sustainability assurance standard and applies to the principles of Materiality, Completeness and Responsiveness.</p> <p>The AA1000 Stakeholder Engagement Standard (AA1000SES) is a generally applicable, open-source framework for improving the quality of the design, implementation, assessment, communication and assurance of stakeholder engagement.</p> 
3.	 <p>Social Accountability (SA) 8000</p>	<p>Recognising the need of proper working conditions, this standard was passed which sets out the requirements of social accountability. SA 8000 is a comprehensive, global, verifiable performance standard for auditing and certifying compliance with corporate responsibility. It's core theme is that all workplaces should be managed in such a manner that basic human rights are supported and that management is prepared to accept accountability for this.</p> <p>SA8000 is an international standard for improving working conditions & is based on the principles of the international human rights norms as described in</p> <ul style="list-style-type: none"> : International Labour Organization conventions, : the United Nations Convention on the Rights of the Child and : the Universal Declaration of Human Rights. <p>The requirements of this standard apply regardless of geographic location, industry sector, or company size.</p>

<p>4.</p>	<p>United Nations Global Compact</p>	 <p>United Nations Global Compact</p> <p>corporate citizenship and universal social and environmental principles to meet the challenges of globalization.</p>	<p>It was launched in September 2000 by UN It is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social sectors to advance responsible</p>
<p>5.</p>	<p>OECD (Organisation For Economic Cooperation & Development) Guidelines</p>	<p>These guidelines were incorporated in 1976 & further revised in 2004. These guidelines are recommendations addressed by the governments for MNCs (Multi National Corporations) but these are voluntary & not legally enforceable.</p>	
<p>6.</p>	<p>Standards By ICCR (Interfaith Centre On Corporate Responsibility)</p>	 <p>INTERFAITH CENTER ON CORPORATE RESPONSIBILITY</p>	<p>Principles issued by ICCR cover wide range of CSR issues. These are used as a benchmark to monitor own policies.</p>
<p>7.</p>	<p>Caux Round Table (CRT)</p> 	<p>It is based at Caux, Switzerland. It comprises business leaders from all over the world. It is of belief that the business has a crucial role in identifying and promoting sustainable and equitable solutions to key global issues affecting the physical, social and economic environments. The CRT has produced "Principles for Business," a document which seeks to express a worldwide standard for ethical and responsible corporate behaviour for dialogue and action by business and leaders worldwide.</p>	
<p>8.</p>	<p>Global Sullivan Principles</p>	<p>Originally issued in 1977, these were revised in 1999. It's a voluntary code of conduct for companies doing business in South Africa. The major objectives of these principles being</p> <ul style="list-style-type: none"> : to meet economic, social & political justice by business during its conduct : to provide equal opportunity to all employees : to train disadvantaged workers : to improve quality of life 	
<p>9.</p>	<p>APEC (Asia Pacific Economic Cooperation) Business Code of Conduct</p>	 <p>Asia-Pacific Economic Cooperation</p>	<p>It is an international organization to promote open trade & economic cooperation among 21 member countries. The code of conduct was issued in 1999, in line with other internationally recognized codes</p>

& standards.

The drafting of the Code was initiated by business leaders from companies operating in APEC countries and is designed to supplement and support companies existing codes of conduct.

Blast From The Past

1.	N 09 (5 M)	Explain the meaning of the "Iron Law of Responsibility". State the resulting benefits which may be acquired by achieving the long-term objectives through the business activities.
2.	M 10 (5 M)	What is meant by Corporate Governance? Explain the benefits of Good Corporate Governance.
3.	M 10 (2.5 M)	Corporate Social Responsibility is closely linked with the principles of sustainable development. Correct or Incorrect.
4.	M 10 (2.5 M)	A good environmental practice improves corporate performance. Correct or Incorrect.
5.	N 10 (4 M)	Explain briefly the key strategies which can be used at the time of implementation of CSR policies and practices in a company.
6.	N 11 (4 M)	Write a note on "Social Accountability-8000".
7.	N 11 (4 M)	State the "Common Corporate Social Responsibility" (CSR) policies for business organizations.
8.	M 12 (4 M)	Explain the role played by different committees in regulating the 'Corporate Governance'.
9.	M 13 (4 M)	"Corporate governance is about promoting corporate fairness." Discuss.
10.	N 13 (4 M)	<p>What is meant by 'Corporate Social Responsibility' (CSR)? How corporate social responsibility helps in enhancing the brand image and reputation of a business organization?</p> <p><i>CSR helps in enhancing the brand image and reputation because customers are attracted towards brands and companies with good reputations. A company considered socially responsible can benefit both from its enhanced reputation with the public as well as its reputation within the business community, increasing a company's ability to attract capital and trading partners. Proactive CSR Practices would lead to a favourable public image resulting in various positive outcomes like consumer and retailer loyalty, easier acceptance of new products and services, market access and preferential allocation of investment funds.</i></p>
11.	M 14 (2 M)	The phrase "Iron Law of Responsibility" means that the institution of business exists only because it performs invaluable services towards its promoters. Correct or Incorrect.
12.	N 14 (4 M)	What corporate governance measures are required to be implemented by the Indian Companies as per clause 49 of the listing agreement? Explain in brief.
13.	N 14 (4 M)	Examine the concept of Corporate Social Responsibility (CSR) and also explain in brief some of the key strategies which can be used by companies while implementing CSR policies and practices.
14.	M 15 (4 M)	What is meant by 'Corporate Governance'? State the 'measures of Corporate Governance' with reference to Indian companies.
15.	N 15 (2 M)	In the long-run, those business entities which responds to society needs favorably will survive. Correct or Incorrect.
16.	M 16 (4 M)	"Corporate governance is about stakeholders' satisfaction". Comment.

17.	M 16 (4 M)	What do you mean by the "Iron Law of Responsibility"? Mention the resulting benefits which may be acquired by achieving the long term objectives through the business activities.
18.	N 16 (4 M)	Write a short note on "Social Accountability 8000".
19.	M 17 (4 M)	Write short notes on: (i) United Nation Global Compact (ii) The Iron Law of Responsibility
20.	N 17 (4 M)	Write short notes on the following: (i) The Caux Round Table (CRT) (ii) Euphemisms
21.	N 17 (4 M)	Explain the concept of Corporate Social Responsibility and its meaning to different people.
22.	M 18 (5 M)	State the social issues with which business corporations have been concerned since a long time.
23.	M 18 (4 M)	What do you mean by corporate citizenship? Explain the benefits of corporate citizenship.
24.	M 18 (4 M)	Write a short note on Global Reporting Initiative.

Check Your Progress... (Other Important Questions)

1.	State the major 'characteristics' of good corporate governance. (RTP N 11)
2.	What are the common CSR policies that integrate responsible practices into daily business operations? (RTP N 11)
3.	What are the resulting benefits of the CSR in the achievement of long term objectives in any businesses? (RTP M 12)
4.	How growing investor pressure and Market-based incentives has changed the sphere of Corporate Social Responsibility. (RTP N 12)
5.	Write short notes : (a) CSR initiatives in India (b) Global Reporting Initiatives (RTP N 12)
6.	Explain the role played by different committees in regulating the 'Corporate Governance'. (RTP M 13)
7.	Explain the role played by different committees in regulating the 'Corporate Governance'. (RTP N 13)
8.	What the key strategies that companies can use while implementing CSR policies and practices. (RTP M 14)
9.	What are the common CSR policies? (RTP N 14)
10.	"CSR can mean different things to different people", Explain. (RTP M 15)
11.	What is Corporate Social Responsibility? Why it is needed in Indian Business environment? (RTP M 16)
12.	State the Common Corporate Social responsibility (CSR) policies for business organizations. (RTP M 17)
13.	What is meant by 'Corporate Governance'? State the major 'characteristics' of good corporate governance. (RTP N 17)
14.	Explain the role played by different committees in regulating the 'Corporate Governance'. (RTP

M 18)

15. What is the role of the following factors in shaping the direction of the CSR domain:

(i) Accountability Throughout the Value Chain

(ii) Advances in Information Technology. (RTP N 18)

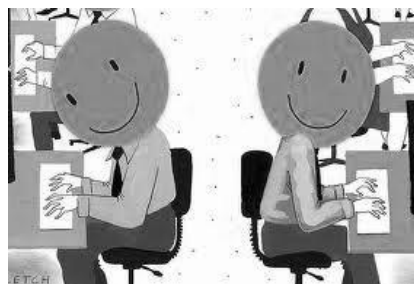
*(i) **Accountability Throughout the Value Chain:** Over the past several years, the CSR agenda has been characterized by the expansion of boundaries of corporate accountability. Stakeholders increasingly hold companies accountable for the practices of their business partners throughout the entire value chain with special focus on suppliers, environmental, labour, and human rights practices.*

*(ii) **Advances in Information Technology:** The rapid growth of information technology has also served to sharpen the focus on the link between business and corporate social responsibility. Just as email, mobile phones and the Internet speed the pace of change and facilitate the growth of business, they also speed the flow of information about a company's CSR record.*

Workplace Ethics

⇒ Meaning and Concept

- Workplace ethics means the application of ethical values at the workplace.
- It is an extension of the individual's ethical standards to the decisions at the workplace.
- It concerns with the issues involving right or wrong activities, having the impact on the workplace.
- Workplace ethics & its study is required to sort out the various ethical issues in the actual work environment.
- These may be written or unwritten codes of conduct influencing the development of ethical culture in an organisation's workplace.



⇒ Importance of Ethical Behaviour

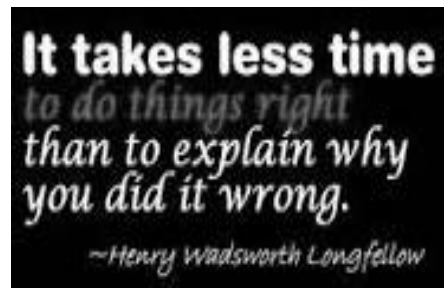
- Employees tend to come from different cultures having their own different view of ethics & principles.
- It becomes important to lay down a clear code of conduct expected from employees; which provides a common understanding to all regarding right & wrong behaviour.
- A common understanding of well defined code of ethics shall bring the following benefits :
 - positive working environment
 - reduction in misconduct by employees
 - good reputation
 - retention of best talent
 - long run competitive edge
 - increased productivity
 - minimum wastage in unproductive activities
 - minimum legal exposure
 - less tendency of employees to report the violations of ethical behaviour to outside regulatory authorities. avoidance of corporate scandals



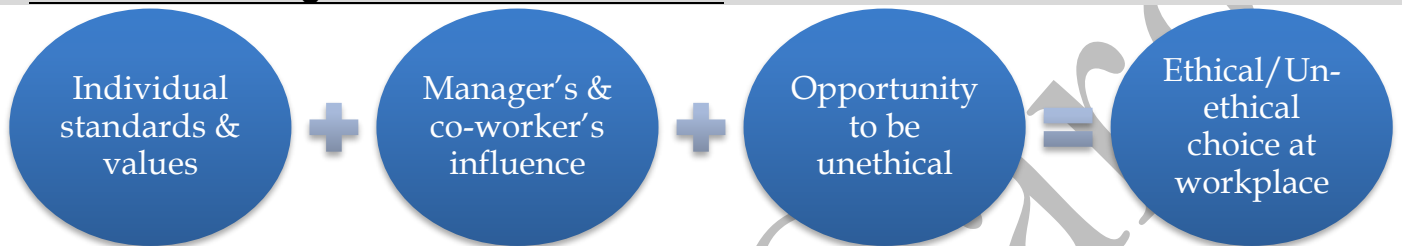
Every organization, whether a business or a Government agency is first and foremost a human society. In all these setups ethical behavior is essential to working environment. If an employer does not take steps to create a working environment where the employees have a clear, common understanding of what is right and wrong, and feel free to discuss and ask questions about ethical issues and report violations, significant problems may arise. Lacking of ethical behavior in working environment may give rise to some significant problems, namely :

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- Increases risk of making unethical decisions by employees
- Increases tendency of employees to report violations to outside regulatory authorities (whistle blowing) because of lacking of an adequate internal forum.
- Inability to recruit and retain top people
- Diminishes reputation in the industry and the community
- Significant legal exposure and loss of competitive advantage in the market place



⇒ Factors Influencing Ethical Behaviour at Work



→ Individual Standards & Values

- An individual's personal beliefs, values & principles play a huge role in ethical or unethical choices made.
- Morals & values inculcate in an individual since birth, which can be felt by the decisions made at the workplace.
- Majority of workforce having high moral values brings good name to the company.
- (Explain Ethical Dilemma –discussed in chapter1)



→ Manager's & Coworker's Influence

- The employees are guided by the behavior & actions of the coworkers.
- The lower management workers are ethical only to the extent of the top management being ethical.
- The power & authority exercised by the boss also controls the behaviour of employees.
- The examples set by the colleagues also exert positive influence on the fellow workers.



→ Opportunity To Be Unethical

- Lack of well defined code of conduct provide an opportunity to the employees to engage in misconduct.
- Absence of strong internal control mechanism will lead to confusion & conflict resulting in increased unethical behaviour.



⇒ Examples of Unethical Behaviour

→ Relationship with suppliers & business partners

- Discrimination between suppliers
- Dishonesty in approving contracts
- Delay in making payments
- Passing secrets of one supplier to the other

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→ Relationship with customers

- Unfair pricing
- Deceptive advertising



- Cheating customers
- Mismatch in actual quantity & packaged quantity
- Offering product in non standard quantity
- Offering hazardous goods for sale
- False assurance of aftersales service
- Sale of substandard goods
- Tie-up sales



→ Relationship with employees

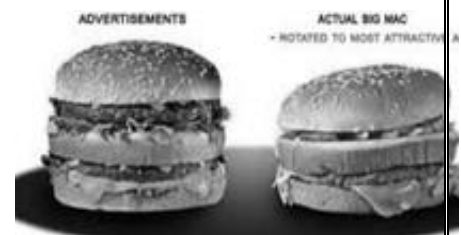
- Discrimination between employees
- Harassment of Employees
- Providing poor quality of work life



- Interfering in activities of trade unions
- Avoidance of collective bargaining
- Illegal lockout
- Retrenchment without reasons
- Transfer of worker with malafide intentions

→ Management of resources

- Misuse of organizational funds
- Window dressing of accounts
- Embezzlement
- Tax evasion
- Insider trading
- Passing the secrets to competitors
- Bribery



⇒ Various Ethical Issues at Workplace

→ Business relationships

- It covers the relationship of an entity with
 - suppliers &
 - customers
- In the current era, as the principle “Customer is the king” follows, thus the ethical practices of business must be customer centric.
- It also requires to meet its responsibilities & obligations towards the suppliers in time.
- All this ensures the long run survival of the firm.



NEVER GIVE UP. BE POSITIVE.



→ **Conflict of interest**

- Conflict of interest means a situation confronted by the employee, to make a choice between his self-interest & organisation's interest.
- Any particular issue may benefit an individual but not the organization or vice versa, example bribe.
- These situations can be best managed by clear cut separation of personal & professional goals.

→ **Fairness & honesty**

- A business has to ensure that all its activities are just & fair.
- Making wrong use of monopoly position, entering in anticompetitive agreements, making abuse of dominant position are deceptive & unfair trade practices.
- An organization has to make sure that it complies with all the applicable rules & regulations in true spirit.
- Also, its commitment towards these pillars shall be judged by its strong relationships with all the stakeholders.



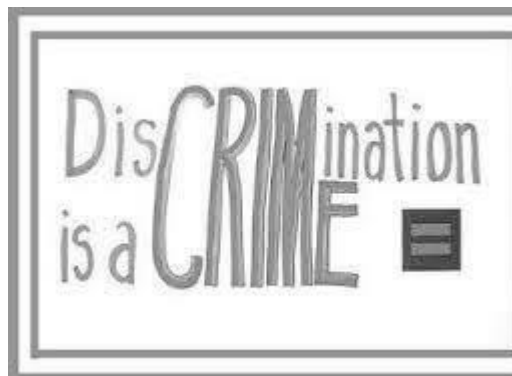
→ **Communication**

- Advancements in communication channels have made it important on the part of organizations to provide only the true & correct information to the outside world.
- A lot of legal recourses open to customers in case of misleading or false advertisements almost leave no room for an organization to indulge in such wrong practices.
- The businesses need to provide not only the right kind of goods & services but also the right information regarding these.

⇒ **Discrimination**

→ **Meaning**

- Discrimination means another.
- Discrimination in treating the employees rational justification.
- Employment an employee less the same circumstances.
- It disturbs the workplace principle of equality.



to distinguish one object from workplace means the act of differently without any discrimination means to treat favourably than the others in environment by affecting the

→ **Constitutional Provisions**

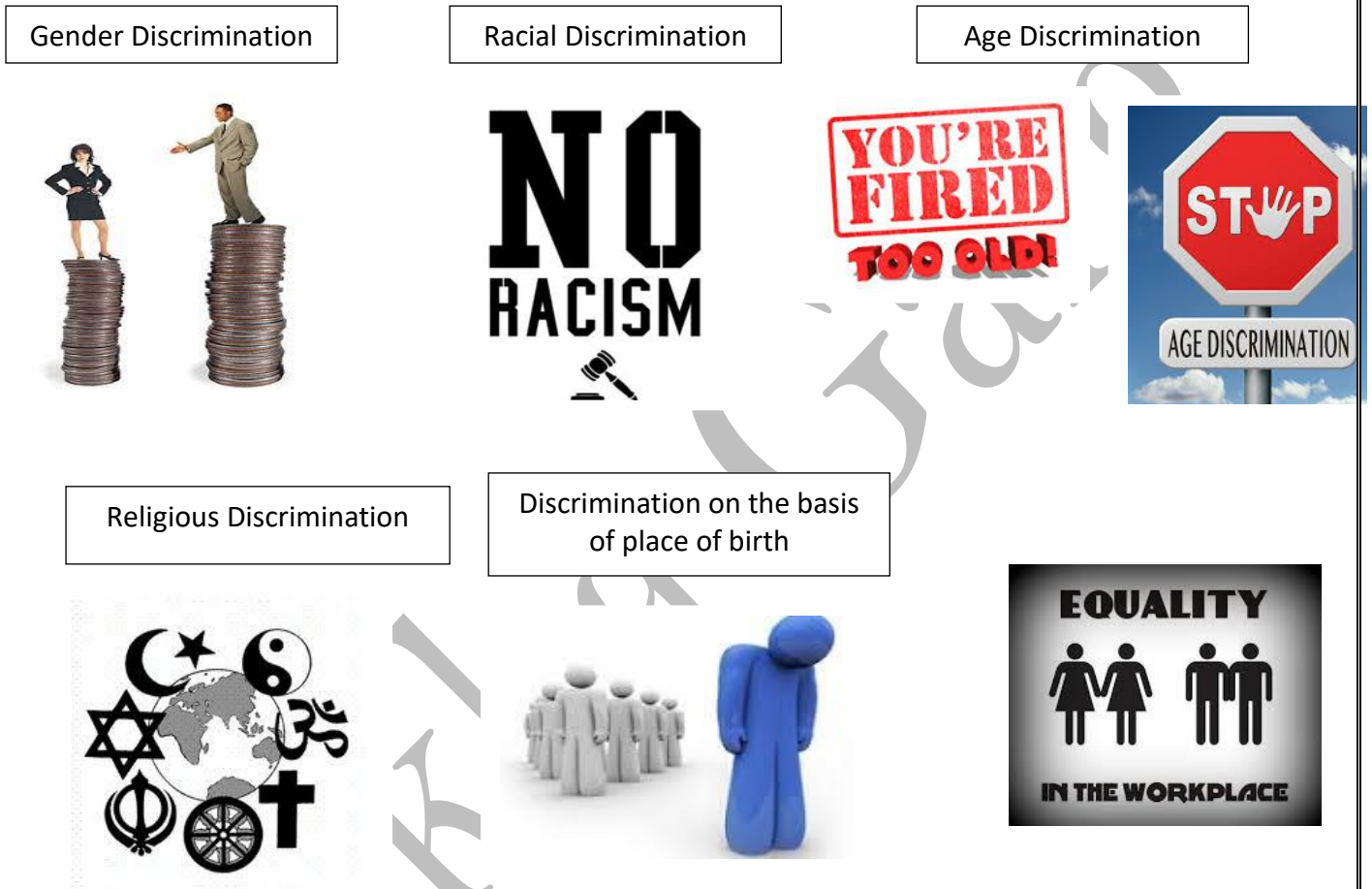
- As per Article 15, "the state shall not discriminate against any citizen on grounds only of religion, race, sex, place of birth or any of them."
- As per Article 16, "there shall be equality of opportunity for all citizens in matters relating to employment or appointment to any office under the state."



→ Elements in discrimination

- The decisions w.r.t. employees are not taken on the basis of merit i.e. ability, seniority but on the basis of unjustified grounds.
- The decisions are based on racial or gender basis, to the prejudice of workers.
- Deserving & talented employees may find it difficult to survive in such a discriminating environment. It may dampen the reputation of organization as well.

→ Forms of discrimination



→ Common Employment Discrimination Practices

• **Recruitment Practices**

- When recruitment is done on the basis of referral by existing employees, it results in recruiting people from the racial & sexual groups already represented in the organization.
- Recruitment based on gender is also discriminatory.
- Posting the vacancies in the magazines etc., referred by particular class of people is a discrimination practice.



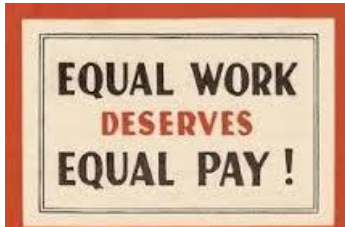
• **Screening Practices**

- Demanding an eligibility criteria, not relevant to the job is discriminatory.
- Also, employment tests & interviews which are not suited to the jobs tend to be discriminative.
- Disqualifying a certain class of people always by the interviewer also leads to discrimination.



• Promotion Practices

- Promotion practices are discriminatory, if based on
 - caste, religion, race, sex etc.
 - subjective recommendations of friends, relatives etc.
- Not promoting the women on high levels, even when they are capable also leads to discrimination.



• Conditions of Employment

The following are considered as discriminatory :

- different working conditions for same kind of work
- different pay for similar work
- different rules & regulations concerning particular group of employees
- employing child workers & paying low wages
- sweatshop workers (workers working for long hours for low pay in poor working conditions)

• Dismissal Practices

- Dismissing an employee on the basis of race, religion or sex is discrimination.
- Dismissal of workers for not agreeing to do favours or unethical conduct is also discriminatory.
- Any ground adopted for dismissal of employees which is inconsistent with performance or other justified factors is pure form of discrimination.



⇒ Harassment At Workplace

→ Meaning

- Harassment means consistent torture by insult or by coercion.
- Harassment of an employee means troubling, tormenting or intimidating him/her.
- It disables the employee from functioning effectively & disrupts the peace of mind.
- It can be by superiors, colleagues or subordinates.
- It takes away the basic human rights & degrades the person.
- It can be caused due to bias, jealousy, humor, hatredness etc.
- It can cause stress, bad health, anxiety & mental distress.



→ Examples of Harassment

- Forcing the person to do the work beyond his capacity
- Use of abusive language
- Physical abuse
- Overtime work without extra payment
- Insulting before others
- Repeated threats of dismissal without any reason
- Not giving leave
- Pressurizing for work in ill health
- Deliberately giving the work at the time of leaving the office on the urge of 'urgent or important work'
- Undermining the performance at all the times

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→ Types of harassment

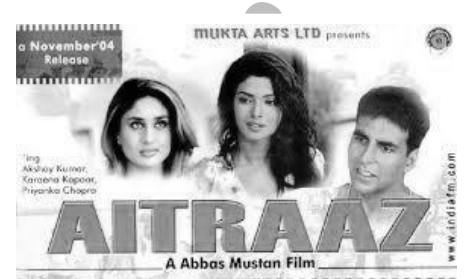
• **Racial harassment/mild harassment**

- It means causing harassment on the basis of religion, race, culture etc.
- It involves affording special treatment to the employees belonging to a particular religious group on the ground of its being superior to the other religions.
- Constitution of India declares such practices as illegal & invalid.



• **Sexual harassment**

- It means forcing an employee to satisfy the sexual demands by the threat of demotion, dismissal etc.
- It can be exercised by any gender on any gender.
- It is generally exercised by middle & top level management employees on low level management employees, who hesitate for even complaints in this regard



to the superiors.

- It causes stress & lowers the dignity of the employee in the workplace.
- It violates the basic human right to freedom & dignity.
- Any unwanted or unwelcomed verbal or physical sexual advances amounts to sexual harassment but mutual attraction & welcomed behavior doesn't amount to such harassment.



◦ Vishakha vs State of Rajasthan & others

- The supreme court defines sexual harassment as any unwelcome sexually determined behavior such as :
 - ✓ physical contact
 - ✓ a demand or request for sexual favours
 - ✓ sexually coloured remarks
 - ✓ showing pornography
 - ✓ any other physical, verbal or non-verbal conduct of a sexual nature
- The supreme court also held that the employers employing women employees must mandatorily constitute a "Sexual Harassment Redressal Committee".
- Thus, the employer shall be held responsible for all sexual harassment engaged in by his employees.



⇒ Guidelines for Managing Ethics at Workplace/ To Create Proper Workplace for Employees

→ Setting example from top

- The top management should show its commitment regarding the ethical behaviour through its actions & decisions to expect the same kind of behaviour in the organization.
- For example, the chairperson of an American car company drew a salary of 1\$, when the company was in the financial liability.



→ Integration of Ethics

- Management principles integrate the ethics management.
- The mission, vision & ethical values of the organization.



& practices of the entity must value statements must reflect the

→ Code of Conduct & Ethics

- A well drafted code of conduct must indicate the behaviour, desired of employees.
- Ethics code goes beyond the legal requirements.
- It specifies the application of ethics in decision making.
- An authority, preferably at top level must match the actual follow up of these with that desired.



→ Create open communication

- Employees must be informed about the reasons for establishing code of ethics & its importance to gain their wholehearted cooperation.
- The formal & informal training programmes must be arranged to educate employees about ethical issues.
- Management should make the employees comfortable when they face ethical dilemma, by providing guidance & resources to resolve such issues.

→ Involvement of Employees

- Employee participation is must at the :
 - planning level
 - development level &
 - implementation level
 while training code of ethics & ethical programmes.
- Teams of employees involving colleagues from all the functions should be made to manage specific ethical programmes.
- It fosters the feeling of participation & responsibility amongst employees to follow the ethics.



→ Creating Atmosphere of Trust

- The employees wanting to give suggestions regarding improvement of workplace ethics must be provided support by way of having 'suggestion box' etc.
- Any good suggestion should be suitably rewarded.

→ Appointment of Ombudsman

- Ombudsman is an authority to look into the grievances about functioning in any department.
- It stands as a reference point for the employees for private consultation, advice etc.
- They act as a middlemen for best coordination of ethics policies & procedures.





→ Reporting of Unethical Issues

- Any unethical issue suspected must be immediately reported by any level of management.
- The identity of complainant employee must be kept confidential.
- Companies may also take the help of outside consultants, counsellors or even tip boxes where the employees may make complaint without disclosing their names.

→ Group Decision Making

- Any issue confronted must be given to a group, consisting of people having diverse interest groups.
- Such practice leads to more acceptable decision & less resistance.



→ Disciplinary Action

- Any employee charged with unethical conduct must be subject to strict action so that the others may deter from committing misconduct.

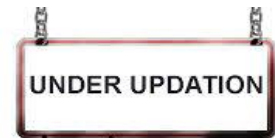
→ Grievance Policy

- There must be a grievance policy in place.
- Such policy must provide for a fair, just & transparent procedure to systematically redress any grievance faced.



→ Regular updation of Policies & Procedures

- The code of ethics & other policies & procedures in line with this must be flexible & not rigid.
- A new definition of ethical conduct must emerge at regular intervals so that workers also feel responsible.
- All the job descriptions, performance appraisal forms & other control documents must also be updated regularly.



→ Whistle Blowers

- It means to notify the act of corrupt
- The mechanism should provide for internal whistle blowing i.e. informing the superiors (who are inside the company) about such unethical acts.
- If the opportunity is not provided internally, the informed employee may blow the whistle outside which can cause reputation risk & other long term risks to the organization.

⇒ Safeguards which may be created by a business enterprise in the work environment

- Employing organisations' systems or corporate oversight or other oversight structures
- Devising organisation's ethics and conduct programmes
- Recruitment procedures in the employing organisation emphasizing the importance of employing high caliber competent staff





- Strong internal controls
- Appropriate disciplinary process
- Leadership that stresses the importance of ethical behaviour and expectation that employees will act in an ethical manner.
- Policies and procedures to implement and monitor the quality of employee performance.
- Timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.

Blast From The Past

1.	J 09 (2.5 M)	Ethical behaviour is not essential to work environment at the workplace. Discuss.
2.	J 09 (5 M)	Explain the factors that influence ethical behaviour of an employee. List out some examples of various ethical issues faced in a workplace.
3.	N 09 (5 M)	Explain the importance of ethical behaviour at the workplace.
4.	N 10 (4 M)	Write a note on harassment at workplace.
5.	N 10 (4 M)	State some examples of ethical issues faced by an individual at the workplace.
6.	M 11 (4 M)	State in brief the guidelines for managing ethics and to prevent the need for whistle-blowing in the work place.
7.	M 11 (8 M)	State the elements which create discrimination in employment in the business organizations.
8.	N 11 (4 M)	Explain the concept of "Sexual harassment" in relation to work place.
9.	M 12 (2.5 M)	Ethical behaviour is essential to working environment at the working place. Correct or Incorrect.
10.	M 12 (4 M)	What do you understand by the term 'discrimination' in employment as sometime found in an establishment? Explain the basic elements of 'discrimination'.
11.	N 12 (4 M)	State the ethical issues which are being faced by an individual at the workplace of an industrial organisation.
12.	M 13 (8 M)	Discuss in detail the guidelines for managing ethics in workplace.
13.	N 13 (2 M)	Promotion policies based on individual merits and not purely on the basis of seniority, is discriminatory.
14.	M 14 (4 M)	What problems may arise at work place when ethical behaviour is not adopted?
15.	M 14 (4 M)	What do you understand by "Discrimination"? Which basic elements are involved in discrimination in employment?
16.	N 14 (2 M)	Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management. Correct or Incorrect

17.	N 14 (4 M)	Describe the factors which influence the ethical behaviour at work in an organization.
18.	M 15 (4 M)	Explain the various socio-psychological factors responsible for developing negative attitude by an individual at workplace.
19.	N 15 (4 M)	Explain the practices widely recognized as discriminatory in employment.
20.	M 16 (4 M)	State in brief the guidelines for managing ethics and to prevent the need for whistleblowing in the work place.
21.	N 16 (4 M)	State the elements which create discrimination in employment in business organizations.
22.	M 17 (4 M)	Describe the factors which influence the ethical behaviour at work in an organisation.
23.	N 17 (4 M)	Explain how the following measures can help in managing ethics in the work place: (i) Codes of Conduct and Ethics (ii) Appointing an Ombudsperson
24.	M 18 (4 M)	Discuss the problems that may arise at workplace when ethical behavior is not adopted.

Check Your Progress... (Other Important Questions)

1.	In what manner the behavior of business persons towards the others in their workplace may generate ethical concerns? (RTP M 14)
	<i>The behaviour of business persons toward customers, suppliers, and others in their workplace may also generate ethical concerns. Ethical behaviour within a business involves keeping company secrets, meeting obligations and responsibilities, and avoiding undue pressure that may force others to act unethically. Managers, in particular, because of the authority of their position, have the opportunity to influence employees' actions. For example, a manager can influence employees to use pirated computer software to save costs. The use of illegal software puts the employee and the company at legal risk, but employees may feel pressured to do so by their superior's authority. Customer's need should be considered most when it comes to ethical business practices. In the long run, a company will reap great profits from a customer base that feels it is being treated fairly and truthfully. Organizational pressures may encourage a person to engage in activities that he or she might otherwise view as unethical, such as invading others' privacy or stealing a competitor's secrets.</i>
2.	State whether the given statement is correct/ incorrect : Fair treatment to whistle blowers is unnecessary to keep check on fraud. (RTP M 14)
	<i>Incorrect: For creating a sound ethical environment in any company, fair treatment to whistle blowers is perhaps the most important and sensitive issue. When Sherron had raised questions at Enron, she was demoted. Similar fate would have met all those who had followed Sherron. Fair treatment to whistle blowers is a basic necessity to check fraud. It is re assuring that two of the three persons of the year, selected by the popular Time magazine were accountants from Enron and World Com who had dared to blow the whistle, however, needless to say that the appreciation is much more needed from within the company rather than outside. Thus ensuring fair treatment to whistle blowers is necessary to keep check on fraud.</i>
3.	State the elements which create discrimination in employment in the business organizations. (RTP N 15)
4.	State in brief the guidelines for managing ethics and to prevent the need for whistleblowing in the work place. (RTP N 15)
5.	What do you understand by the term 'discrimination' in employment as sometime found in an establishment? Explain the basic elements of 'discrimination'. (RTP M 16)
6.	Write note on Harassment at workplace. (RTP N 16)

7.	State the ethical issues which are being faced by an individual at the workplace of an industrial organization. (RTP M 17)
8.	State, how far a sound ethical environment in a company may be created and corporate scandals may be avoided. (RTP M 17)
9.	What problems may arise at work place when ethical behaviour is not adopted? (RTP N 17)
10.	State, how far a sound ethical environment in a company may be created and corporate scandals may be avoided. (RTP M 18)
11.	State the elements which create discrimination in employment in the business organizations. (RTP M 18)
12.	What do you understand by the term 'discrimination' in employment as sometime found in an establishment? Explain the basic elements of 'discrimination'. (RTP N 18)

Environment & Ethics

⇒ Environment

- The term environment includes air, water, land & the inter relationships which exist among these elements, human beings & other living organisms.
- It is an amalgamation of various factors surrounding an organism that interact not only with the organism but also among themselves.



⇒ Ecological System

- It is an interrelated & interdependent set of organisms & environments.
- As it is made of interconnected sub systems, an impact on one part has the impact on related sub systems too.
- Business is also a part of ecological system & thus it is closely linked with the environment & natural resources.



⇒ Ecological Ethics/ Environment Ethics

- The ecological ethics deal with protection of environment.
- The businesses don't operate in vacuum. They satisfy their energy & natural resources needs from the environment & use it for their waste disposal as well. Thus, they need to identify their responsibilities towards environment & have to play their role in protecting & preserving it.



- There has to be a balance between economic progress & environmental protection, as a business can't earn the profits at a cost of environmental degradation.
- Environment ethics means to address the ethical issues confronted in various business & commercial activities. It means to apply the morals & values in the preservation of environment.

⇒ Constitutional Provisions

To protect & improve the environment is a constitutional mandate.

→ Article 246

• **State List**

State list i.e. list II includes the following :

- Public health & sanitation
- Agriculture



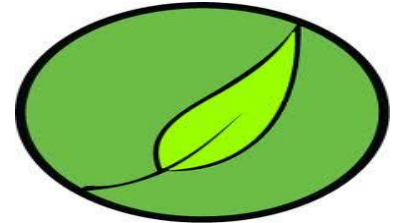
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- Water supplies
 - Irrigation & drainage
 - Fisheries
- so it can be seen that some environmental problems such as sanitation & waste disposal are best tackled at the local level.

• **Concurrent List**

Concurrent list i.e. list III includes the following :

- Forests
- Protection of wildlife
- Mines & minerals development etc.



→ Article 21 Protection Of Life & Personal Liberty



- This right of personal liberty also includes the “Right to clean environment” .
- The Supreme Court has interpreted the right to life & personal liberty to include the right to a wholesome environment.
- In Ganga Pollution (tanneries) case it was said by the Justice, “We are conscious that closure of tanneries may bring unemployment, loss of revenue but life, health & ecology have greater importance to the people.”

- In another case it was held that the State had power to restrict hazardous industrial activities for the purpose of protecting the right of the people to live in healthy environment. Further the right to live contains the right to complain compensation for the victims of pollution hazards.
- Since the right to a clean & wholesome environment has been recognized as an implied fundamental right, the writ petitions are often resorted to in the environmental case.
- The Public Interest Litigation (PIL) is also usually filed in environmental cases.



→ Article 51A Fundamental Duties

- It shall be the duty of every citizen of India :
 - to value and preserve the rich heritage of our composite culture
 - to protect & improve the natural environmental including forests, lakes, rivers & wildlife & to have compassion for living creature
 - to safeguard public property



→ Directive Principles

- Article 48 Organisation of Agriculture & animal husbandry
- Article 48A Protection & improvement of forest & wildlife
- Article 49 Protection of monuments etc.

⇒ Liability For Pollution/ Polluter Pays Principle

→ Nature of Liability

- The liability to cause the pollution may be civil or criminal.
- Civil liability means committing a wrong i.e. 'tort' & the most common being the negligence in case of pollution.
- The landmark judgment of Rylands Vs. Fletcher laid down the principle of 'Absolute Liability'. As per the rule of strict liability, it is no defence that the person concerned had no knowledge of its existence. If the person keeps any harmful substance on his land he has the absolute liability to compensate all the injured parties.



- As per vicarious liability, if the employee commits a tort within the scope of his employment, the employer also becomes liable.
- In famous judgment of Shriram Foods and Fertilizer Industries vs. Union of India, the manufacturing operations were closed down after major leakage of Oleum gas and were allowed recommencement only after the undertaking of personal liability by the chairman, managing director.

→ M.C. Mehta Vs. Union of India



- The application for compensation in a pollution case can be maintained under Article 32 of the constitution.
- Such application is for the protection of the fundamental rights of the people and the court has got all the power to enforce these rights.
- The SC laid down that the enterprise engaged in hazardous activity, posing a potential threat to the health & safety of workers & people of surrounding areas, owes an absolute duty to the community.
- The SC ruled that the measure of compensation must be correlated to the magnitude & capacity of the enterprise because such compensation must have a deterrent effect.

He is one of the world's most renowned and successful activists. He has been involved in various legal suits for the protection of the environment. He is a lawyer by profession but has chosen to work for the environment. He has approached the courts on numerous occasions and the orders have pioneered the environmental movement in India.

⇒ Sustainable Development

→ Background



- The concept of sustainable development was first of all highlighted at the United Nations Conference on the Human Environment held at Stockholm in June 1972.
- Various international conferences have been held regarding environment since then.
- The concept of sustainable development was also discussed in "The United Nations Conference on Environment and Development", known as Earth Summit held at Rio-de-Janeiro in Brazil in June 1992.



→ Meaning

- It means an integration of development & environmental objectives.
- It also means development in harmony with environmental considerations because the continuing development without any concern for the environment can only be the short-term development.
- Sustainable development is development that meets the needs of the present without compromising the ability of the future generations to meet their own needs.



- Gandhiji, "There is enough for everyone's need but not for everyone's greed."
- Holybooks, "May all be happy, may none have sorrows."

→ Principles of sustainable living

- It is essential for the people of present generation to use the resources of the earth sustainably & prudently so that they do not deny certain benefits to future generations.
- The following principles can be laid down :
 - respect & care for the community of life
 - improving the quality of human life
 - conserving the diversity of earth
 - minimising the depletion of nonrenewable resources
 - changing personal attitudes & practices
 - providing a frame work for integrating development & conservation



→ Efforts required for sustainable development

- To conserve the life support system
- To prevent the pollution
- To minimize the discharges of harmful substances
- To conserve biodiversity
- To make sustainable use of renewable resources
- To minimize the depletion of non renewable resources
- To switch to renewable substitutes
- To make the people aware by dissemination of formal & informal education
- To improve the quality of life
- To provide for effective waste disposal
- To promote rural development
- To have stronger laws in place to enforce the sustainable development



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→ Special responsibilities of industries based on natural resources :

- Industries that are based on natural resources, like minerals, timber, fibre, and foodstuffs etc. have a special responsibility for:
 - adopting practices that have built-in environmental consideration
 - introducing processes that minimize the use of natural resources and energy, reduce waste, and prevent pollution.
 - making products that are 'environment-friendly', with minimum adverse impact on people and ecosystem.



⇒ Conservation Of Natural Resources

→ Meaning

- It means the protection, improvement & wise use of natural resources so as to benefit the present as well as the future generations.
- It essentially involves consumption of natural resources like minerals, soils, air, water, coal, petroleum in an intelligent manner, so as to leave the sufficient resources to meet the future demands.
- It refers to the rationing of natural resources for later uses.



→ Guidelines

- To adopt ethical practices to protect the environment
- To have a serious concern to address future generation needs
- To have innovative approaches to combat the arising environmental problems. Example - recycling of water for various uses
- Government to launch stricter guidelines & to ensure compliance of same by business community
- To restore ecologically degraded areas

Love your environment



...be proud of it.



⇒ Pollution & Resource Depletion

→ Pollution

- It means the presence of contaminants & harmful substances into the natural environment, which causes undesirable effects to the ecosystem.
- As per the Environment (Protection) Act, 1986 Environmental pollution means the presence of any environmental pollutant in the environment.



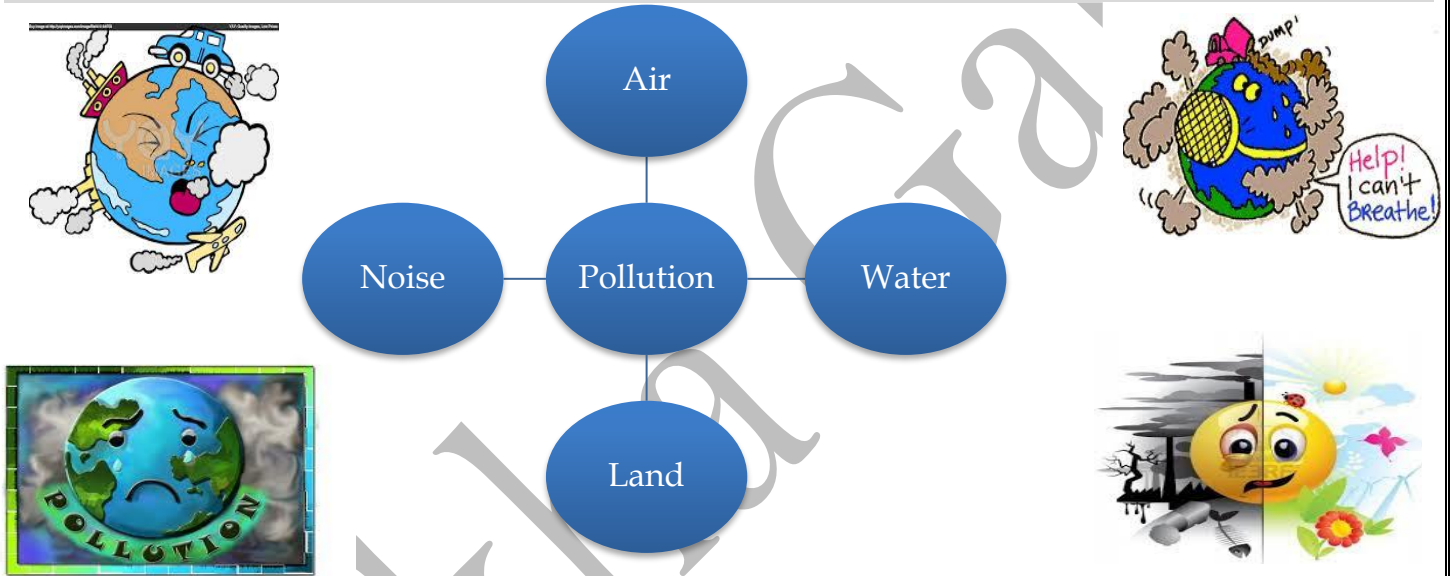
- Environmental pollutant means any solid, liquid or gaseous substance which is present in such concentration that it may be injurious to the environment.

→ Resource Depletion



- It refers to the consumption of limited, finite or scarce resources.
- It means touching that point by a scarce resource where it can't regenerate itself to cope with the demand.
- Pollution is a form of resource depletion because the contamination of air, water or land damages their beneficial qualities.

TYPES OF POLLUTION



⇒ Air Pollution

→ Meaning

As per the Air (Prevention & Control of Pollution) Act, 1981

- Air pollution means the presence of any air pollutant in the atmosphere.
- Air pollutant means any solid, liquid or gaseous substance including noise, which is present in such concentration in the atmosphere as may be injurious to the human beings or other living creatures, plants, property or environment.

→ Causes

- Industries emitting harmful gases
- Vehicular pollution
- Industrial accidents (Bhopal gas tragedy)
- Deforestation
- Burning of fuel releasing hazardous chemicals
- Global warming
- Acid rain



NEVER GIVE UP. BE POSITIVE.

- Ozone depletion



→ Effects

- Decrease in quality & quantity of agricultural products
- Skin cancer
- Eye diseases
- Depletion of ozone layer
- Asthma
- Lung diseases
- Degradation in quality of historical monuments



⇒ Water Pollution

→ Meaning

- As per the Water (Prevention & Control of Pollution) Act, 1974 water pollution means
 - contamination of water
 - alteration of physical, chemical or biological properties of water
 - discharge of any sewage or trade effluent or of any other liquid, gaseous or solid substance directly or indirectly into the water.



→ Causes

- Mixing of radioactive elements in ocean water by nuclear tests
- Water sources being used as disposal sites by businesses
- Increased growth of industries
- Increase in human population
- Growing tendency to urbanization
- Sewage disposals



→ Effects

- Shortage of pure drinking water
- Water becoming unusable for irrigation
- Harmful effects on health of animals, plants or aquatic organisms
- Loss of fertile land
- Rapid increase in waterborne diseases (cholera, typhoid, jaundice)
- Availability of only harmful water for domestic, commercial, industrial or other legitimate uses



⇒ Land Pollution

→ Meaning

- Land pollution means the contamination of soil by unhealthy & dangerous substances; solid or liquid.



→ Causes

- Industrial waste
- Acid rain
- Garbage dumping
- Use of pesticides & chemical fertilizers
- Soil erosion



→ Effects

- Fertile lands turning into deserts
- Bone damage
- Liver cancer & birth abnormalities being caused by Poly Vinyl Chloride
- Causing air & water pollution by chain reaction
- Badly damaging agricultural prospects



⇒ Noise Pollution

→ Meaning & Introduction

- It means the pollution arising from the sound or noise.
- There has not been any separate enactment till date in this aspect as it has not gained the much necessary required attention.
- 'Noise' has not found a place in the definition of environmental pollutant & has been a neglected pollutant.



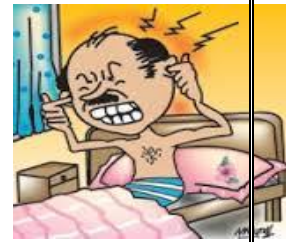
→ Major sources of Noise Pollution

- Vehicular traffic
- Industries
- Construction activities
- Generator sets
- Loud speakers
- Public address systems
- Music systems
- Household instruments
- Vehicular horns



→ Consequences of Noise Pollution

- Interference with sleep
- Loss of hearing
- Interference in use of telephone, enjoyment of radio & television programmes
- Mental tension & strain
- Heart problems
- Nervous shock
- Blood pressure
- Reduced efficiency of schools & offices



→ Noise Pollution (Regulation & Control) Rules, 2000

- Ambient air quality prescribed in different areas and
- Area comprising silence area/zone;
 - hospitals
 - educational
 - courts
- The states are required to designate the authority to maintain the prescribed ambient standards.
- The use of loudspeaker or a public address system has been restricted during night (10:00 pm to 6:00 am); except in closed premises for the communication i.e. conference rooms, community halls etc.
- The use of music, sound amplifiers, horns etc. is prohibited in silence zone.



standards have been respect of noise for zones.

100 metres has been declared as around the institutions



• **Contravention of Rules**

- The rules make the provision for the authority, to whom the complaints may be made for violation of these rules.
- The authority may issue the directions to prevent the annoyance, disturbance, discomfort to any person or property.
- The person committing an offence under these rules shall be liable to penalty.



⇒ Global Warming

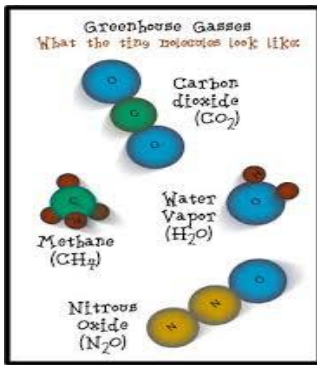
→ Meaning

- It is a phenomenon in which the global temperatures are slowly rising.

→ Causes

- Increase in the emission of greenhouse gases
- Deforestation





→ Concept of greenhouse gases

- Greenhouse gases, which are
 - Carbon dioxide
 - Methane
 - Nitrous oxide
 - Chlorofluorocarbons

occur naturally in the atmosphere to absorb & hold the heat from the sun to maintain required temperature in the atmosphere for the life to flourish.

- However, in the past there has been an increased emission of greenhouse gases due to industrial & other human activities, particularly by burning of fossil fuels such as oil, coal & petroleum products.
- An increase of greenhouse gases results in rising temperatures around the globe, causing the melting of polar ice regions leading to rise in sea levels.



→ Adverse effects

- Higher temperatures
- Expansion of the world's deserts
- Melting glaciers causing sea level to rise
- Extinction of several species of plants & animals
- Disruption in farming operations
- Variable climatic conditions
- Large spread of diseases like dengue, malaria
- Rise in intensity & frequency of natural disasters like floods, droughts & hurricanes etc.



→ Suggestions

- Improve energy efficiency
- Increased use of renewable sources of energy like solar & wind energy
- Reduced emission of greenhouse gases
- Afforestation (as plants & trees absorb carbon dioxide)
- Use of biofuels (fuels produced from crops)

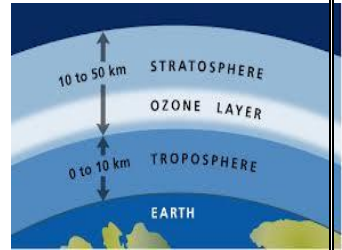


⇒ Ozone Depletion

→ Meaning of Ozone Layer

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- The atmosphere has an upper layer of ozone gas which absorbs Sun's Ultra Violet rays.
- This layer which protects the human life from these harmful UV rays is called ozone layer.



→ Meaning of Ozone Depletion

- Ozone depletion means destruction of this protective ozone layer.

→ Causes of Ozone Depletion

- When chlorine & bromine compounds reach the stratosphere, they destroy ozone molecules resulting in destruction of ozone layer.
- The origin of these compounds is chlorofluorocarbon (CFC) gases, which are used as cooling substances in
 - air-conditioners
 - refrigerators
 - fire extinguishers
 - industrial solvents
- The CFC gases cause gaps in ozone through which harmful UV rays



Hole in the Ozone Layer



layer (ozone holes), fall on earth.

→ Effects of Ozone Depletion

- Destruction of major crops (which are sensitive to UV rays)
- Adverse effect on growth of terrestrial plants
- Causing skin cancer & eye diseases
- Damage to living organisms
- Disruption to marine food chains, thereby affecting the aquatic organisms



⇒ Acid Rain

→ Meaning

- Rain having the compounds of Sulphuric acid & Nitric acid is called acid rain.

→ Causes

- The major source of acid rain is combustion of fossil fuels, to generate electricity.
- When burnt, fossil fuels emit gases like Sulphur dioxide & nitrogen oxide, which when react with water & oxygen gives rise to sulphuric acid & nitric acid.
- These acids get dissolved in rain water & make it acidic & in turn this acid rain falls on earth.



→ Effects

- Destruction of forests
- Contamination of rivers & water bodies
- Damage to soil & vegetation
- Disturbs wild life
- Harms human health causing skin & respiratory diseases
- Acidification of water making it dangerous for aquatic organisms

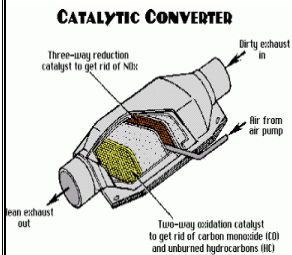


- Decay of buildings & other structures, specially made of iron, marble & limestone.



→ Suggestions

- Limiting the consumption of electricity
- Reducing the vehicles & increasing the use of public transport
- Using renewable sources of energy like wind energy & solar energy
- Fitting catalytic converters in vehicle exhausts which removes the nitrogen oxide
- Removing sulphur dioxide from power station chimneys



⇒ Steps Taken By Government Against Pollution

- Constitutional provisions
- Locational restrictions on Industries
- Constituting Pollution Control Boards at State & Centre level
- Checking of pollutant emission from automobiles
- Environment Impact Assessment by Ministry of Environment & Forests (MOEF)



- Environmental Audit
- Ban on smoking at public places
- Ban on use of plastic bags
- Effective waste disposal mechanism
- Amendment of Factories act, 1948 in 1987 to include provisions for preventing pollution



- Passing of legislations
 - The Indian Forest Act, 1927
 - Industrial (Development & Regulation) Act, 1951
 - Mines & Minerals (Regulation & Development), 1957
 - Motor Vehicles Act, 1988
 - Atomic Energy Act, 1962
 - Wild Life (Protection) Act, 1972
 - Forest (Conservation) Act, 1980
 - Water (Prevention & Control of Pollution) Act, 1974
 - Air (Prevention & Control of Pollution) Act, 1981
 - Environment (Protection) Act, 1986
 - Public Liability Insurance Act, 1991
 - Biological Diversity Act, 2002
 - National Green Tribunal Act, 2010



⇒ Ecofriendly Business Practices



- Incorporating environment issues in corporate goals
- Ecofriendly production processes & technology
- To follow ecological ethics
- Not to earn profits at a cost of environment degradation
- Proper R & D to find out best possible avenues to save energy
 - Environment Audit to identify the cost & energy saving areas
 - Adopting practices having concern for environment protection
 - Producing ecofriendly products
 - Compliance with environmental standards like ISO 14000, 14001, 14004
 - To reduce the consumption of non renewable sources of energy
- Having waste management practices by minimizing waste, recycling waste & sound waste disposal practices
- To devise a code of conduct for regulation of social, ethical & environmental impacts of the business
- Green accounting systems



⇒ Benefits Of Being Environmentally Ethical

- Minimum pollution
- Increase in savings
- Reduction in wastage
- Gaining competitive edge
- Improvement in corporate performance
- Sound corporate image



⇒ Green Accounting Systems

- It is a term used for environmental & natural resource accounting.
- It is a system which takes into account the benefits & costs of environment.
- The conventional accounts having zero data about environment may lead to non-sustainable policy decisions.
- On the other hand, proper presence of environmental costs in the accounting system will lead to better decisions with wide acceptability.
- Also, the consumers become more conscious when using the environment, once they know that they have to bear a cost of same.
- Thus, Green Accounting Systems is a management tool used by the business to
 - improve environmental performance
 - control the costs
 - increase material efficiency
 - reduce ill impact on environment
 - align accounting systems with environmental objectives
 - exhibit social responsibility
 - address the need to follow ecological ethics by all



Blast From The Past

1.	J 09 (2.5 M)	There is no economic growth without ecological costs. Correct or Incorrect.
2.	M 10 (5 M)	Explain the concept of Green Accounting System.
3.	N 10 (2 M)	Business and industry are closely linked with environment and resource utilization.
4.	M 11 (4 M)	Write a note on ecological ethics.
5.	N 11 (2.5 M)	A nation should satisfy its social and economic requirements without damaging the interest of future generations.
6.	M 12 (4 M)	State the special responsibilities of industries that are based on natural resources. How does the adoption of 'Green Accounting System' help in avoiding policy decisions which are non-sustainable for the country? Explain.
7.	N 12 (2.5 M)	There is no economic growth without ecological costs. Correct or Incorrect.
8.	M 14 (4 M)	What do you understand by "Acid rain"? How it adversely affects environment?
9.	N 14 (4 M)	The industries that are based on natural resources, like minerals, timber, fibre and foodstuffs, have some special responsibility for making "environment-friendly products". Examine statement & explain the concept of Green Accounting System.
10.	N 14 (3 M)	There is no economic growth without ecological costs. Correct or Incorrect.
11.	M 15 (2 M)	Inclusion of environmental consideration as a part of corporate strategy improves corporate performance. Correct or Incorrect.
12.	M 15 (4 M)	Explain the meaning of 'Sustainable Development'? State the special responsibilities of the industries that are based on natural resources.
13.	N 15 (4 M)	Discuss different environmental phenomena of ethical concern?
14.	M 16 (5 M)	"A nation or society should satisfy its requirements without jeopardizing the interest of future generations." Comment w.r.t. Sustainable Development.
15.	N 16 (5 M)	What is meant by "Environmental Ethics"? How does its non-adoption lead to 3 P's viz., polluter pays principle? Explain.
16.	M 17 (4 M)	What do you mean by the term "Acid Rain"? How does it adversely affect the environment?
17.	M 18 (4 M)	Explain the concept of Green Accounting System. Also discuss its benefits.

Check Your Progress... (Other Important Questions)

1.	What is the concept behind emphasizing the ecological ethics? (RTP M 12)
2.	"There is no economic growth without ecological costs" explain. (RTP M 12)
3.	Answer whether the statement is correct or incorrect with brief reasons: (a) 'There is no economic growth without ecological costs'. (b) Water pollution is also a kind of resource depletion. (RTP N 12)
4.	What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain. (RTP M 13)
5.	What is meant by 'Sustainable Development'? State the special responsibilities of the industries that are based on natural resources. How the adoption of Green Accounting System helps in avoiding policy decisions which are non-sustainable for the country? (RTP N 13)
6.	What do you understand by the term "Acid rain"? How does it adversely affect the environment? (RTP N 13)

7.	Conservation looks primarily to the future. Correct or incorrect. (RTP M 14)
8.	Explain the lines that 'Business firms are parts of a larger ecological system'. (RTP M 15)
9.	What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain. (RTP N 15) (RTP M 16)
10.	Write note on Ecological ethics. (RTP N 16)
11.	What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain. (RTP N 17)
12.	What do you understand by the term "Acid Rain"? How does it adversely affect the environment? (RTP M 18)
13.	What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain. (RTP N 18)

Shikha Garg

Ethics in Marketing and Consumer Protection

⇒ Marketing

- Marketing means identifying the needs of customers & then taking suitable actions to satisfy their needs.
- It plays an important role in winning the confidence of customers.



⇒ Need For Ethics In Marketing

- The task of marketers is to influence the behaviour of customers in their favour. And, to accomplish this goal, marketers have a variety of tools at their disposal, which include :
 - the design of a product,
 - the price at which it is offered,
 - the message used to describe it, and
 - the place in which it is made available.
- Marketing executives face the challenge of balancing their own best interests in the form of recognition, pay and promotion, with the best interests of consumers, their organizations, and society.



- Marketing ethics means applying the ethics in the marketing decision making.
- It means to create trust amongst consumers & to strive for the long term customers relationships.
- Ethical marketing involves avoiding deceptive practices & complying with the rules, laws & regulations.
- It involves incorporating social considerations in all the processes related with marketing.

⇒ Ethical Guidelines

- With the passage of time, a need has been felt to create the specific guidelines w.r.t. marketing ethics.
- Many organizations have framed codes of ethics that
 - identify specific acts (bribery, accepting gifts) as unethical and
 - describe the standards employees are expected to follow
- These guidelines lessen the chance that an employee will knowingly or unknowingly violate a company's standards.
- While the people having spent considerable time in marketing field might have gained considerable knowledge as to balance their conflict of interests, but these codes can be valuable guides for young or inexperienced executives, helping them to resist pressure and to come out of ethical dilemma.
- Over 90 per cent of the Fortune 1,000 companies have ethics codes, as do many smaller business.



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⇒ Four Pragmatic Reasons For Ethical Behavior In Marketing

Marketing executives should practice ethical behaviour because it is morally correct. To maintain ethical behaviour in marketing, the following positive reasons may be useful to the marketing executives:

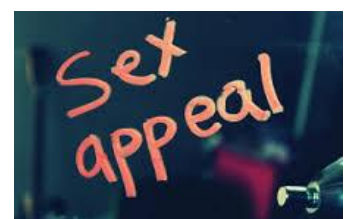
<p>To reverse declining public confidence in marketing</p>	<p>Sometime misleading package labels, false claim in advertisement, phony list prices, infringement of trademarks pervert the market trends and such behaviour damages the marketers' reputation. To reverse this situation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will fulfil it. Companies must set high ethical standards and enforce them. Moreover, it is in management's interest to be concerned with the well-being of consumers, since they are the lifeblood of a business.</p>
<p>To avoid increases in government regulation</p>	<p>Business apathy, resistance, or token responses to unethical behaviour increase the probability of more governmental regulation. The governmental limitations may also result from management's failure to live up to its ethical responsibilities. Moreover, once the government control is introduced, it is rarely removed.</p>
<p>To retain the power granted by society</p>	<p>Marketing executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility tied to that power. If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.</p>
<p>To protect the image of the organization</p>	<p>Buyers often form an impression of an entire organisation based on their contact with one person. That person represents the marketing function. Sometimes, a single sales clerk may pervert the market opinion in relation to that company which he represents.</p>

⇒ Common Unethical Marketing Practices

- Anti competitive agreements
- Territorial allocation
- Misleading advertisements
- Hoarding of goods
- Unethical pricing
- Conducting promotional contest



- False claims about guarantee/warranty
- Price discrimination
- False claims about approval/sponsorship
- Deteriorating the quality of goods or services
- Deceptive packaging
- Sex appeals (even in unwanted ads)



⇒ Ethics In Advertisements

- Misrepresentations in advertisements
- Objectionable material - sex, violence etc.
- Concealment of material facts
- Bait advertising - 50% off, sale etc.
- Over influence by continuous advertisement



⇒ Need For Ethical Marketing

- To discharge responsibility towards all the stakeholders
- To avoid the governmental regulation
- To lead to development of positive attitude by the consumers & better image of the organization



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- To retain the public confidence
- To sustain increase in turnover & profits over the long run
- To restore the society's faith in the business

⇒ Competition

→ Meaning

- It is a situation in the market in which the firms or sellers independently strive for the buyers, patronage in order to achieve a particular business objective, for example profits, sales or market share.
- It can also be defined as a process of economic rivalry between market players to attract the customers.



→ Importance

- The market may adopt fair means or unfair means to attract the customers. However the use of unfair means should be minimized in the interest of users.
- With globalization and opening of the markets worldwide, it has become a subject of great practical importance, which can be outlined as follows :
 - It widens the choice.
 - It encourages the enterprise efficiency.
 - It contributes to international competitiveness.
 - The sellers are induced to minimize the cost.
 - There gets the tendency to eliminate the waste.
 - It fosters mobility of resources.
 - It ensures efficient allocation of resources.



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Competition Law in India

MRTP Act, 1969

The Consumer Protection Act, 1986

The Competition Act, 2002

MRTP ACT, 1969

The Monopolies and Restrictive Trade Practices Act 1969 has been repealed w.e.f. 1 Sep 09, though the important provisions are summarized below.



⇒ Objective Of The Act

- To prevent the concentration of economic power.
- To prohibit the monopolistic trade practices.
- To control the monopolies.
- To prohibit the restrictive trade practices.

COMPETITION ACT, 2002

⇒ Introduction

- As India has opened up its economy by removing the controls, due to liberalization & globalization, it was sure to face the competition from international market.
- Moreover the MRTP Act had become obsolete in certain aspects in the light of international economic developments.
- There was a need to shift the focus from curbing monopolies to promoting the competition.
All these reasons led to framing up of the Competition Act.

⇒ Salient Features

- It seeks to ensure fair competition in India.
- It aims to prohibit the trade practices having appreciable adverse effect on the competition.
- It provides for establishment of a quasi judicial body to be called the Competition Commission of India (CCI), to undertake competition advocacy.
- It provides for investigation by the director general, if directed by the commission.
- It seeks to create a fund called the Competition fund.

⇒ Objectives Of The Act



- To establish the commission to prevent the practices having adverse effect of competition.
- To promote & sustain competition in the markets.
- To protect the interest of consumers.
- To ensure freedom of trade carried on by other participants in the markets in India.
- To provide for the economic development of the country by achieving above.
- To provide for the other incidental & connected matters.



⇒ **Consumer**→ ***In respect of goods :***

- It means a person who buys any goods for a consideration.
- Such consideration may be
 - paid or
 - promised or
 - partly paid & partly promised or
 - under the system of deferred payment
- It includes the user of such goods, other than the buyer if the use is made with approval of buyer.
- It also includes a person who obtains such goods for
 - resale or
 - any commercial purpose or
 - for personal use

→ ***In respect of services***

- It means a person who hires or avails of any services for a consideration.
- Such consideration may be
 - paid or
 - promised or
 - partly paid & partly promised or
 - under the system of deferred payment
- It includes the beneficiary of such services, other than, the hirer, if the service is availed with permission of hirer.
- It also includes a person who avails of such services for commercial purpose or for personal use.

⇒ **Anticompetitive Agreement (ACA) [Section 3]**→ ***Prohibition of ACA***

- Any enterprise or association of enterprises or person or association of persons shall not enter into any agreement in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services which can cause an appreciable adverse effect on competition within India.

→ ***Effect of such agreements***

- Any agreement in contravention of above provisions shall be void.

→ ***Presumption about appreciable adverse effect on competition***

- Any agreement shall be presumed to have an appreciable adverse effect on competition if it :
 - directly or indirectly determines the purchase or sale price
 - limits or controls production, supply, markets, technical development, investment or provision of services
 - shares the market or source of production or provision of services by way of :
 - allocation of geographical area of market; or
 - type of goods or services, or
 - number of customers in the market, or
 - any other similar way
 - directly or indirectly results in bid rigging or collusive bidding

Bid rigging means any agreement which has the effect of :

- eliminating or reducing the competition for bids or
- adversely affecting or manipulating the process for bidding



→ Exception

- An agreement entered into by way of joint venture which increases the efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services shall not be deemed to be anticompetitive agreement.

→ Other anticompetitive agreements

The following agreements shall be deemed to be anticompetitive agreements if they can cause an appreciable adverse effect on competition in India.

• **Tie in Arrangement**

- It includes an agreement requiring a purchaser of goods to purchase some other goods, as a condition of such purchase.



• **Exclusive Supply Agreement**

- It includes an agreement restricting the purchaser from acquiring or dealing in any goods other than those of the seller or any other person.

• **Exclusive Distribution Agreement**

- It includes any agreement:
 - to limit, restrict or with hold the output or supply of any goods or
 - to allocate any area or market for the disposal or sale of goods.



• **Refusal To Deal**

- It includes any agreement which by any method can restrict the persons or classes of persons :
 - to whom the goods are sold, or
 - from whom the goods are bought

• **Resale Price Maintenance**

- It includes any agreement to sell the goods on condition that the prices to be charged by purchaser on resale shall be the prices as stipulated by the seller, unless it is clearly stated that the prices lower than these may be charged.



⇒ Abuse Of Dominant Position (ADP) [Section 4]

→ Meaning of Dominant position

- It means a position of strength which is enjoyed by an enterprise in the relevant market in India which enables it to :
 - operate independently of competitive forces prevailing in the relevant market or
 - affect its competitors or consumers or the relevant market in its favour



→ Prohibition on ADP

- No enterprise or group shall abuse its dominant position.

→ Presumptions about ADP

There shall be an ADP if an enterprise or a group :

- Directly or indirectly imposes unfair or discriminatory
 - condition in purchase or sale of goods or services, or
 - price in purchase or sale (including predatory price) of goods or service



The unfair or discriminatory condition or price does not include any discriminatory condition or price, which may be adopted to meet the competition.

Predatory price means the sale of goods or provisions of services at a price which is below the cost (as may be determined by regulations) of the production of goods or provision of services with a view to reduce the competition or eliminate the competitors.

- Limits or restricts :
 - production of goods or provision of services or market therefore or
 - technical or scientific development relating to goods or services to the prejudice of consumers
- Indulges in any practice(s) resulting in denial of market access in any manner.
- Makes conclusion of contracts subject to acceptance by other parties of supplementary obligations which does not have any connections with the subject of such contracts, by their nature or according to commercial usage.
- Uses its dominant position in one relevant market to protect or enter into the other relevant market.

⇒ Inquiry Into Certain Agreements And Dominant Position Of Enterprise [Section 19]

→ Nature of Inquiry

- The commission may make an inquiry to determine, whether the provisions of
 - Section 3 (anti competitive agreements) or
 - Section 4 (abuse of dominant position)
 have been contravened.



→ When can it make an enquiry?

- On its own motion, or
- On receipt of any information from
 - any person
 - consumer
 - trade association; or
- On reference being made to it by
 - central govt. or
 - state govt. or
 - a statutory authority



⇒ Competition Commission Of India

→ Establishment [Section 7]

- The Competition Commission of India (Commission) shall be established by central govt. by notification in the official gazette.
- It shall be a body corporate having perpetual succession & a common seal.



Competition Commission of India

→ Composition of Commission [Section 8]

- It shall consist of :
 - a Chairman &
 - other members, minimum 2 & maximum 6, to be appointed by the central govt.
- They shall be the whole time members.

→ Appointment [Section 9]

- The chairperson & other members of the commission shall be appointed by central govt. on the recommendation of a selection committee.

→ **Term of office [Section 10]**

- The chairperson & every other person shall hold office :
 - for a term of 5 years or
 - upto the age of 65 yrs whichever is earlier.
- They shall be eligible for reappointment.



→ **Restriction on employment [Section 12]**

- The chairperson & other members shall not accept any employment connected with the management or administration of any enterprise which has been a party to any proceeding before the commission under this act, after they leave to hold their offices.
- Such restriction is applicable for a period of 2 years.
- Such restriction does not apply to the following :
 - central govt.
 - state govt.
 - local authority
 - statutory authority
 - corporation established by or under any central, state or provincial act
 - govt. company



→ **Duties of Commission [Section 18]**

- To eliminate the practices having adverse effect on competition.
- To promote the competition.
- To sustain competition.
- To protect the interests of consumers.
- To ensure freedom of trade carried on by other participants in India.
- To enter into any memorandum or arrangement with any agency of foreign country, with prior approval of central govt.



⇒ **Competition Advocacy [Section 49]**

→ **Formulation of competition policy**

- The central govt. or state govt. while formulating a policy on competition or on any other matter may make a reference to the commission for its opinion on possible effect of such policy on competition.
- The commission shall give its opinion within 60 days to the central or state govt.
- The central or state govt. may take the further action as deemed fit.



→ **Opinion not binding**

- The opinion given by the commission shall not be binding on the central or state govt.

→ **Duties of commission**

- The commission shall take suitable measures for :
 - promotion of competition advocacy
 - creating awareness about competition issues &
 - imparting training about competition issues



⇒ Competition And Consumer Welfare

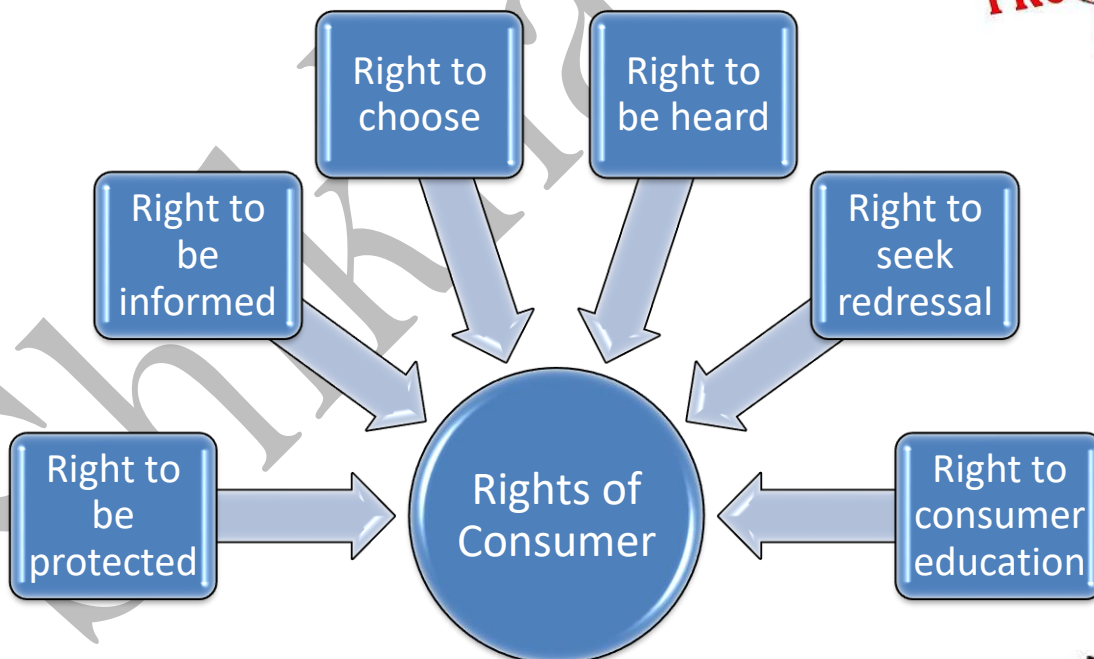
- United Nations Guidelines for Consumer Protection were adopted by the UN General Assembly in 1985 and amended in 1999.
- These guidelines represent an international regulatory framework for governments to use and these aim at the development and strengthening of consumer protection policy and legislation to promote consumer welfare.
- The UN Guidelines call upon governments to develop, strengthen and maintain a strong consumer policy, and provide for enhanced protection of consumers by enunciating various steps and measures around following eight themes (UNCTAD, 2001).
 - Physical safety
 - Economic interests,
 - Standards
 - Essential Goods and services
 - Redress
 - Education and information
 - Specific areas concerning health
 - Sustainable consumption



CONSUMER PROTECTION ACT, 1986

⇒ Objective Of The Act

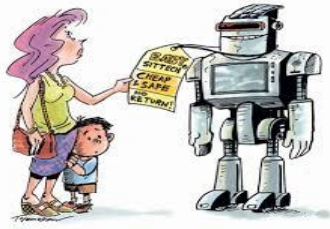
The act seeks to promote and protect the rights of the consumers.



→ Right to be Protected

- Every consumer has the right to safety and to be protected against the marketing of goods; which are hazardous to life & property.





→ Right to be Informed

- The consumer has the right to be informed against the following characteristics of goods:
 - quality
 - quantity
 - potency
 - purity
 - standard
 - price
- It is necessary to protect the consumers against unfair trade practices; by making them informed about above.



→ Right to Choose

- The consumer has the right to access to a variety of goods at competitive prices.



→ Right to be Heard

- The consumer's interests will receive due consideration at appropriate forums.
- The consumer can present his case in various forums for his welfare.

→ Right to Seek Redressal

- The consumer has right to seek redressal against unfair trade practices or exploitation of consumers.
- His grievances shall be settled in a fairly manner.



→ Right to Consumer Education

- The consumer has right to acquire all the knowledge & skills to be an informed consumer.

→ Inclusions

As per International Organization of Consumers (IOCU), the rights also include :

- Right to healthy environment
- Right to basic needs



⇒ Consumer

→ Meaning

- In respect of Goods
 - It means a person who buys any goods for a consideration.
 - Such consideration may be
 - paid or
 - promised or
 - partly paid & partly promised or
 - under the system of deferred payment
 - It includes the user of such goods, other than the buyer if the use is made with approval of buyer.

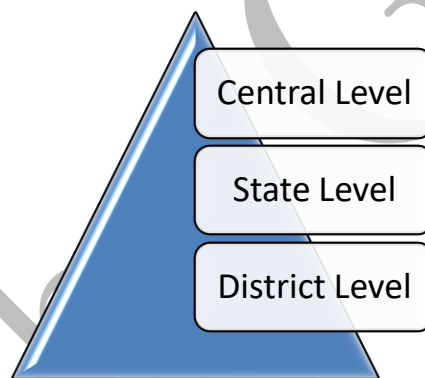


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- It doesn't include a person who obtains such goods for
 - resale or
 - any commercial purpose
- It includes the person who uses such goods exclusively for the purpose of earning his livelihood by means of self employment.
- **In respect of services**
 - It means a person who hires or avails of any services for a consideration.
 - Such consideration may be
 - paid or
 - promised or
 - partly paid & partly promised or
 - under the system of deferred payment
 - It includes the beneficiary of such services; other than the hirer, if the service is availed with permission of hirer.
 - It doesn't include a person who avails of such services for commercial purpose.

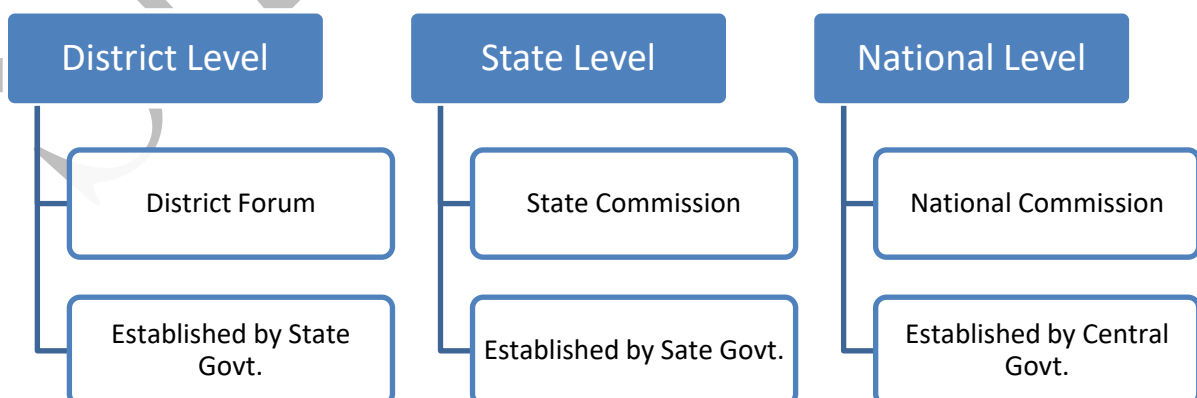
⇒ Consumer Protection Councils

The interests of the consumers are sought to be promoted & protected under this act by the establishment of consumer protection councils at :



⇒ Redressal Machinery Under The Act

The act provides for a 3 tier quasi judicial redressal machinery for the redressal of consumer disputes & grievances at the



Note: *There may be more than one district forum in the district.*

⇒ Limitation Period For Filing The Complaint [Section 24A]

- The complaint must be filed within 2 years from the date on which the cause of action arose, with the
 - district forum
 - state commission
 - national commission
- If the complainant satisfies the authorities that he had sufficient cause for not filing the complaint within 2 years, the appeal may be entertained after recording the reasons in writing.



⇒ Enactments Till Date

- MRTP, 1969
- Prevention of food adulteration act, 1954
- Essential commodities act, 1955
- Standard of weights & measures act, 1976
- Legal metrology act, 2009
- Consumer protection act, 1986
- Competition Act, 2002



⇒ Consumer's Interest & Public Interest

S.No.	Basis of Distinction	Consumer's Interest	Public Interest
1.	Meaning	It means the interest of consumers i.e. buyers.	It means the interest of the society at large.
2.	Scope	It's scope is narrower as it is only a part of the public interest.	Its scope is wider as it encompasses the consumer's interest along with interest of various other groups.
3.	Meaning of Constituent	Consumer means a person who purchases the goods or avails the services offered by the organization.	Public is collection of various groups like consumers, producers, sellers, suppliers, etc.
4.	Aim	It aims at providing the best quality products or services at the best possible prices.	It aims at having good & ethical business practices in each area to satisfy all groups of society.
5.	Factors	Consumer's interest is affected by the quality, quantity, potency, purity, standard & price of the goods & services offered by the organization.	Public interest is affected by the interest of all the sections or groups of society.
6.	Conflict	Any step taken by the organization in the consumer's interest may be against the public interest.	Any step taken by the business in the public interest may not be in the consumer's interest.
7.	Steps by Govt.	Various laws framed such as MRTP Act 1969, Essential commodities Act 1955, Consumer protection Act 1986, Competition act 2002 give importance to consumer's interest.	Laws framed such as Water (prevention & control of pollution) Act 1974, Air (prevention & control of pollution) Act, 1981 give importance to the public interest.

⇒ Healthy Competition And Protecting Consumer's Interest

- Competition means rivalry in the marketplace, which is regulated by a set of policies and laws to achieve the goals of economic efficiency and consumer welfare, and to check on the concentration of economic power. All these goals have an interactive relationship and, when in harmony, deliver total welfare. Indeed, it is the consumers who are supposedly the biggest beneficiaries of competition.
- At the macro level, the design and implementation of a competition policy promotes the advancement and increased welfare of the poor. At the micro level, an effective competition regime or consumer law (covering competition distortions) can prevent consumer abuses, both at industry level as well as in a village or locality where one shopkeeper can cheat the whole community.
- An appropriate and dynamic competition policy and law are imperative to :
 - support the economic development
 - control the corruption
 - reduce wastage and arbitrariness
 - improve competitiveness
 - provide relief to the poor

Blast From The Past

1.	J 09 (2.5 M)	'Consumer interest' and 'Public interest' are synonymous. Correct or incorrect.
2.	N 09 (5 M)	Explain the pragmatic reasons for maintaining ethical behaviour in marketing through marketing executives.
3.	N 10 (4 M)	State the objectives of the Central Consumer Protection Council in India.
4.	N 11 (4 M)	Which parameters are applicable in relation to Competition Law in India?
5.	M 12 (4 M)	What reasons force a marketing executive to adopt ethical practices in marketing? Explain.
6.	N 12 (4 M)	Explain the objects of the Consumer Protection Councils in India.
7.	N 12 (4 M)	Differentiate between 'consumer interest' and 'public interest'.
8.	M 13 (4 M)	Discuss the concept of "Realty Competition" and "Protecting Consumer's Interest".
9.	N 13 (4 M)	Describe the parameters of Competition Law as contained in Competition Act, 2002.
10.	M 14 (4 M)	What are the objects of the "Central Consumer Protection Council" in relation to protection of rights of the consumers?
11.	M 14 (3 M)	'Consumer interest' and 'Public interest' are synonymous. Correct or incorrect.
12.	M 15 (4 M)	What are the 'United Nations Guidelines Themes' on consumer protection?
13.	N 15 (4 M)	Explain the pragmatic reasons for maintaining ethical behaviour in marketing through marketing executives.
14.	M 16 (4 M)	Objectives of the Central Consumer Protection Council in India are to promote and protect the rights of consumers. Elucidate the rights of consumers in relation to Competition Law in India.
15.	N 16 (4 M)	'S' an hotelier was purchasing butter regularly from EDF Ltd., for the purpose of use in his hotel. There were defects in the goods in one of the purchase lot and as a result 'S' suffered loss of his share in competition in hotel industry. The hotelier 'S' sued the said company for this reason. The company contended that

		the goods were purchased for the commercial purpose therefore, not bound. Is it a valid contention? Explain clearly the provisions of the Competition Act, 2002 in this regard.
16.	M 17 (4 M)	"The UN Guidelines call upon Governments to develop, strengthen and maintain a strong consumer policy, and provide for enhanced protection of consumer by enunciating various steps and measures around eight themes." State what are these eight themes.
17.	M 18 (4 M)	Discuss reasons forcing marketing executives to adopt ethical behavior in marketing.

Check Your Progress... (Other Important Questions)

1.	'Communication is another area in which ethical concerns may arise'. Explain. (RTP N 11)
2.	State the forums that had been established to promote and protect the rights of the consumers. (RTP N 11)
3.	What are consumer rights that can be used as the touchstones for assessing the consumer welfare? (RTP M 12)
4.	Answer 'yes' or 'no' with brief reasons: a. Ethics are necessary in marketing to build Brand image only. b. Ethical behaviour in marketing is necessary to avoid Government intervention/ regulation. c. Consumer purchases goods and health services for personal purposes only. d. 'Competition Act, 2002 protects the interest of consumers'. (RTP M 12)
5.	State the guidelines acknowledging consumer rights that are used for assessing the consumer welfare implications of competition policy. (RTP N 12)
6.	Explain the pragmatic reasons for maintaining ethical behaviour in marketing through marketing executives (RTP M 13)
7.	Mr. Popinder Singh, a hotelier was purchasing butter regularly from Utterly Butterly Ltd. for the purpose of use in his hotel. There were defects in the goods in one of the purchase lot and as a result the Mr. Singh suffered loss of his share in competition in hotel industry. The hotelier sued the said company for this reason. The company contended that the goods were purchased for the purpose of commercial purposes and therefore, not bound. Is it a valid contention? Explain clearly the provisions of Competition Act, 2002 in this regard. (RTP N 13) <i>The problem as asked in the question is based on the provisions of Section 2(f) of the Competition Act, 2002. The Section provides that "consumer" means any person ... Hence section 2(f) of the Competition Act, 2002 provides that whether purchase of goods is for any commercial purposes or resale or for personal use, the purchaser is a consumer. Thus, consumer will also include a person who purchases goods for commercial purposes. Therefore, the contention of Utterly Butterly Ltd. is not valid and hence not tenable.</i>
8.	What are the parameters of Competition Law? (RTP N 13)
9.	What are the United Nations' guidelines themes on consumer protection? Enumerate also the consumer rights enshrined therein. (RTP N 13)
10.	State the forums available for promoting and protecting the right of the consumers at various levels. (RTP M 14)
11.	Explain "communications is another area in which ethical concern may arise". (RTP N 14)
12.	State the themes given by the UN Guidelines which call upon governments to develop, strengthen and maintain a strong consumer policy, and enhanced protection of consumers by

	enunciating various steps and measures. (RTP M 15)
13.	<p>Examine the following hypothetical situation and give a brief analytical note on it. ABC Ltd. has been the leading scientific equipment manufacturing company in South India. But, it suddenly finds that certain companies from North India that do not have anywhere near its own kind of clout in their own turfs, are trying to enter the south Indian market. But because of its superior clout, ABC Ltd coerces them to enter into agreement with itself such that they do not sell at prices above that of its own products. Please comment on the legality of such agreements. Conversely, if ABC Ltd were to enter into agreements with distributors such that the distributors are prevented from marketing the products of the North Indian companies, would that be illegal? (RTP N 15)</p> <p><i>The Competition Act, 2002 intends to provide, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto.</i></p> <p><i>The Act deals with the following :</i></p> <ul style="list-style-type: none"> – Prohibition of certain agreements, which are considered to be anti-competitive in nature. Such agreements [namely tie in arrangements, exclusive dealings (supply and distribution), refusal to deal and resale price maintenance] shall be presumed as anti-competitive if they cause or are likely to cause an appreciable adverse effect on competition within India. – Abuse of dominant position by imposing unfair or discriminatory conditions or limiting and restricting production of goods or services or indulging in practices resulting in denial of market access or through in any other mode are prohibited. – Regulation of combinations which cause or likely to cause an appreciable adverse effect on competition within the relevant market in India. <p><i>In light of the above points, any agreement that Kalam Ltd. may enter into with its competitors from North India to tie-up the price at a certain level is prohibited. Such agreements would also amount to abuse of dominant position.</i></p> <p><i>Conversely, agreements with distributors preventing the latter from distributing the goods of its competitors would also be illegal since they would restrict market access and can be deemed anti-competitive.</i></p>
14.	What are the objects of the "Central Consumer Protection Council" in relation to protection of rights of the consumers? (RTP M 16)
15.	State the objectives of the Central Consumer Protection Council in India. (RTP N 16)
16.	What reasons force a marketing executive to adopt ethical practices in marketing? Explain. (RTP N 16)
17.	Differentiate between 'consumer interest' and 'public interest'. (RTP M 17)
18.	What reasons force a marketing executive to adopt ethical practices in marketing? Explain. (RTP M 18)

Ethics in Accounting & Finance

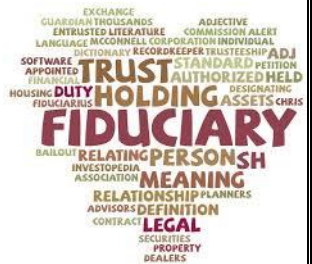
⇒ Introduction

- The responsibility to follow the ethics in accounting & finance is usually of the accounting professionals.
- These professionals are charged with the fiduciary responsibility.
- They have been entrusted with the task of ensuring that the business organizations are more open & accountable.
- These are the persons charged with responsibility of external reporting.



- Thus, its important for them to be ethical in their work as they have to reflect & report the actual position to the stakeholders.
- While acting in public interest, it becomes imperative that the finance and accounting professional adheres to certain basic ethics in order to achieve his objectives.
- Until recently, various surveys conducted globally had ranked finance and accounting professionals very high in terms of professional ethics.

- However, the recent scandals of Enron, Worldcom, Xerox have highlighted the importance of ethics in accounting & finance and have put a serious question mark on the role of the finance and accounting professional in providing the right information for decision making both within and outside their respective organizations.
- The financial information disclosed by the professionals is made use of by lot of stakeholders for the decision making, thus the availability of sound & correct information is the basis for lots of decisions.
- The accounting professionals may be in the position of employee (insider to company) or as a consultant (outsider to company).
- Both of them have their own roles to play from the ethical viewpoint.



⇒ Creation Of Ethical Accounting Environment

→ Code of Conduct

- There must be an ethical code of conduct, which must be followed in the organization.
- Employees must be aware of the ethical duties expected of them.

Code of Conduct

Education is the ability to listen to almost anything without losing your temper or your self-confidence.



→ Top management support

- The support of top management is essential to pave an easy way in acceptance & following the accounting ethics.
- An ethical top management will surely be able to have the ethical accounting base in the organization.

→ Proper communication system

- A system should be in place whereby the employees can communicate any kind of unethical behaviour to the management.
- Effective & direct lines of communication must be promoted between the employees & management.



NEVER GIVE UP. BE POSITIVE.



→ **Integration in recruitment & selection**

- To avoid any unethical practices by the employees later on, it's important for the management to inhibit the desired behaviour as a compulsory ingredient at the selection of the employee itself.
- The employees not meeting the specified criteria must be outrightly rejected at the initial stage itself.

→ **Employee education**

- Training sessions covering ethical accounting must be organized.
- Employees should be educated about the possible ethical dilemmas and the ways to resolve them.



→ **Strict action against violators**

- Strict action by the management is necessary against the employees deviating from the ethical behaviour as desired by the code of conduct.
- The strict & clear cut policy will ensure minimum chances of unethical activities.

→ **Fair treatment to whistle blowers**

- Any person reporting the unethical conduct to the management must be protected.
- Such a step encourages the other employees as well to report the similar activities to the organization.



⇒ **Fundamental Principles For An Ethical Accounting & Finance Professional**

→ **Integrity**

- The professional should be honest, straight forward & sincere towards his duties.
- All the information, whether favourable or adverse must be communicated wherever required.
- He should not accept gifts & favours, which can influence his actions.



→ **Objectivity**

- He should not allow bias or personal interests to override the business judgements.
- An honest opinion must be expressed in a fair & objective manner.
- Any possible conflict of interest between his personal & professional interest must be avoided or atleast suitably disclosed.



→ **Confidentiality**

- It means to maintain secrecy of the information obtained in the discharge of duties.
- Such information should not be used for personal interest.
- This information can be disclosed if :
 - authorized by the employer/client or
 - legal obligation under any statute.





→ Professional competence & due care

- He must be competent & must work with due & proper care in the discharge of his duties.
- With so much of developments taking place rapidly in the accountancy & related areas, it becomes important to inculcate all such skills to discharge duties in a competent manner.
- It becomes imperative to attend seminars, conferences so as to sharpen their skill set.
- He should not hesitate in seeking the professional expert advice either.

→ Professional Behaviour

- He must comply with all the laws, rules & regulations.
- He must follow code of conduct & ethical approaches while performing his work; so as to maintain his dignity.
- Any potential action to bring disrepute to the profession must be avoided.
- He must not adopt any approach which is unethical or seems to be unethical.



→ Reasons For Unethical Behaviour

→ Emphasis On short term results

- With a view to taste short term success, many times the professionals may sideline ethical values.
- However, shortcuts to success often prove fatal in long run.



→ Ignoring small unethical issues

- Most of the major scandals are an end result of the small unethical issues.
- If such issues are tackled at the point of occurrence, maximum undesirable consequences can be avoided.



→ Greed for money

- A person's morals may tempt him to earn more money in short time.
- Such temptation may lead to unethical behaviour.



→ Career advancement

- To have good promotions in short time, employee may agree to the whims & fancies of the seniors.
- Usually, people abiding by the superiors orders, ethical or unethical, lift the ladders fast.



→ Complex accounting rules

- Accounting rules are getting complex day by day.
- Increasing laws & rules along with rapid advancements are sometimes ignored by the professionals.



→ Downturn of economy

- The professionals may resort to window dressing & manipulation of accounts at time of depression to hide the previous mistakes.

→ **Pressure by top management**

- The requests of top management are usually not refused by the professionals, to manipulate the financial statements.



→ **Belief in other's statements**

- Many a times, the accountants believe in the others statements, without carrying their own analysis.
- Biased calculations done by the others, if not checked by professional leads to unethical results.



→ **No clarity about values**

- Another reason for unethical behaviour is absence of code of conduct & written values.
- Thus, if the employees are not aware of the behaviour which is expected of them, it may lead to unethical behaviour a lot of times.
- Clearly written code of conduct removes the ambiguity to lot of extent & reduce the unethical cases.



→ **Excuse**

- Professional doing unethical activities usually give the excuse that everyone does it.
- Person judges his actions as to right or wrong, in the light of activities being done by his other colleagues.

⇒ **Common Ethical Violations**

- Insider trading
- Bribe
- Corruption
- Window dressing
- Improper record maintenance
- Market abuse & manipulation
- Generating duplicate invoices



- Teeming & lading
- Inflating expenses or revenues
- False supportings
- Inadequate disclosures in financial statements
- Not following applicable laws
- Wrong data in compliances

⇒ Threats Faced By A Finance Professional

→ Self interest threats

• Meaning

- These threats occur due to financial or other interests of the finance & accounting professional or of a close family member.
- There arises conflict of interest, between personal & professional spheres.
- It may lead to a biased judgement due to influence of such threats.



• Self Interest Threats For a Person Working as Consultant or Auditor

- Possibility of employment with a client
- Undue dependence on total fees from a client
- Insecurity of losing a client
- Financial interest in a client or jointly holding a financial interest with a client
- Having close business relationship with a client.

• Self Interest Threats for a person working as employee

- Concern about employment security
- Incentive compensation arrangements
- Personal use of corporate assets
- Financial interests, loans & guarantees in the company he is working.



→ Self Review Threats

• Meaning

- It is a threat being faced when the professional has to review a record or judgement; for which only he is responsible (as he has done that task in the past).
- Such a threat questions the objectivity of the professional in reevaluating his own task.



• Self Review threats for a professional working as consultant or auditor

- Member of audit team having recently been an officer of the client
- Conducting tax audit by same professional who had given consultancy on tax matters
- Discovery of critical error while revaluating the work of professional
- Audit of financial statements by same professional who had prepared these
- Reporting on the operation of financial statements after being involved in their design or implementation.



• Self review threats for a professional working as employee

- Discovery of an error at the time of revaluation of work, by a professional after the submission of his work
- Transfer of the employee to internal audit department, whereby he is to check his own work performed earlier.



→ Advocacy Threats• **Meaning**

- When a professional promotes a position or opinion in a manner that the objectivity may be compromised, advocacy threats occur.
- If the professional has to argue in favour of his client even in adverse proceedings, such threats arise.

• **Advocacy threats for a professional working as consultant or auditor**

- Acting as advocate on behalf of client in litigation or disputes with third parties
- Promoting the shares of a company by the professional, which is its consultancy or audit client.

• **Advocacy threats for a professional working as employee**

- Making false & misleading statements in favour of employer
- Becoming witness in any litigation for his employer
- Making wrong projections knowingly in the prospectus issued by employer's entity

→ Familiarity threats• **Meaning**

- When the finance professional has close relationships in the work environment & due to these, he is unable to perform his work in the objective manner, the familiarity threats arise.
- When such threats occur, the professional agrees to the whims & fancies of the other party without carrying out his own procedures w.r.t. the particular matter.

• **Familiarity threats for a professional working as consultant or auditor**

- Member of audit team having a close or immediate family relationship with a director or officer of a client
- Long association of senior auditors with client
- Member of audit team having a close or immediate family relationship with an employee of client, in a position to exert direct & significant influence on audit matters
- Former partner of audit firm, working as director/officer/senior /employee of client
- Accepting gifts or preferential treatment from a client, unless the value is clearly insignificant

• **Familiarity threats for a professional working as employee**

- A close relative of employee working at senior position in a highly influential position
- Long association with fellow employees, affecting the business decisions that professional relies on statements made by fellow employees without carrying out his procedures.
- Accepting gifts or preferential treatment from customers or suppliers, unless the value is clearly insignificant.



→ Intimidation threats

• **Meaning**

- Such threats arise when a professional is debarred from acting objectively by the threats, actual or perceived.
- The professional is pressurized not to follow the ethics by use of coercion.



• **Intimidation threats for a professional working as consultant or auditor**

- Threatening with dismissal or replacement
- Threatening to reduce the fees
- Threatening with legal action on false grounds
- Threatening by coercion



• **Intimidation threats for a professional working as employee**

- Threatening with dismissal or replacement
- Threatening with demotion
- Threatening to reduce the salary
- Threatening with legal action on false grounds
- Threatening by coercion



⇒ Safeguards To Overcome Various Threats

→ Safeguards created by profession, legislation & regulation

- Education & practical training requirements
- Experience to enter the profession
- Professional standards to carry out engagements
- Continuing professional development through seminars etc.
- Corporate governance regulations (example clause 49 of listing agreement)
- Supervision of professionals & disciplinary action
- Ongoing legislation governing independence (example - disqualifications for a company auditor)
- Third party review of professional's reports, returns, communications or information



→ Safeguards in the work environment

- Organizations ethical commitment
- Workplace ethics, especially in hiring & training programmes
- Strong internal controls
- Strict disciplinary procedures
- Zero unethical tolerance
- Ethical conduct programmes
- Ethical leadership
- Organisation's management structure
- Highly ethical & well drafted code of conduct
- Whistle blower policy
- Proper communication system
- Policies & procedures to evaluate employee's performance
- Timely communication of organization's policies to employees & proper training w.r.t. same
- Providing ethical conflict resolution mechanism
- Suitable rewards for following ethics
- Maintaining professional environment
- Providing conducive work environment



NEVER GIVE UP. BE POSITIVE.

⇒ Pressures Faced By Finance And Accounting Professionals

- The finance and accounting professionals are supposed to support the legitimate and ethical objectives established by the employer. As they are having responsibilities to an employing organization, they may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles.
- Such pressures may be explicit or implicit which may come from supervisor, manager, director or another individuals.



- Following are the pressures which are being faced by finance and accounting professionals :

- To act contrary to Law or Regulation
- To act contrary to technical a professional standards
- To facilitate unethical or illegal earnings management strategies
- To mislead others, especially the auditors of the employing organization or Regulators.
- To issue or otherwise be associated with, a financial or non financial report that materially misrepresents the facts, including statements, in connection with.

For example:

- ✓ *The financial statements*
- ✓ *Tax compliance*
- ✓ *Legal compliance, or*
- ✓ *Reports required by securities regulators.*



Blast From The Past

1.	J 09 (5 M)	Explain the reasons for unethical behaviour among finance and accounting professionals.
2.	M 10 (5 M)	Explain the various safeguards that should be adopted for overcoming threats faced by an accounting and finance professional.
3.	M 11 (4 M)	State the pressures which are faced by the finance and accounting professionals' in an organization in the compliance of fundamental principles of ethics.
4.	M 11 (4 M)	What are the fundamental principles of ethics applicable to the persons of finance and accounting profession?
5.	M 11 (2 M)	Creation of proper ethical environment requires a proper understanding of the reasons which lead to an unethical behavior.
6.	M 12 (4 M)	Explain the importance of 'Ethics' for finance and accounting professionals.
7.	N 13 (4 M)	"The principle of integrity is a fundamental principle relating to ethics for all accounting and finance professionals." Explain
8.	M 14 (4 M)	Which threats are existing in environment that adversely affect the fundamental principles of ethics?
9.	N 14 (4 M)	Describe the safeguards which may be created by finance and accounting profession and legislation to eliminate or reduce the threats to an acceptable level to ensure an ethical environment in an organization.
10.	M 15 (4 M)	Explain the 'threats faced by an accounting and finance professional adhering to ethical principles' at the time of performing his professional duties.
11.	M 16 (4 M)	What are the safeguards created by the profession, legislation or regulation about accounting and finance which may eliminate or reduce the threats relating to unethical behaviour?

NEVER GIVE UP. BE POSITIVE.

12.	N 17 (4 M)	What are the matters to be considered by a finance and accounting professional when he is required to resolve an ethical conflict in the application of fundamental principles?
13.	N 17 (4 M)	Intimidation threats may occur when an accounting professional may be prohibited from acting objectively by threats, actual or perceived. Give two examples of each such threats when the accounting professional is working as: (i) An Auditor; (ii) An Employee in a Company

Check Your Progress... (Other Important Questions)

1.	State the various threats which can be faced by a finance and accounting professional while working as an auditor, consultant or an employee in an organization. (RTP M 12)
2.	Explain the reasons for unethical behaviour among finance and accounting professionals. (RTP M 13)
3.	What kind of pressures are faced by a finance and accounting professional working as an employee in an organization? (RTP N 14)
4.	State the professional obligations that a finance and accounting professional as an employee has to comply with. What pressure they face in the case of potential conflicts? (RTP M 15)
5.	Explain the reasons for unethical behaviour among finance and accounting professionals. (RTP N 15)
6.	What are the fundamental principles of ethics applicable to the persons of finance and accounting profession? (RTP M 16)
7.	Explain the reasons for unethical behaviour among finance and accounting professionals. (RTP N 16)
8.	Finance and accounting professionals working as employees in an organisation have to face various threats which make it difficult for them to comply with fundamental principles relating to ethics. Explain the safeguards in the work environment which may be created by a business enterprise to overcome such threats. (RTP N 17)
9.	Intimidation threats may occur when an accounting professional may be prohibited from acting objectively by threats, actual or perceived. Give two examples of each such threats when the accounting professional is working as: (i) An Auditor; (ii) An Employee in a Company (RTP N 18)