

# **Business Ethics and Corporate Governance**

**BBA LLB Sem 3**

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# **Module 1**

## **Introduction to Business Ethics**

# Business Ethics

## **Ethics-**

Ethics is a branch of social science. It deals with moral principles and social values. The term *ethics* may refer to the philosophical study of the concepts of moral right and wrong and moral good and bad, to any philosophical theory of what is morally right and wrong or morally good and bad, and to any system or code of moral rules, principles, or values.

## **What is business ethics?**

Business ethics means to conduct business with a human touch in order to give welfare to the society.

# Business Ethics

## Definition

- Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed.
- The ethics of business is the ethics of responsibility. The business man must promise that he will not harm knowingly.
- It is a study of proper business policies and practices regarding potentially controversial issues, such as corporate governance, insider trading, bribery, discrimination, corporate social responsibility, and fiduciary responsibilities.

# Business Ethics

- **When would a business be ethical?**

1. When the business person avoids indulging in unfair trade practices like adulteration, promoting misleading advertisements, cheating in weights and measures, black marketing, etc.
2. They must give fair wages and provide good working conditions to their workers. They must not exploit the workers.
3. They must encourage fair competition in the market.
4. They must protect the interest of small businessmen.
5. They must avoid monopolies.
6. They must pay all their taxes regularly to the government.

# Features

- **Code of Conduct:** Business ethics is actually a form of codes of conduct. It lets us know what to do and what not to do. Businesses must follow this code of conduct.
- **Based on Moral and Social Values:** Business ethics is a subject that is based on moral and social values. It offers some moral and social principles (rules) for conducting a business.
- **Protection to Social Groups:** Business ethics protect various social groups including consumers, employees, small business persons, government, shareholders, creditors, etc.
- **Offers a Basic Framework:** Business ethics is the basic framework for doing business properly. It constructs the social, cultural, legal, economic, and other limits in which a business must operate.
- **Voluntary:** Business ethics is meant to be voluntary. It should be self-practiced and must not be enforced by law.
- **Requires Education & Guidance:** Businessmen should get proper education and guidance about business ethics. Trade Associations and Chambers of Commerce should be active enough in this matter.

# Features

- Relative Term: Business ethics is a relative term. It changes from one business to another and from one country to another.
- New Concept: Business ethics is a relatively newer concept. Developed countries have more exposure to business ethics, while poor and developing countries are relatively backward in applying the principles of business ethics.

# Principles of Business Ethics

The principles of business ethics are related to social groups that comprise of consumers, employees, investors, and the local community. The important rules or principles of business ethics are as follows:

- **Avoid Exploitation of Consumers:** Do not cheat and exploit consumer with measures such as artificial price rise and adulteration.
- **Avoid Profiteering:** Unscrupulous business activities such as hoarding, black marketing, selling banned or harmful goods to earn exorbitant profits must be avoided.
- **Encourage Healthy Competition:** A healthy competitive atmosphere that offers certain benefits to the consumers must be encouraged.

# Principles of Business Ethics

- **Ensure Accuracy:** Accuracy in weighing, packaging and quality of supplying goods to the consumers has to be followed.
- **Pay Taxes Regularly:** Taxes and other duties to the government must be honestly and regularly paid.
- **Get the Accounts Audited:** Proper business records, accounts must be managed. All authorized persons and authorities should have access to these details.
- **Fair Treatment to Employees:** Fair wages or salaries, facilities and incentives must be provided to the employees.
- **Keep the Investors Informed:** The shareholders and investors must know about the financial and other important decisions of the company.
- **Avoid Injustice and Discrimination:** Avoid all types of injustice and partiality to employees. Discrimination based on gender, race, religion, language, nationality, etc. should be avoided.

# Principles of Business Ethics

- **No Bribe and Corruption:** Do not give expensive gifts, commissions and payoffs to people having influence.
- **Discourage Secret Agreement:** Making secret agreements with other business people to influence production, distribution, pricing etc. are unethical.
- **Service before Profit:** Accept the principle of "service first and profit next."
- **Practice Fair Business:** Businesses should be fair, humane, efficient and dynamic to offer certain benefits to consumers.
- **Avoid Monopoly:** No private monopolies and concentration of economic power should be practiced.
- **Fulfil Customers' Expectations:** Adjust your business activities as per the demands, needs and expectations of the customers.
- **Respect Consumers Rights:** Honor the basic rights of the consumers.

# Principles of Business Ethics

- **Accept Social Responsibilities:** Honor responsibilities towards the society.
- **Satisfy Consumers' Wants:** Satisfy the wants of the consumers as the main objective of the business is to satisfy the consumer's wants. All business operations must have this aim.
- **Service Motive:** Service and consumer's satisfaction should get more attention than profit-maximization.
- **Optimum Utilization of Resources:** Ensure optimum utilization of resources to remove poverty and to increase the standard of living of people.
- **Intentions of Business:** Use permitted legal and sacred means to do business. Avoid Illegal, unscrupulous and evil means.

# Example of Unethical Business Practices

- Satyam Computers, a global IT company, was defamed in a notorious list of companies involved in fraudulent financial activities. The list includes names such as Enron, WorldCom, Parmalat, Ahold, Allied Irish, Bearings and Kidder Peabody. Satyam's CEO, Ramalinga Raju, accepted his role in a broad accounting impropriety that had overstated the company's net revenue and profit. The company had earlier reported a cash reserve of approximately \$1.04 billion that actually existed only in books but not in reality. In his letter to his board, exposing the fraud, Satyam's Raju showed the propensity of the fraud. He stated that, "What started as a marginal gap between actual operating profits and ones reflected in the books of accounts continued to grow over the years. It has attained unmanageable proportions. ..." Later, he described the process as "like riding a tiger, not knowing how to get off without being eaten."

# Work Ethics

- What Does Work Ethics Mean?

Work ethics is a value based on hard work and diligence. It is also a belief in the moral benefit of work and its ability to enhance character. A work ethic may include being reliable, having initiative, or pursuing new skills.

Work ethics is basically the belief that work is a good moral. Its also refers to a sets of values that are defined and characterized by diligence and hard work. Work ethics can as well be defined as the inherent ability of work to strengthen character.

# The Importance of a Good Work Ethics

- Today's business environment is not only fast-paced, but also highly competitive. In order to keep pace and stay ahead, possession of several key work ethics is a plus for achieving a successful career. Holding key traits such as attendance, character, teamwork, appearance, and attitude add value to both you as a person and your company. Successful careers come in many flavors, but work ethics are a main ingredient in most recipes for success.

# What are good ethics?

- Character is how others perceive someone. Much like an actor who plays a role, the character traits that one possesses portray an image in others' minds. One's character develops as actions become habits. These habits reveal one's character. Eventually, this role determines the outcome of one's life. Being aware of your actions and habits plus improving on faults strengthens one's character.

# What are good ethics?

- Teamwork is what gives strength to a working force
- Prejudices and stereotyping have no home in teamwork.
- Respect
- Learning to cooperate with your teammates as well as being assertive is important in keeping track of things.
- Treat customers with genuine respect and manners.
- Appearance
- A professional attitude towards yourself and your chosen career is critical

# Positive Work Ethics

- A work ethic of any kind not only includes how you feel about your place of employment or position but also how you perform the duties of your job. According to All About Philosophy's website, a work ethic includes your attitude, communication abilities, behavior toward coworkers, honesty and accountability. What sets a positive work ethic apart from a negative work ethic is the focus on confidence and encouraging interactions with coworkers. Your attitude toward your job and position in a positive work ethic is just that -- positive. You arrive at work with a smile on your face, focused on the task at hand and committed to performing your duties to the best of your ability

# Why are ethics important?

- A work ethic, especially a positive work ethic, is important from a business perspective for the confidence it breeds in clients and consumers. Your positive attitude and dedication to a client's needs or creation of a product can boost your business' reputation as a company that deals honestly and fairly. Ethics also work to build a moral compass within a business and helps discourage attitudes and business models that seek to cut corners in the name of making a profit.

# Module 2

## Importance of Ethics in Business

# Theories of Ethics

- The Three Main Branches of the Philosophical Study of Ethics
  1. Meta-ethics
  2. Normative Ethics
  3. Applied Ethics

# Theories of Ethics

Meta-ethics consists in the attempt to answer the fundamental philosophical questions about the nature of ethical theory itself.

- Example- Are ethical statements such as "lying is wrong", or "friendship is good" true or false?

Meta-ethics consists in the attempt to answer the fundamental philosophical questions about the nature of ethical theory itself.

Assuming there are truths of morality, what sorts of facts make them true?

# Theories of Ethics

- subjectivism: the view that moral truths are subjective, i.e., dependent upon the subjective attitudes, values, desires and beliefs of individuals, not on anything external to these things.
- objectivism: the view that moral truths are objective, i.e., based on facts that are independent of the attitudes, values, desires and beliefs of any individual.

# Meta Ethics

- “Metaethics is the attempt to understand the metaphysical, epistemological, semantic, and psychological, presuppositions and commitments of moral thought, talk, and practice.” (Plato Stanford Encyclopedia of Philosophy, entries on Metaethics).
1. Metaphysics- Metaphysics is the branch of philosophy that studies the fundamental nature of reality. This includes the first principles of: being or existence, identity, change, space and time, cause and effect, necessity, actuality and possibility.
  2. Epistemology- relating to the theory of knowledge, especially with regard to its methods, validity, and scope, and the distinction between justified belief and opinion. Epistemology is the branch of philosophy concerned with knowledge. Epistemologists study the nature, origin, and scope of knowledge, epistemic justification, the rationality of belief, and various related issues.

# Meta Ethics

- Semantic- relating to meaning in language or logic.

Semantics means the meaning and interpretation of words, signs, and sentence structure. Semantics largely determine our reading comprehension, how we understand others, and even what decisions we make as a result of our interpretations.

- Psychology- Psychology is the study of mind and behavior in humans and non-humans. Psychology includes the study of conscious and unconscious phenomena, including feelings and thoughts.
- Presupposition- A presupposition is something that you assume to be true, especially something which you must assume is true in order to continue with what you are saying or thinking.

# Meta Ethics

- Metaethics is an enquiry into the nature and meaning of our moral judgements and actions. The aim of metaethics is to investigate where ethical principles come from, and what they mean. For example, when we say, Honesty is good, then what we want to say, or in other words, what do we mean when we use the term good in a moral judgement. The word Metaethics is coined by joining two words “meta” and “ethics”. Here, the word “meta” is often misunderstood as being “beyond” or “after” ethics, on the contrary it means to “think about” or “sit apart from” ethics which means to go into the fundamental of the ethics.

# Meta Ethics

- Metaethics deals with following questions: Are there moral facts? If there are moral facts, what is their origin? And how do we learn about the moral facts, if there are any? What do exactly people mean when they use the words like “good” and “right”? Where do moral values come from—what is their source and foundation? Are some things morally right or wrong for all people at all times, or does morality instead vary from person to person, context to context, or culture to culture? These are some of the basic questions which are acknowledged in metaethics, which sets a foundation for normative and applied ethics.

# Meta Ethics

The central question is the question of whether any moral claims are true, and whether it is rational to commit oneself to acting morally. This question can only be answered by taking a position on the correctness or cogency of people's moral convictions. Metaethics, in dealing with the question of whether ethical sentences express propositions, is divided broadly into two branches which are Ethical Cognitivism and Ethical Non-Cognitivism, which are further divided into many branches.

# Types of Meta Ethics

- In ethical cognitivism, ethical sentences can express beliefs which are truth bearers and therefore they can be regarded as true or false. Eg When someone makes claims like “killing someone is wrong” or “Abortion is morally wrong”, then he is expressing a belief.
- In ethical non-cognitivism, in contrast to ethical cognitivism, ethical sentences do not express beliefs, thus, cannot be regarded as true or false.

# Normative Ethics:

Normative ethical theory is the branch of philosophy concerned with formulating and evaluating theories of moral rightness and moral goodness. Such theories attempt to state the features in virtue of which morally right actions are morally right and morally good states of affairs are morally good. Normative ethical theory has two parts:

- A. Theory of Value (Theory of the Good): This branch concerns the moral evaluation of people, states of affairs, character traits, etc. as good or bad (or better or worse). It doesn't directly answer the question of how one should act.
- B. Theory of Obligation (Theory of the Right): This branch concerns the moral evaluation of actions as right or wrong, obligatory, permissible or forbidden.

# Types of Normative Ethics.

- Normative Ethical Theories are most frequently classified according to their theory of obligation. The distinction between deontological and consequentialistic theories is usually cited as the fundamental distinction here.
- A. Consequentialism: holds that the rightness or wrongness (etc.) of actions depends entirely on the moral value (goodness) of the consequences. Typically, consequentialist views are comparative in the sense that the rightness of an action depends on the value of its consequences compared with the value of the consequences of alternatives available.
- B. Deontological Theories of Obligation: These theories hold that the moral rightness or wrongness (etc.) of actions does not depend entirely on considerations of goodness. (It follows, of course, that such theories hold that the rightness of an action does not depend entirely on the value of the consequences of that action.) One example of a deontological theory is Divine Command Theory

# Normative Ethics

- Normative ethics ... investigates the questions that arise regarding how one ought to act, in a moral sense.
- Descriptive ethics ... is an empirical investigation of people's moral beliefs.
- Descriptive ethics is also known as comparative ethics
- Typical questions:

Descriptive ethics: What do people think is right?

Meta-ethics: What does "right" even mean?

Normative (prescriptive) ethics: How should people act?

Applied ethics: How do we take moral knowledge and put it into practice?

# What is bribery?

Bribery is the offering or accepting of any gift, loan, payment, reward or advantage for personal gain.

It is an encouragement to do something which is dishonest, illegal or a breach of trust.

Bribing another person is a strict liability offence that can damage an employee's and a company's reputation. If an employee accepts a gift in return for preferential treatment, this is bribery.

To be legally compliant, your business must have a zero-tolerance approach to bribery, both in and out of the workplace. If an employee offers or accepts a bribe, there must be action from senior management.

Gifts can range in size and value, but employment law still considers them bribes.

# Definition

- “Bribe” or “Bribery” means an inducement, payment, reward or advantage offered, promised or provided to a public servant or to any other commercial party in order to corruptly gain any illegal commercial, contractual, regulatory or personal advantage. It is illegal to directly or indirectly offer a Bribe or receive a Bribe. Such bribe, when made with the requisite corrupt intent, may be anything of value such as gifts, inside information, sexual or other favors, corporate hospitality or entertainment, offering employment to a relative, trading information, payment or reimbursement of travel expenses, charitable donation or social contribution, abuse of function - - and can pass directly or through a third party.

# The impact of bribery at work

- There are several consequences to bribes at work.
- If guilty of bribery, penalties could include up to ten years in prison and/or an unlimited fine. The company could also face prosecution and be liable to pay a fine.
- Luxury car manufacturer Rolls-Royce needed to pay a £671m settlement in January 2017 after paying bribes. This included millions of pounds in cash and luxury cars, to secure orders.

# The impact of bribery at work

- Even if the bribery isn't found out by law, it has effects on employees and the workplace.
- Damaged reputation: businesses which have poor anti-bribery and corruption compliance attract less business. Commercial organisations will be wary and unlikely to do business with you.
- Damaged finances: the government can hand out an unlimited fine for bribery and corruption offences. This can significantly damage finances. Both fines and lost business can result from a damaged reputation.
- Lower employee morale: being guilty of bribery or having a workforce that knows it goes on leads to lower employee morale. This leads to lower productivity in the workplace. Coupling this with fines and damaged reputation, it can be a death blow to any business.

# Examples of bribery

- To understand examples of bribery, you must understand the two forms. You can break down bribery into two forms: active and passive.
- Let's look at what they are with some examples.
- **Active bribery**
- When a person offers, promises or gives a bribe, it is active bribery.
- Examples of this include:
  - Bribing a public official to circumvent local laws.
  - Wanting to cover-up an employee or business mistake by offering gifts
  - Bribing a member of staff of higher authority to gain a pay rise

# Examples of bribery

- **Passive bribery**
- When a person requests, receives or accepts a bribe, it is passive bribery.
- Examples of this include:
  - A foreign public official requesting luxury accommodation in return for favourable treatment.
  - An executive accepts a bribe to provide contract specifications in a tender ahead of time.
  - A bank or security employee accepts a gift and gives the briber access to someone's private details.

# Difference between gifts and bribes with examples

- A gift is something of value given without the expectation of return. A bribe is the same thing given in the hope of influence or benefit.
- A gift can be to reward good performance, therefore the favourable business decision has already happened.
- A bribe has the intended purpose of influencing someone to get a favourable business decision.
- Some gifts can be acceptable business costs, such as taking a client to dinner. However, there is a line that you can't cross.
- If you reward an employee with champagne after sealing a big deal, this is a gift. There is no influence the champagne can provide, as the deal has already gone through.

# Difference between gifts and bribes with examples

- For example, if an employee catches a flight to Berlin to meet with one of their business partners. There are contract negotiations going on. The Berlin business books them into a full five-star luxury stay.
- This gift is a bribe because it occurs during contract negotiations. This means the stay can influence the proceedings and give them a more desirable outcome.

# How to minimise bribery in the workplace

- There is a defence for a company if it can show it took measures to prevent bribery taking place.
- One such measure could include the implementation of an anti-bribery policy or internal auditors.
- It is not a legal requirement for a company to have an anti-bribery policy. In very small companies, it may be enough for the employer to have a discussion with their employees.
- This can include examples of bribery and making them aware that bribery is not accepted within the company.

# What is corruption?

- Corruption is a broader term for misconduct in the workplace. There are many types of corruption in business, and bribery is a form of it.

This means bribery will always be corruption, but not all forms of corruption are bribery.

# How to identify corruption?

- To help avoid these effects, being able to identify corruption is essential. If you address the situation in time, you may still salvage it.
- Corruption in all its forms is damaging and unfair.
- The aim of corruption is to channel undue advantages to parties not entitled to them. This will inevitably lead to a situation where someone else suffers.
- That is why we should never ignore corruption.
- Having anti-bribery and corruption audits in the workplace help to identify corruption. Because professionals running internal audits have appropriate training.

# Types of corruption in business

- It takes on many faces and is not always blatant, but can be subtle to the outside observer. Some forms of corruption are common and are grudgingly accepted, becoming the price of doing business. The cost of corruption is often passed to consumers, and it stifles competition and subverts the free market. Here are the different type:
- Bribery: accepting items in return for a preferential treatment
- Fraud: dishonest and illegal activities perpetrated by individuals or companies in order to provide an advantageous financial outcome to those persons or establishments
- Embezzlement: taking the company's goods or funds for personal gain is called embezzlement
- Kickbacks: payments made to businesses by vendors in exchange for contracts that overinflate the cost of the work performed at the expense of those receiving the services, and paying for the contract

# Effects of corruption in business

- When corruption takes place in the workplace, it affects the perception of the business by the public and its employees.
- This is because it breaks public trust.
- Like bribery, corruption carries with it some big legal fines.
- This will result in financial damage. Examples of such is a damaged reputation of the business, which causes fewer business opportunities.
- Following this loss of finances, the damage to morale will affect employee productivity. A loss in productivity leads to further losses in profits.

# Examples of corruption

- Corruption may wear many faces, from extortion and embezzlement to bribery.
- The existence of this robs many businesses of many things. This includes their profits and their credibility in the eyes of their customers.
- There are many adverse effects of corruption.
- You can look out for a few examples in everyday working life though.
- Buying unnecessary or inappropriate goods and services
- Concealed invoices
- Employees accepting work that is normally unacceptable in quality

# How to tackle corruption at work

- Make it part of your company culture and operations. Operate with a clear anti-bribery and corruption statement. Show that your company has a zero-tolerance policy on bribery and corruption.
- Ensure you have professionals responsible for maintaining anti-bribery and corruption due diligence. Regularly carry out internal audits and have an anti-bribery and corruption certification.
- Ensure that you measure everything. Track and measure the impact of your anti-corruption policies. This way you can identify what's working and what still needs work. Always communicate your progress to stakeholders and strive for continuous improvement.

Coercion

# Coercion

Coercion is committing, or threatening to commit, any act forbidden by the Indian Penal Code (Section 45 of 1860), or the unlawful detaining, or threatening to detain, any property, to the prejudice of any person whatever, with the intention of causing any person to enter into an agreement.

# Work place Coercion

- Workplace coercion involves using power or strength to force employees to behave in a certain way. Patrick Bratton, in the essay “When Is Coercion Successful?,” writes: “Coercion uses threats to influence the behavior of another,” making the other “choose to comply rather than directly forcing” compliance. Employers use coercive tactics for many reasons, including attempts to motivate low-performing employees to produce better results or to increase company attendance at meetings.

# Forms of Coercion

- Workplace coercion can occur in complex forms that involve authoritative status, deception, physical power and a range of tools such as showing favoritism, discrimination and denial or provision of rewards. For example, managers who direct employees without allowing the staff to share in workplace decisions use an authoritative style of management to coerce results. Also, employees who appear to be bigger or stronger than others may use their size to intimidate other employees, forcing the smaller or weaker employee to perform certain tasks. Workplace coercion also can take psychological forms, which involves manipulating workers in a variety of nonphysical ways, including peer pressure, providing misleading information, assignment of unachievable targets and making false promises.

# Conceptualizing Coercive Diplomacy

- Coercive diplomacy can be defined as the employment of threats and the use of limited force to convince an adversary (opponent) to stop a particular course of action or rollback steps, it has already taken.
  - 1 It also requires a credible threat backed by the demonstration of capabilities and even limited use of force to persuade the adversary to concede (agree) to demands.
  - 2 The over-arching goal of coercive diplomacy is to attain one's objectives and make adversary concede without resorting to war by making the opponent believe that cost for it will increase exponentially if it does not concede. And at the same time, it is assured that there will be positive returns if the adversary changes course. Flexibility is, hence, built in the nature of coercive diplomacy as both threats and concessions – a carrot-and-stick approach is employed to convince the adversary.

# Effects

- Coercion limits employee choices and can be both effective and ineffective. When using coercion to direct and motivate employees, managers may use threats of termination, negative performance reviews and low wage increases to coerce punctual attendance or increased production. These threats may motivate employees to perform according to company standards. However, coercive tactics can backfire. Coercion involves telling employees what to do and promises punishment if employees do not follow directives. It does not allow employees to share in making decisions. Employees working under coercive management styles may be resentful and may choose other employment. Coerced employees also may follow directives even when they know the directives will not accomplish the objective.

# Deception

- Deception refers to any action designed to mislead others by distorting, falsifying, or misinforming individuals so that they are manipulated to react in a certain manner. It can be carried out in a variety of different ways, such as dissimulation, propaganda, beguilement, mystification, and other approaches. According to Anderson's study, deception consists of the following forms.

# Deception

- 1. Lies: to make up information or give information that is false or very different from the truth.
- 2. Equivocations: to make an ambiguous or contradictory statement.
- 3. Concealment: to omit important or relevant information in order to mislead the participant or public.
- 4. Exaggerations: to overstate or extend the truth to a further degree; for instance, telling the participant that participation in the experiment will benefit their health.
- 5. Understatements: to minimize or scale down facts or the truth.

# Theft

## 1. Inventory Theft

Inventory theft occurs when an employee steals a product from their employer. They may want the item for personal use or steal with the intent to sell (which is common with technological and medical products).

## 2. Data Theft

Data theft is one of the most troubling types of employee theft. Not only can it put your company's assets in danger, but may also compromise your clients' and customers' sensitive data.

Examples of data theft include:

- Stealing an employer's trade secrets or proprietary information
- Theft of clients' or other employees' personally identifiable information (e.g. credit card information, social security numbers, addresses, etc.)
- Stealing customer or contact lists when leaving the company

# Theft

- **3. Theft of Services**

This type of employee theft can occur in any type of business, from an accounting firm to a bakery to an auto garage. For instance, an administrative assistant at a hair salon may ask a stylist to cut her hair free of charge.

While you may offer discounts to employees on your services, some employees will still misuse company services and defraud your business.

- **4. Payroll Theft**

This type of employee theft is just as it sounds. An employee whose work involves financial tasks, steals and cashes other employees' paychecks or writes fictitious checks and cashes them.

# Theft

- **5. Theft of Cash**

Theft of cash occurs most frequently in cash-heavy businesses such as retail. Examples of this type of employee theft include:

- **Stealing cash funds** from registers, safes or petty cash drawers
- Overcharging a customer and pocketing the difference
- Skimming (not registering a sale or recording a transaction in accounting books and taking the cash)

# Trust and Ethics

What is trust?

Trust forms the foundation for relationships, cooperation, social interaction and the development of societies, but it is equally important as it is dangerous.

“Trust is an ability to rely on somebody to do what they have said they will do, even when no one is watching them”

# The ethics of trust

One of the first practical problems is knowing whom to trust. It's easy to rely on perceived authority figures in our lives, and often we will simply need to trust that the people who are close to us are looking out for us, but in general we should be on the lookout for consistent moral behaviour.

Ultimately, there is no way to know whom to trust with certainty, but there are many indicators we can use to decide. Are they an honest person? Have they been reliable in the past? Are they self-centred or do they concern themselves with the wellbeing of others? Answering questions like these can help to minimise the risk you take on if you choose to trust someone.

- How do we rebuild trust?
- How should we act if we don't trust someone?
- If someone breaks our trust, should we distrust them?
- When or how often should we re-examine our trust of someone?
- When is trust a good thing? When is it bad?
- What's so important about vulnerability?

# Social Contract Theory

- Social contract theory is an ancient philosophical idea that states that an individual's ethical and political obligations relate to an agreement he has with every other individual within a society. The agreement can be written, as in the form of laws, or it can be a tacit agreement, an unspoken or unwritten agreement of social norms and customs. In business, social contract theory includes the obligations that businesses of all sizes owe to the communities in which they operate and to the world as a whole. This involves corporate philanthropy, corporate social responsibility and corporate governance.

## Module 3

# Ethical Principals in Business

# How can we Describe Business Ethics, Which Principles are Inherent to it?

Although it is not easy to give a common uniform description of business ethics it can be described as “ethically right way to run business” and similarly as “to apply ethical principles and values to business practices”. Business ethics emphasizes moral values and stand on principles such as fairness or equality, trust, honesty, integrity, openness and truthfulness

- 1 . Trust requiring by nature two parties, is considered to be a both moral and legal concept. It can be described as legal concept especially in the context law of confidentiality for example. However honesty is considered to be a purely moral value. The remuneration of directors is given as an example that should comply with fairness and honesty
- 2 . Integrity can be described as committing to accept and follow moral values of a company.

- For example whistle blowing in a company, that an employee communicates its concerns about unlawful or unethical acts or transactions within the company serves to integrity

1 . Business ethics covers a wide range area and is related to all kind of business relationships of the company. Business ethics is not related only to customers, but all the stakeholders which comprise suppliers, creditors, employees, competitors, the society, the environment, the state and as insider interests, the shareholders.

# How Business Ethics Relates To Law?

- Some authors mention that BE begin where law ends. Is this true? How business ethics relates to law? What is the interrelation of these two domains? What is the role of business ethics in shaping law? There are mainly two different opinions and approaches concerning this question. The 1st approach followers explain that business ethics includes the law but extends beyond it. These authors mention that there is an intersection area between business and law. With this respect, some authors also mention that law is an instrument for translating morality into guidelines and practices.

- The 2nd approach followers considers business ethics as a grey area and mention that business ethics begin where law ends , meaning that business ethics is primarily concerned with issues that are not covered by the law. They believe that business ethics is concerned with an area that is not covered by the law and that does not cover a common area with law. The followers of this approach don't consider principles or rules as part of business ethics which have been translated into law. They consider as typical ethical dilemmas mostly issues such as, high pressure sales techniques, whistle blowing, employee privacy, gift giving, which are not regulated in the law. It can be concluded that, in recent years, there is more tendency to integrate ethical principles into legislative systems at national level or in the international guidelines. Depending on the legal system and legal culture of each state, ethical principles for business, might be integrated into the legal system.

# Role of the Board of Directors

- The role of Board of Directors is explained by taking an example of a company titled JACOBS.

<https://www.jacobs.com/sites/default/files/2022-04/Jacobs-Board-Code-of-Business-Conduct-and-Ethics-May-2020.pdf>

# Corporate Governance

- Corporate governance is the system of rules, practices, and processes by which a firm is directed and controlled. Corporate governance essentially involves balancing the interests of a company's many stakeholders, such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.
- Since corporate governance provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

# Understanding Corporate Governance

- Governance refers specifically to the set of rules, controls, policies, and resolutions put in place to direct corporate behavior. A board of directors is pivotal in governance. Proxy advisors and shareholders are important stakeholders who can affect governance.
- Communicating a firm's corporate governance is a key component of community and investor relations. For instance, Apple Inc.'s investor relations site outlines its corporate leadership (its executive team and board of directors). It provides corporate governance information including its committee charters and governance documents, such as bylaws, stock ownership guidelines, and articles of incorporation.

# Understanding Corporate Governance

- Most companies strive to have exceptional corporate governance. For many shareholders, it is not enough for a company merely to be profitable. It also must demonstrate good corporate citizenship through environmental awareness, ethical behavior, and sound corporate governance practices.

# Examples of Corporate Governance

- **Volkswagen AG**
- Bad corporate governance can cast doubt on a company's reliability, integrity, or obligation to shareholders. All can have implications for the firm's financial health. Tolerance or support of illegal activities can create scandals like the one that rocked Volkswagen AG starting in September 2015.
- The details of "Dieselgate" (as the affair came to be known) revealed that for years, the automaker had deliberately and systematically rigged engine emission equipment in its cars in order to manipulate pollution test results in America and Europe.
- Volkswagen saw its stock shed nearly half of its value in the days following the start of the scandal. Its global sales in the first full month following the news fell 4.5%.

# Examples of Corporate Governance

- VW's board structure facilitated the emissions rigging and was a reason it wasn't caught earlier. In contrast to a one-tier board system that is common in most companies, VW has a two-tier board system, which consists of a management board and a supervisory board.
- The supervisory board was meant to monitor management and approve corporate decisions. However, it lacked the independence and authority to carry out these roles appropriately.
- The supervisory board included a large portion of shareholders. Ninety percent of shareholder voting rights were controlled by members of the board. There was no real independent supervisor. As a result, shareholders were in control and negated the purpose of the supervisory board, which was to oversee management and employees, and how they operated. This allowed the rigged emissions to occur.

# Examples of Corporate Governance

- Corporate governance became a pressing issue in the United States at the turn of the 21st century, after fraudulent practices bankrupted high-profile companies such as Enron and WorldCom.
- The problem with Enron was that its board of directors waived many rules related to conflicts of interest by allowing the chief financial officer (CFO), Andrew Fastow, to create independent, private partnerships to do business with Enron.
- These private partnerships were used to hide Enron's debts and liabilities. If they'd been accounted for properly, they would have reduced the company's profits significantly.

# Examples of Corporate Governance

- Enron's lack of corporate governance allowed the creation of the entities that hid the losses. The company also employed dishonest people, from Fastow down to its traders, who made illegal moves in the markets.
- The Enron scandal and others in the same time period resulted in the 2002 passage of the Sarbanes-Oxley Act. It imposed more stringent recordkeeping requirements on companies, along with stiff criminal penalties for violating them and other securities laws. The aim was to restore public confidence in public companies and how they operate.

# Why Is Corporate Governance Important?

- Corporate governance is important because it creates a system of rules and practices that determines how a company operates and how it aligns with the interest of all its stakeholders. Good corporate governance leads to ethical business practices, which leads to financial viability. In turn, that can attract investors.

# The Concept and Principles of Corporate Governance

- The aim of corporate governance is to maximize shareholders holdings and establish an efficient management and control mechanism for the company, for the best interest of stakeholders. The ultimate purpose is to assure business efficiency and assure an equal use of resources.
- Corporate governance provides various legal mechanisms such as separation of management and board of directors. This allows two-tier board system rather than a unitary board. The requirement of independent board members and committees are other legal tools of corporate governance.

- This system is based on the separation of powers and aim to assure a management system which will make self-control as well, in addition to other control mechanisms such as the internal control or auditing. Corporate governance includes rules and legal tools which will ensure that the company is well directed and controlled. The center of the attention is mostly the board of directors and the management. Corporate governance is based on several basic principles which can be categorized under four main pillars. Although these pillars might vary upon national legislative system of each country, can be categorized “accountability”, “transparency”, “fairness”, and “Independence”. Corporate governance ensures the application of best practices and legal mechanisms under the umbrella of these main principles.

- Accountability ensures that management is accountable to the board, and that the board is accountable to shareholders and the company. Equal treatment or fairness, indicates that all shareholders, including minorities should be treated equitably. Thus, this principle protects shareholders' rights and addresses to board of directors. Principle of equal treatment or fairness is closely related to concepts such as good faith, diligence, integrity and trust which are standards to define liability of directors as well. Especially board members carry out their duties in a way that reflects values such as integrity, fairness and honesty. Transparency and disclosure ensure timely, accurate disclosure on all business-related matters including the financial situation, performance, ownership and corporate governance. Independence indicates that independent directors and advisers, free from the influence of any group within the company or outer company, should be assigned.

- In this respect, corporate governance follows some of the ethical standards such as integrity, transparency, independence, accountability in the dealings with stakeholders. Some of the corporate governance principles are closely related and overlap with principles of business ethics.

# How Business Ethics relates to Principles of Corporate Governance?

Most of the Codification Concerning Corporate Governance is of Soft-law Nature.

There are several codifications concerning corporate governance in the EU member states, which have basis on ethical principles as well, such as insider trading or regulations against bribery. A part of the ethical issues concerning business and companies, such as bribery, corruption, money-laundering, fiscal policy, are all related to public economic interests . These issues concern public interests such as the society and the state, which make part of external stakeholders. Concerning the application of ethical values in business practices, there should be made a distinction between internal and external stakeholders. Unethical issues against insider interests, such as employees, shareholders, are not always codified as part of the mandatory legal system.

- Disclosure and transparency, one of the four main pillars of corporate governance, by setting up mostly preventive rules, support criminal law regulations as well. In the Corporate Governance Plan, transparency and disclosure of financial or non-financial data is mentioned as a way to respond the need to prevent both unethical and criminal issues such as fraud, bribery, money-laundering, corruption and similar unlawful acts. The before mentioned unethical issues are mostly part of criminal law regulations, since they are unlawful acts against the state. These rules are relevant to certain basic issues such as board structure, shareholders' right, audit and disclosure of financial data. Most governance measures are principle-based soft law, and allow discretion in their application to member states, which may in turn ensure that provisions are not mandatory for companies.

# **Module 4 and 5- Corporate Governance and its Legislative Framework**

# Evolution of CG

Corporate governance in India gained prominence in the wake of liberalization during the 1990s and was introduced, by the industry association Confederation of Indian Industry (CII), as a voluntary measure to be adopted by Indian companies. It soon acquired a mandatory status in early 2000s through the introduction of Clause 49 of the Listing Agreement, as all companies (of a certain size) listed on stock exchanges were required to comply with these norms. In late 2009, the Ministry of Corporate Affairs released a set of voluntary guidelines for corporate governance, which address a myriad corporate governance issues.

# Evolution of CG

- At the time of Independence in 1947, India had functioning stock markets, an active manufacturing sector, a fairly developed banking sector, and also a comparatively well-developed British-derived convention of corporate practices. From 1947 through 1991, the Indian Government pursued markedly socialist policies when the State nationalized most banks and became the principal provider of both debt and equity capital for private firms.
- Public companies in India were only required to comply with limited governance and disclosure standards enumerated in the Companies Act of 1956, the Listing Agreement, and the accounting standards set forth by the Institute of Chartered Accountants of India (ICAI).

# Evolution of CG

- Faced with a fiscal crisis in 1991, the Indian Government responded by enacting a series of reforms aimed at general economic liberalization. The Securities and Exchange Board of India (SEBI)—India's securities market regulator—was formed in 1992, and by the mid-1990s, the Indian economy was growing steadily, and Indian firms had begun to seek equity capital to finance expansion into the market spaces created by liberalization and the growth of outsourcing. The need for capital, amongst other things, led to corporate governance reform and many major corporate governance initiatives were launched in India since the mid-1990s; most of these initiatives were focused on improving the governance climate incorporated in India, which, at that time, was somewhat rudimentary.

# Evolution of CG

- The first major initiative was undertaken by the Confederation of Indian Industry (CII), India's largest industry and business association, which came up with the first voluntary code of corporate governance in 1998. More than a year before the onset of the East Asian crisis, the CII had set up a committee to examine corporate governance issues, and to recommend a voluntary code of best practices. CII drew up a voluntary Corporate Governance Code. The first draft of the code was prepared by April 1997, and the final document titled "Desirable Corporate Governance: A Code" was publicly released in April 1998. The code was voluntary, contained detailed provisions and focused on listed companies

# Evolution of CG

- Consequently, the second major corporate governance initiative in the country was undertaken by SEBI. In early 1999, it set up a committee under Kumar Mangalam Birla to promote and raise the standards of good corporate governance. The Birla Committee specifically placed emphasis on independent directors in discussing board recommendations and made specific recommendations regarding board representation and independence. The Committee also recognized the importance of audit committees and made many specific recommendations regarding the function and constitution of board audit committees. In early 2000, the SEBI board accepted and ratified the key recommendations of the Birla Committee, which were incorporated into Clause 49 of the Listing Agreement of the Stock Exchanges.

# Evolution of CG

- The Naresh Chandra committee was appointed in August 2002 by the Department of Company Affairs (DCA) under the Ministry of Finance and Company Affairs, to examine various corporate governance issues. The Committee submitted its report in December 2002. It made recommendations in terms of two key aspects of corporate governance: financial and non-financial disclosures, and independent auditing and board oversight of management.
- It also made a series of recommendations regarding the grounds for disqualifying auditors from assignments, the type of non-audit services that auditors should be prohibited from performing, and the need for compulsory rotation of audit partners.

# Evolution of CG

- The fourth initiative on corporate governance in India is in the form of the recommendations of the Narayana Murthy Committee.
- This committee was set up by SEBI under the chairmanship of Mr. N.R. Narayana Murthy, in order to review Clause 49, and to suggest measures to improve corporate governance standards. Some of the major recommendations of the committee primarily were related to audit committees, audit reports, independent directors, related party transactions, risk management, directorships and director compensation, codes of conduct and financial disclosures.

# Evolution of CG

- Like the Birla Committee, the Murthy Committee examined a range of corporate governance issues relating to corporate boards and audit committees, as well as disclosure to shareholders and, in its report, focused heavily on the role and structure of corporate boards, while strengthening the definition of director independence in the then-existing Clause 49, particularly to address the role of insiders on Indian boards.

# Evolution of CG

- India's corporate governance reform efforts did not cease after the adoption of Clause 49. In parallel, the review and redrafting of the Companies Act, 1956 was taken up by the Ministry of Corporate Affairs (MCA) on the basis of a detailed consultative process and the Government constituted an Expert Committee on Company Law under the Chairmanship of Dr. J.J. Irani on 2 December 2004 to offer advice on a new Companies Bill.
- In January 2009, the Indian corporate community was shocked by a massive accounting scandal involving Satyam Computer Services (Satyam), one of India's largest information technology companies. The Satyam scandal prompted quick action by the Indian government, including the arrest of several insiders and auditors of Satyam, investigations by the MCA and SEBI, and substitution of the company's directors with government nominees.

# Evolution of CG

- In addition to the CII, a number of other corporate groups have joined the corporate governance dialogue. The National Association of Software and Services Companies (NASSCOM) also formed a Corporate Governance and Ethics Committee chaired by N.R. Narayana Murthy, a leading figure in the field of Indian corporate governance reforms. The Committee issued its recommendations in mid-2010, focusing on the stakeholders in the company. The report emphasized recommendations relating to the audit committee and a whistle blower policy, and also addressed the issue of the need to improve shareholder rights. Additionally, the Institute of Company Secretaries of India (ICSI) has also put forth a series of corporate governance recommendations.

# Regulatory Framework of SEBI in Corporate Governance

- **Role of SEBI**

Since its founding in 1992, the SEBI has undertaken a number of initiatives, formed a number of committees, and amended Clauses 35B and 49 of the listing agreement in an effort to improve corporate governance. Here, the listing agreements of Clause 35B and Clause 49 provide two examples of how the SEBI participates in corporate governance through standards and provisions.

## **Clause 35B**

In accordance with the updated clause 35B, the issuer has committed to offer shareholders the option of voting electronically or by postal vote for any shareholder resolutions that must be approved at general meetings. All members, the business's auditors, and the directors must receive meeting notices from the company via registered mail, registered email, or courier, and the notices must also be posted on the company's official website. The company should disclose in the meeting notice that it offers members the ability to cast postal ballots and electronic ballots.

# Clause 49 and its sub clauses

- **Clause 49 and sub-clauses Corporate responsibility-** The standards outlined in the proposed modification to Listing Agreement Clause 49 are in conformity to the corporate governance standards established by the 2013 New Companies Act. This clause includes information regarding the adherence to the standards by all listed companies. Furthermore, additional specified entities that are not corporations but are body corporates or are governed by other statutes are also subject to the provisions of this proposed modified paragraph (e.g. banks, financial institutions, insurance companies, etc.). The modified provisions of the corporate governance norms compliances are contained in 11 subclasses of clause 49.

# Clause 49 and its sub clauses

- **Clause 49 (i)- Corporate governance principles-** In this part, SEBI outlines and clarifies the duties of the board, the obligations of corporations to safeguard the interests of stakeholders, and the rights of shareholders and other stakeholder groups. According to this, disclosures must be made in a transparent manner and in line with all applicable accounting rules, both financial and non-financial.

# Clause 49 and its sub clauses

**Clause 49 of “Listing agreement”** deals with the complete guidelines for corporate governance. Following are the provisions, a company, must comply to implement effective corporate governance.

**Corporate Governance-:** In order to comply with clause 49(1) a company must adhere with some following principles.

- 1. Right of Shareholder-** As shareholders are the ultimate owner of the company, the company should seek to protect and facilitate the exercise of right of shareholders. A company must always be transparent with its shareholders and shareholders should have all the rights regarding General Meeting such as information about meeting, participate, Vote and questioning in GM etc.
- 2. Role of stakeholders-** A company must take care of stakeholder’s right and encourage cooperation between company & stakeholders. Their rights can be by Mutual agreement or by Applicable law or statute.

**3. Disclosure & Transparency-** It is the obligation on company to be transparent with its stakeholders by giving disclosures of all material matters on timely basis. Disclosure can be regarding financial position, Performance, ownership and Governance etc. Non disclosure of Material Matter is Strictly Prohibited.

**4. Responsibility of Board-** Members of the Board should disclose their interest in company and in any individual transaction and contract. They should also maintain the rule of confidentiality. They should also perform their key function such as preparation of major action plan, corporate Strategy, execution of Board, and effective financial Performance.

# Clause 49 and its sub clauses

## Board of Directors-:

- 1. Composition of Board** -Optimum Combination of Executive & Non Executive Directors, Not less than 50% of the board should comprise Non-Executive Directors, At Least one Women Director, Where chairman is non executive Director as least 1/3rd of the board should comprise Independent Director, and if Chairman is executive director then ½ of the board should comprise Independent Director.

Chairman - Executive Director- 1/2 of Board shall be Independent Director

Chairman - Non-Executive Director - 1/3rd of Board shall be Independent Director

# Clause 49 and its sub clauses

- **2. Independent Director-** Independent director shall mean “Non-Executive Director” other than Nominee Director, and shall be person who in opinion of board possesses integrity, relevant expertise & knowledge.
- An independent Director shall not be The promoter or relative of promoter of the company or its holding or subsidiary or associates company.
- A person who by himself or his relative have any pecuniary interest other than salary , directly or indirectly, with the company or its holding or subsidiary or associate company.
- A person neither himself nor his relative hold or has hold the position of KMP (Key Managerial Personnel) or Employee in the company or its holding or subsidiary or associates company, in any of three financial year immediately preceding the FY in which he is proposed to be appointed.

**Corporate**

**Governance**

**Elements of**  
**Good Corporate Governance**

# **Seven Characteristics of Good Corporate Governance**

**1.Accountability**

**1.Discipline**

**1.Fairness**

**4. Independence**

**5. Responsibility**

**6.Social responsibility**

**7. Transparency**

# **Elements of** **Good Corporate Governance**

- 1. Role and powers of Board**
- 2. Legislation**
- 3. Management Environment**
- 4. Board Skills**

# **Elements of** **Good Corporate Governance**

- 5. Board appointments**
- 6. Board induction and training**
- 7. Board Independence**
- 8. Board Meetings**

# **Elements of** **Good Corporate Governance**

**9. Board resources**

**10.Code of Conduct**

**11.Strategy setting**

**12.Business and Community Obligations.**

# **Elements of** **Good Corporate Governance**

**13. Financial and Operational Reporting**

**14. Monitoring the Board Performance**

**15. Audit Committees**

**16. Risk Management**

**Factors influencing**

**Quality of Corporate Governance**

# **Factors influencing**

## **Quality of Corporate Governance**

- 1. Integrity of Management**
- 2. Ability of the Board**
- 3. Adequacy of the Processes**
- 4. Commitment level of the individual board member**
- 5. Quality of Corporate Reporting**

**Factors which add greater value**  
**through Good Governance**

# **Factors which add greater value** **through Good Governance**

- 1. Provides stability and Growth to the Enterprise.**
- 1. Builds confidence amongst Stakeholders**
- 1. Investors willing to pay higher price**
- 1. Reduces perceived Risks and consequently Cost of Capital**

# **Factors which add greater value** **through Good Governance**

- 5. Enables Board to take quick and better decisions.**
- 6. Improves bottom line.**
- 7. Enables Board to leverage competitive advantage.**

# **Factors which add greater value**

## **through Good Governance**

- 8. Provides Long Term sustenance and strengthens stakeholders' relationship**
- 9. A good corporate citizen becomes an icon and enjoys a position of respect.**
- 10. Potential stakeholders aspire to enter into relationship with enterprises whose governance credentials are exemplary.**

# Clause 49 and its sub clauses

A firm of

- Auditor,
- Company Secretary,
- Cost Auditors, of the company or its holding or subsidiary or associates company or any legal firm which has transaction or amount more than 10% of the gross turnover of such firm.
- Holds together with his relative 2% or more of voting power,
- A chief officer or director or any NPO whose 25% of receipts comes from that company and any of its promote or director of the company or its holding or subsidiary or Associates Company. A material supplier, service provider or customer, or a lessor or lessee of the company.
- A person not less than 21 years of age.

# Clause 49 and its sub clauses

## Rules related to Independent director-

- **i. Limit on Membership of Director-** A person cannot be Independent director -In more than 7 Companies, – If whole time director then maximum 3 companies.
- **ii. Maximum Tenure-** Independent Director can hold office for a term up to five consecutive years, and eligible for re-appointment of one more term. If he has served for more than 5 years as on 1.10.2014 then he shall be eligible for reappointment for one another term and shall be eligible for reappointment after the expiry of three years.
- **iii. Formal Letter for Appointment-** A formal letter of appointment shall be given to independent director and, brief profile of him shall be published on the website.

# Clause 49 and its sub clauses

- **iv. Performance Evaluation** – Nomination committee shall lay down & disclose the criteria for performance evaluation and it shall be done by all board members except whose evaluation is being done. The term of the director shall be decided as per the performance evaluation.
- **v. Separate meeting of Independent Director-** All the independent directors shall have at least one meeting in a year to – Review the performance of Non-Independent director, – Performance of Chairperson, – Effectiveness of Board
- **vi. Training-** Company shall provide suitable training to Independent Director.

# Clause 49 and its sub clauses

- **3. Non executive Director's Compensation & Remuneration-** Compensation to non executive director shall be fixed by the board with previous approval of shareholders in GM.
- Resolution shall specify the maximum no. of stock option to Non Executive Director.
- Independent director is not eligible for stock option.

# Clause 49 and its sub clauses

**4. Other Provision of Board & Committees-** Board shall meet at least 4 times a year with a maximum time gap between two meet shall not be more than 120 days.

- A director shall not be
  - A member in 10 committees,
  - Chairman of 5 committee in which he is director
- Periodic Review of Compliance of law & regulation by board
- Removal, Resignation & reappointment of Independent Director.

**5. Code of Conduct-** Board shall lay down the code of conduct,

- Board members and senior management personnel are bound to comply with that,
- Provision or codes are as per New Companies Act, 2013

Every person is responsible for such act of omission which had occurred within his Knowledge.

# Clause 49 and its sub clauses

**6. Whistle Blower Policy-** A vigil Mechanism , for actual or Suspected fraud or unethical Behavior shall be placed, Adequate safe guard shall be provided against victimization who avail the mechanism, The details of this mechanism shall be placed on company's website

# Clause 49 and its sub clauses

## Audit Committee:-

The audit committee is a committee of the board of directors responsible for oversight of the financial reporting process, selection of independent auditor, receipt of audit results from both internal & external auditors. The committee assists the board to fulfil its corporate governance and overseeing responsibilities in relation to an entity's financial reporting, internal control system.

- Minimum 3 directors shall be the members of Audit Committee,
- 2/3rd shall be the Independent Director
- All the members shall be financially literate & at least one member must have expertise in accounts & finance field.
- Chairman shall be Independent Director and must be present at annual general meeting.
- Company secretary shall act as secretary of committee.

At least four meeting in a year shall be held by audit committee with maximum time gap between two meetings shall not be more than 120 days. Quorum shall either two members or 1/3rd members of the committee which shall be higher but at least two independent directors must be present.

# Clause 49 and its sub clauses

**Powers of Audit Committee** -To investigate any activity within its terms of reference,

- To seek information from any employee,
- To obtain outside or legal advice, To secure attendance of outsider with relevant expertise, if any

**Role of Audit Committee**- Overseeing the Financial reporting and disclosure process,

- Monitoring choice of accounting policies and principles,
- Overseeing hiring, performance and independence of the external auditor
- Oversight of regulatory compliance , ethics & whistle blower's actions
- Monitoring the internal control process,
- Overseeing the performance of internal audit function,
- Discuss risk management policies etc.

# Clause 49 and its sub clauses

**Nomination & Remuneration Committee:-** Nomination & Remuneration Committee shall be constituted by company which shall comprise

- At least three director,
- All shall be non executive,
- Half of the members shall be Independent Director.

The role of the committee is to formulate the criteria for determining qualification, positive attributes and Independence of Directors, Recommendation of remuneration policy. The committee shall also formulate criteria for person in management who deserves to be a director.

# Elements of Corporate Governance

The 6 essential elements of corporate governance are:

- 1. Board of Directors:** The board of directors is responsible for overseeing the company's operations and making important decisions. They are elected by shareholders and act as representatives of the shareholders' interests.
- 2. Transparency and Disclosure:** Companies should provide accurate and timely information about their financial performance, operations, and any potential risks. This information should be easily accessible to shareholders and the public.
- 3. Accountability:** The management of the company should be accountable for their actions and decisions. This means they are responsible for the outcomes of their decisions and should be transparent about their performance.

# Elements of Corporate Governance

- 4. Ethics and Integrity:** Companies should have a strong ethical framework and a culture of integrity. This means conducting business honestly and ethically, complying with laws and regulations, and treating employees, customers, and other stakeholders fairly.
- 5. Shareholder Rights:** Shareholders have certain rights, such as the right to vote on important matters and the right to receive dividends. Companies should respect and protect these rights.
- 6. Risk Management:** Companies should have effective systems in place to identify, assess, and manage risks. This helps to protect the company's assets and ensure its long-term sustainability.

# Failure of Corporate Governance

Some of the governance issues faced by companies that inevitably lead to *corporate governance failures* are:

- Ineffective governance mechanisms, for example, lack of board committees
- Non-independent board and audit committee members
- Intentional misleading of the Board by management to protect themselves after evading and bypassing internal controls
- Underqualified board members
- Ignorance by regulators, auditors, analysts of the financial results, and red flags.

# Failure of Corporate Governance

- Management who exhibit ineptitude
- Dereliction of the procedures stipulated in internal regulations
- Insufficient attention paid to risk management
- Inconsistent distribution of duties and responsibilities
- The inefficiency of internal audit
- Influencing the external auditors to express an audit opinion inconsistent with reality.
- Poor ethical leadership
- lack of integrity
- fraud
- Corruption

# Consequences of Corporate Governance Failure

- **Loss of Shareholder Confidence and Trust**

When a company deviates from its corporate governance strategy it sends a signal to its shareholders that it cannot be trusted. This erodes any confidence that the shareholders had in the business and leads them to feel cheated or misled. If shareholders believe bad business decisions are in the company's immediate future, they may jump ship to avoid any potential loss.

- **Difficulty Raising Capital**

A lack of adherence to a company's corporate governance strategies can also scare away investors. For investors, one of the most important aspects when making an investment decision is the level of implementation of corporate governance principles (public disclosure of information, protection of shareholder rights, and equal treatment of shareholders) and profitability, which ensures return on their investment.

# Consequences of Corporate Governance Failure

- **No-Risk Management**

Not conforming to its corporate governance strategies may lead to a lack of risk management within a business. This increases the possibility of the company making bad investments and decisions.

- **Increased Government Oversight**

A company with a reputation for lack of adherence to corporate governance strategies may incur increased government oversight from departments looking to verify that the company is operating within the bounds of the law. This puts the business in the spotlight if anything was to ever go wrong.

# **Corporate Governance framework in Banks and Public Sector Undertakings (PSUs)**



# Who is Responsible for Good Governance in Banks?

- Primary responsibility rests with bank boards and senior management.
- Bank supervisors have an important role to play by providing guidance & assessing bank practices
- Others can promote good governance *e.g.*:
  - ☐ Shareholders
  - ☐ Depositors & customers
  - ☐ Employees
  - ☐ Auditors
  - ☐ Banking industry associations
  - ☐ Credit rating agencies
  - ☐ Governments, securities regulators and stock exchanges

# 8 Principles for Bank Boards & Senior Management

- Principle 1: Board qualifications, capabilities and responsibilities
- Principle 2: Board's role regarding the bank's strategic objectives and corporate values
- Principle 3: Lines of responsibility & accountability
- Principle 4: Ensuring oversight by senior management
- Principle 5: Auditors and internal control functions
- Principle 6: Board & key executive compensation
- Principle 7: Transparent governance
- Principle 8: "Know your operational structure"

# Principle 1

- *Board members should be qualified for their positions, have a clear understanding of their role in corporate governance and be able to exercise sound judgment about the affairs of the bank*
- Some responsibilities apply to any kind of organisation (bank or non-bank), for example:
  - ☐ The board should understand its oversight role
- Some responsibilities are unique to the banking sector:
  - ☐ Promote bank safety and soundness
  - ☐ Understand the regulatory environment
  - ☐ Ensure that the bank maintains an effective relationship with supervisors

# Principle 1 (continued)

- Board should have an adequate number of independent members
- Independence = ability to exercise objective judgment, independent of
  - ❑ the views of management,
  - ❑ political interests, and
  - ❑ inappropriate outside interests

# Principle 2

- *The board of directors should approve and oversee the bank's strategic objectives and corporate values that are communicated through the banking organisation*
- Standards should address, among other things:
  - ❑ Corruption
  - ❑ Self-dealing
  - ❑ Other illegal, unethical or questionable behaviour
- Employees should be encouraged to raise concerns about illegal or unethical practices to the board or an independent committee without fear of reprisal or retaliation

# Principle 2 (continued)

- Watch out for practices that could diminish the quality of corporate governance, for example:
  - ❑ Internal lending (to officers, employees, board members or controlling shareholders)
  - ❑ Preferential treatment for related parties and other favoured entities
  - ❑ Conflicts of interest
- The board should ensure senior management implements effective policies to prevent (or limit) such activities

# Principle 3

- *The board of directors should set and enforce clear lines of responsibility and accountability throughout the organisation*
- **Role of the board:**
  - ▣ Define authorities & key responsibilities
  - ▣ Oversee management actions
- **Senior management's role:**
  - ▣ Delegate to staff & promote accountability
  - ▣ Be responsible to the board for bank's performance
- **Guidance also addresses:**
  - ▣ Accountability where bank is part of a larger group structure
  - ▣ Outsourcing of bank functions

# Principle 4

- *The board should ensure that there is appropriate oversight by senior management consistent with board policy*
- Senior management should:
  - ❑ Have the necessary skills to manage the business
  - ❑ Oversee line managers consistent with board policies (but avoid “micro-managing” line managers)
  - ❑ Under board’s guidance, establish system of internal controls
    - Apply the “four eyes” principle, even in small banks

# Principle 5

- *The board and senior management should effectively utilise the work conducted by the internal audit function, external auditors and internal control functions*
- Internal audits – the board & senior management should:
  - ▣ Recognise & communicate importance of audit & internal control processes throughout the bank
  - ▣ Use the findings of internal audits and require timely correction of problems by management
  - ▣ Promote the internal auditor's independence, e.g. through reporting to the board or board's audit committee
  - ▣ Engage internal auditors to judge effectiveness of key internal controls

# Principle 5 (continued)

- External audits - the board and senior management should:
  - Ensure that external auditors comply with applicable codes & standards of professional practice
  - Ensure that external auditors understand their duties
  - Engage external auditors to review internal controls relating to financial statements
  - Encourage the principal auditor to take responsibility for other external audits of financial statements conducted within a group
  - For state-owned banks, maintain a dialogue as appropriate with state supreme audit institutions, state controllers and external auditors

# Principle 6

- *The board should ensure that compensation policies and practices are consistent with the bank's corporate culture, long-term objectives and strategy, and control environment*
- Board (or independent committee) should approve compensation, consistent with remuneration policy
- Avoid compensation policies that create incentives for excessive risk-taking
- Policies should be clear regarding:
  - ❏ Holding and trading of stock in bank or affiliated companies
  - ❏ Granting and repricing of stock options

# Principle 7

- *The bank should be governed in a transparent manner*
- Disclosure should be made on the bank's website, in its annual/periodic reports and/or in reports to supervisors about:
  - ▣ Board and senior management structure
  - ▣ Basic ownership structure & organisational structure
  - ▣ Incentive structures (e.g. remuneration policies)
  - ▣ Code of business conduct and/or ethics code
  - ▣ Bank policies relating to conflicts of interest & related party transactions
  - ▣ State's ownership policy, if the bank is state-owned

# Principle 8

- *The board and senior management should understand the bank's operational structure, including where the bank operates in jurisdictions, or through structures, that impede transparency (i.e. "know-your-structure")*
- Banks sometimes operate in jurisdictions, or employ structures, that lack or impair transparency
  - ⊟ This sometimes occur for legitimate business purposes ...
- But doing so can:
  - ⊟ Pose significant financial, legal and reputational risks for bank
  - ⊟ Impede board and senior management oversight
  - ⊟ Make it more difficult for authorities to effectively supervise the bank

# Principle 8 (continued)

- The risks should be appropriately assessed and managed
  - ▣ Information regarding the activities and risks should be easily available at the bank's head office & reported to the board and bank's supervisors
- Clear policies and procedures should exist
  - ▣ For board approval of the bank's use (or sale) of complex structures, instruments and products
  - ▣ For the identification and management of material risks
- Regularly evaluate the need to operate in jurisdictions or use structures that reduce transparency
- Set clear corporate governance expectations for all relevant entities and business lines
- Assess compliance with applicable laws and internal policies
- Activities should be subject to enhanced audit procedures and internal control reviews

# 6 Recommendations for Bank Supervisors

- Supervisors should:
  - ☐ Consider corporate governance as one element of depositor protection
  - ☐ Provide guidance to banks on sound corporate governance and pro-active practices
  - ☐ Evaluate banks' implementation of corporate governance policies and practices
  - ☐ Assess the quality of banks' audit and control functions
  - ☐ Evaluate the effects of the bank's group structure
  - ☐ Bring to the attention of boards and senior management any problems they detect through supervisory efforts

# CG Framework in PSUs

- Provisions as contained in the Companies Act, 2013; SEBI guidelines on Corporate Governance; and DPE (Department of Public Enterprises) guidelines on Corporate Governance for Central Public-Sector Enterprises provide the Corporate Governance framework for listed PSUs in India. SEBI guidelines are not applicable to non-listed PSUs.

- The Companies Act, 2013 together with the Companies Rules provide a robust framework for Corporate Governance all companies including PSUs registered under the Companies Act. Some of the important requirements which have been laid down are with regard to:
  1. Qualifications for Independent Directors along with the duties and guidelines for professional conduct (Section 149(8) and Schedule IV thereof).
  2. Mandatory appointment of one-woman director on the board of listed companies [Section 149(1)].

3. Mandatory establishment of certain committees like Corporate Social Responsibility Committee [Section (135)], Audit Committee [Section 177(1)], Nomination and Remuneration Committee [Section 178(1)], and Stakeholders Relationship Committee [Section 178(5)].
4. Holding of a minimum of four meetings of Board of Directors every year in such a manner that not more than 120 days shall intervene between two consecutive meetings of the Board [Section 173(1)].

# DPE Guidelines on PSUs.

- DPE guidelines on Corporate Governance for Central Public-Sector Enterprises
  1. The Department of Public Enterprises (DPE) issued first ever guidelines on Corporate Governance in November 1992 for PSUs which were voluntary in nature.
  2. These have been revised from time to time, latest being the DPE guidelines in May, 2010.
  3. These guidelines are mandatory and are applicable to all PSUs – listed or not listed.

# DPE Guidelines on PSUs.

4. The guidelines issued by DPE has covered areas like composition of Board of Directors, composition and functions of Board committees like Audit Committee, Remuneration committee, details on subsidiary companies, disclosures, reports and the schedules for implementation.
5. DPE has also incorporated Corporate Governance as a performance parameter in the MoUs of all PSUs.
6. In July 2014, DPE issued revised guidelines for grading the PSUs on Corporate Governance.
7. In order to encourage compliance with guidelines, DPE made it clear that deviation from Corporate Governance guidelines would attract negative marking in the performance evaluation of PSUs under Memorandum of Understanding process from the fiscal year 2015-16.

# **Module 6**

## **Business Ethics and Corporate Governance**

# Ethical Issues in Business

- **The most common ethical issues in business involve :**
  - **Employment practices.**
  - **Environmental regulations.**
  - **Corruption.**
  - **The Social Responsibility of multinational companies.**

# 1. Ethics and Employment Practices

**Question:** When work conditions in a host nation are clearly poorer than those in a multinational's home nation, **what standards should be applied?**

- The standards of the home nation?
- The standards of the host nation?
- Something in between?

# 1. Ethics and Employment Practices

Wage differentials

No of hours of work

## 2. Ethics and Environmental Pollution

**Question:** Should a multinational feel free to pollute in a developing nation if doing so does not break up laws?

- When environmental regulations in host nations are far inferior to those in the home nation, ethical issues arise.

## 3. Ethics and Corruption

**Question:** Is it ethical to make payments to government officials to secure business?

- In the United States, the [Foreign Corrupt Practices Act](#) forbid the practice of paying bribes to foreign government officials in order to gain business.

## 4. Ethics and The Social Responsibility

**Question:** Do multinationals have a responsibility to give back to the societies that enable them to grow and succeed?

- The concept of **social responsibility** refers to the idea that business people should take the social benefits into account when making business decisions, and that there should be a belief in decisions that have both good economic and good social benefits.

# The Roots of Unethical Behavior

**Question:** Why do managers behave in an unethical manner?

- **Managerial behavior is influenced by:**
  - Personal ethics
  - Decision making processes
  - Organizational culture
  - Leadership
  - Unrealistic Performance Expectations.

# What Is Ethical Marketing?

- Ethical marketing is a technique that highlights a company's values—honesty, transparency, responsibility, or adherence to fair trade principles—as a promotional strategy. These companies communicate their business ethics in marketing materials to reach target audiences with similar principles. While ethical marketing teams focus on advertising a product or service and making a profit, they aim to do so while upholding their ethical standards.
- In contrast, unethical marketing emphasizes profit at the expense of all other criteria. Unethical marketing tactics include communicating to customer bases with false claims, unsolicited advertisements, scare tactics, or slandering competitors with unverified claims.

# Ethical Values in marketing

- 1. Fairness:** Establishing fairness as a decision-making principle means companies commit to fair prices, better wages, and sustainable development.
- 2. Honesty:** A cornerstone of ethical behavior is honesty. Honest companies use marketing communications to provide factual and unexaggerated information about the functionality and impact of their products and services; they advertise without attempting to mislead.
- 3. Responsibility:** Businesses may emphasize their responsibility in several ways, including their obligation to provide a reliable product or service, support social causes, give back to communities, treat their employees with respect, or protect the environment through sustainable practices.
- 4. Transparency:** In business, transparency means being open to the public about your company's operations, particularly the ethical way you treat employees and the sustainability and environmental impact of your products or services.

# Ethical Values in marketing

**5. Respect** – Acknowledge basic human dignity of all the people involved through efforts to communicate, understand and meet needs and appreciate contributions of others.

**6. Citizenship** – Fulfill all legal, economic, philanthropic and societal responsibilities to all stakeholders as well as giveback to the community and protect the ecological environment

# Principles Of ethical Marketing:

1. All marketing communications share the common parameter that is truth.
  2. Marketing Professional is bound by the highest standard of personal ethics.
  3. Marketers should be highly transparent about the people whom they pay to endorse the products.
  4. Consumers should be treated fairly based on the nature of the product and consumer.
- The privacy of the consumer should not be compromised.

# MAIN ASPECTS OF SOCIALLY RESPONSIBLE MARKETING

- **Consumer Orientation-** This is a socially responsible practice teaches that companies should base policies and operations on a consumer perspective. It is not only the marketer will discover the customers' needs, but also look at their plans who are the users
- **Innovation-** Improving products and services improves the experience for users. And improving marketing strategies, polices, and brand personality, on an ongoing basis will position company as an innovative experience to be repeated and passed on.
- **Value of the product-** A company that produces valuable products and focuses on customer pricing. Excellent experiences and great customer service will not have to resort to pushy sales tactics and gimmicks. Apple brand is famous for having people happily wait in line overnight to be first to own an upgraded product.

# MAIN ASPECTS OF SOCIALLY RESPONSIBLE MARKETING

- **Sense of Mission-** A clearly defined corporate mission help the companies be clear about their plans, goals, and practices. By putting the good of the community and associates over profit, companies will indeed see an increase in the number of consumers willing to pay premium prices for their products.
- **Impact on Society-** Unlike traditional marketing focus, which was cost reduction and profit increase, socially responsible marketers are more focused on providing goods and services consumers want, gaining feedback for improvement and giving back to the communities that helped them become who they are.

# Ethics in marketing

- Market research- Market research is the collection and analysis of information about consumers, competitors and the effectiveness of marketing programs. With market research, businesses can make decisions based on how the responses of the market, leading to a better understanding of how the business has to adapt to the changing market. It is used to establish which portion of the population will or does purchase a product, based on age, gender, location, income level, and many other variables. This research allows companies to learn more about past, current, and potential customers, including their specific likes and dislikes.

# Ethical danger points in market research include

- **Invasion of privacy-** As companies conduct research they also come into contact with confidential and personal information, which comes with a level of risk for both the business as well as the individuals. Therefore, companies are provided with critical information, which they must not take advantage of but use in an ethical manner.
- **Distribution-** In marketing, creating temporary scarcity of products is used as a weapon to have control over the market.

# Ethical danger points in market research include

- **Targeting the Vulnerable-** Market targeting strategies for products that may cause economic, physical and psychological harm has become an aspect of marketing which is criticized.
- **Pricing ethics-** Pricing along with product, place and promotion are the four functions of marketing. Retailers and producers must ensure that ethical pricing strategies are performed in order to earn profits without deceiving competitors or consumers. However it is obvious that buyers and sellers have different goals and perceived outcomes in the exchange process. Usually buyers are seeking to gain products and services at the best possible price whereas sellers are generally concentrated on generating maximum profit.

# Ethical danger points in market research include

- **Ethics in advertising and promotion-** Advertising is mass and paid communication, with a fundamental purpose to deliver information, acquire attitudes and induce action beneficial to the advertiser – generally the sale of the product or service. Advertising and promotion have a significant influence on people, society in large, while shaping their attitudes, behaviors and priorities. Some scholars believe that advertising supports ethical issues. It is also considered unethical to shame a substitute of rivals product or services. Other ethical issues include mistreatment of women, advertising to children, misleading advertising and other issues, which lead to ethical decline of society.

# Ethical danger points in market research include

- **Marketing strategy-** The main theoretical issue here is the debate between free markets and regulated markets. In a truly free market, any participant can make or change the rules. However, when new rules are invented which shift power too suddenly or too far, other participants may respond with accusations of unethical behavior, rather than modifying their own behavior to suit (which they might not be able to anyway).

# Ethical Marketing Examples

Through print and digital marketing campaigns, companies use various ethical marketing practices to advertise their product or services. Here are a few examples:

**1.1. A charitable giving campaign:** Many ethical companies engage in significant charitable giving programs, donating money or goods to social causes and initiatives with a positive impact. An example of a charitable giving campaign is a one-to-one program built into the business model: The company donates one product to charity for every product they sell.

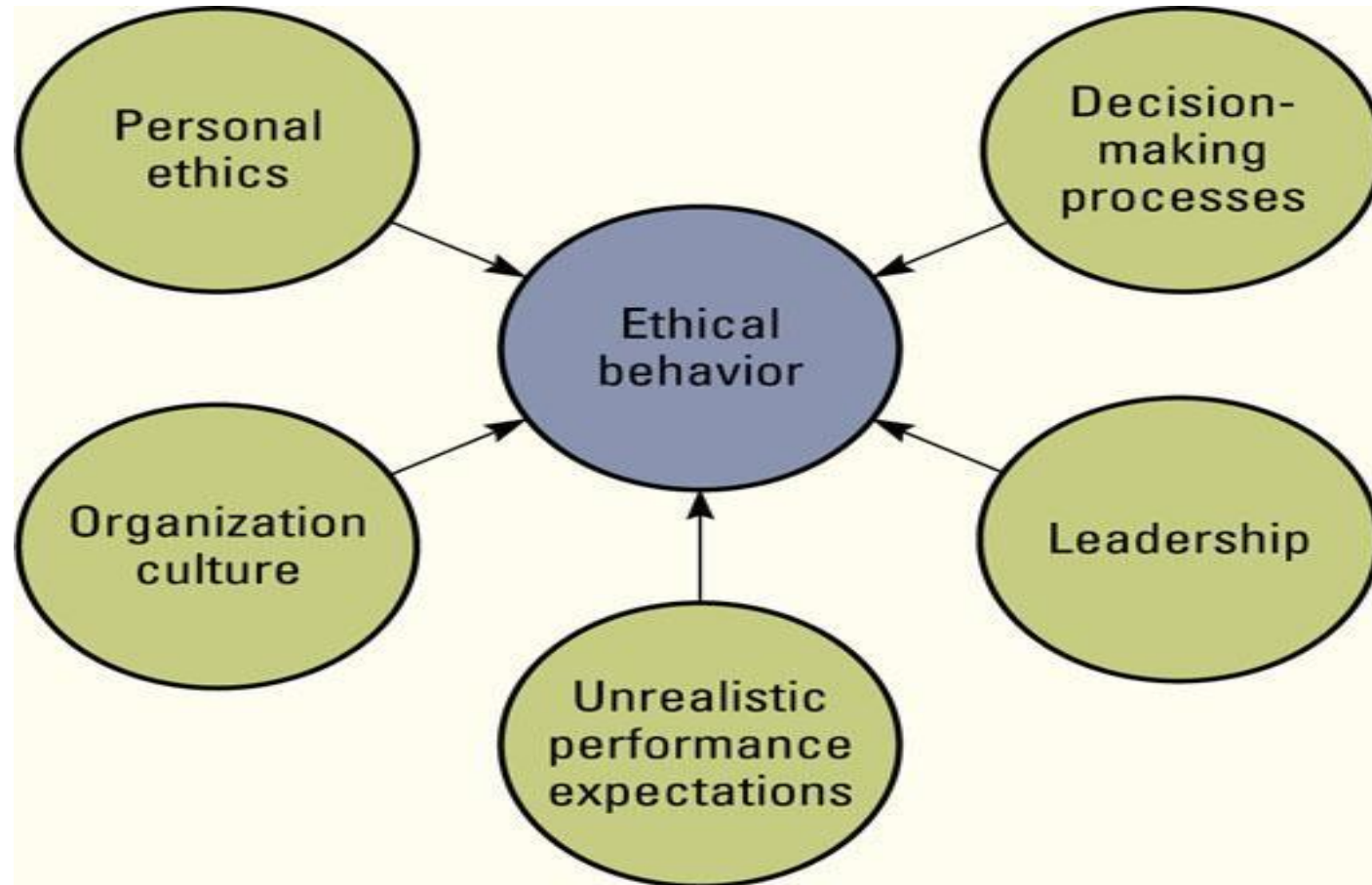
**1.2. Centering business decisions and impact on product pages:** A common ethical marketing strategy is to advertise the company's fair business practices on product pages. The site may give an inside look at the production process (like a factory or office space) or provide accurate numbers about the product's minimal environmental impact. This aims to establish brand loyalty and make customers feel proud about supporting a company that works hard to be ethical.

**2.3. Socially responsible social media accounts:** Many companies work to show their ethical practices by being responsible and outspoken online about social and ethical issues. This marketing decision emphasizes the company is an ethical brand with a sense of social responsibility that customers want to support.

# Is marketing inherently evil?

- A popularist anti-marketing stance commonly discussed is that any kind of marketing is inherently evil. The position is based on the argument that marketing necessarily commits at least one of three wrongs:
- Damaging personal autonomy. The victim of marketing in this case is the intended buyer whose right to self-determination is infringed.
- Causing harm to competitors. Excessively fierce competition and unethical marketing tactics are especially associated with saturated markets.
- Manipulating social values. The victim in this case is society as a whole, or the environment as well. The argument is that marketing promotes consumerism and waste.

# The Roots of Unethical Behavior



# 1. Personal Ethics

- Business ethics reflect personal ethics (the generally accepted principles of right and wrong leading the conduct of individuals).
- Managers may face pressure to violate their personal ethics because they are away from their ordinary social context and supporting culture, and they are psychologically and geographically distant from the parent company .

## 2. Decision Making Processes

- Studies show that business people may behave unethically because they fail to ask the relevant **question—*is this decision or action ethical?***
  - Decisions are made based on economic logic, without consideration for ethics.

### 3. Organizational Culture

- Unethical behavior may exist in firms with an **organization culture** (the values and standards that are shared among employees of an organization) that does not stress business ethics.
  - Values and standards shape the culture of a firm, and that culture influences decision making.

## 4. Leadership

- If a firm's leaders fail to act in an ethical manner, other employees may not act ethically
  - Actions speak louder than words.

## 5. Unrealistic Performance Expectations

- Pressure from the parent company to meet performance goals that are unrealistic, and can only be achieved by acting in an unethical manner which cause unethical behavior.

# **Module 8- Ethics in Marketing**

# Ethical Values in marketing

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# **Module 9- Corporate Social Responsibility**

# Definition

*“CSR is the commitment of business to contribute to sustainable economic development-working with employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and good for development” (World Bank, 2008).*

*“CSR is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources”(Kotler & Lee, 2005).*

*“Social responsibility of business is to encompass the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time” (Carroll, 1979).*

# Definition

World Business Council for Sustainable Development (1999):

*“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”.*

# Definition

- “Corporate Social Responsibility” (CSR) Means and include but not limited to :-
  - 1) Projects or programs relating to activities specified in the schedule VII of the Act; or
  - 2) Projects or Programs relating to activities undertaken by BODs of the company in pursuance of the recommendations of the CSR committee of the Board as per declared CSR Policy of the company enumerated in schedule VII of the Act.
- “CSR Policy” relates to the activities to be undertaken by the company as specified in schedule VII of the act and the expenditure thereon, excluding activities undertaken in pursuance of normal course of business of a company

# Reasons for CSR activities

- CSR activities are important to and even expected by the public
- And they are easily monitored worldwide
- CSR activities help organizations hire and retain the people they want
- CSR activities contribute to business performance

# Basic Constituents of CSR

- Contribute towards a sustainable economic development.
- Make desirable social changes
- Improvement of social environment.
- Towards business and society.

# Evolution of CSR

- Early definitions (1950s-1970s): broad and heavily rooted in the 'social' element
- 'Conceptualisations' and models (1970s-1980s): efforts to produce a model of CSR and its institutional role
- Business case grows (1980s-): research turned towards analysing the financial impacts and competitive advantages offered.

# Drivers of CSR

National Drivers	Description
Cultural tradition	CSR often draws strongly on deep-rooted indigenous cultural traditions of philanthropy, business ethics and community embeddedness.
Political reform	CSR cannot be divorced from the socio-political policy reform process, which often drives business behaviour towards integrating social and ethical issues.
Socio-economic priorities	CSR is often most directly shaped by the socio-economic environment in which firms operate and the development priorities this creates.
Governance gaps	CSR is often seen as a way to plug the “governance gaps” left by weak, corrupt or under-resourced governments that fail to adequately provide various social services.
Crisis response	CSR responses can be catalysed by economic, social, environmental, health-related or industrial crises.
Market access	CSR may be seen as an enabler for companies in developing countries trying to access markets in the developed world.

# Drivers of CSR

International Drivers	Description
International standardization	CSR codes, guidelines and standards are a key driver for companies wishing to operate as global players.
Investment incentives	CSR is given an incentive by the trend of socially responsible investment (SRI), where funds are screened on ethical, social and environmental criteria
Stakeholder activism	CSR is encouraged through the activism of stakeholder or pressure groups, often acting to address the perceived failure of the market and government policy.
Supply chain	CSR activities among small and medium-sized companies are boosted by requirements imposed by multinationals on their supply chains.

# Driving forces of CSR

- **Increased Affluence:** CSR becomes more relevant as economies grow and stabilize. Therefore, the greatest attention to CSR is found in developed countries. Stable work and security provide the luxury of choice and socially responsible activism. No such luxury exists when basic needs are in question.
- **Ecological Sustainability:** Perhaps the most obvious and most talked about of the drivers, concerns over pollution, waste, natural resource depletion, climate change and the like continue to fuel the CSR discussion and heighten expectations for proactive corporate action. After all, it is in the best interest of firms to protect for the sustainable future the long-term availability of the resources on which they depend.
- **Globalization:** Globalization has had considerable impacts. First, the increased wealth and power of multinational corporations has led to questions on the decreased authority of the nation-state, especially in developing areas. Further, cultural differences have added to the complexity of CSR as expectations of acceptable behavior vary regionally. With increased power comes increased responsibility and globalization has fueled the need to filter all strategic decisions through a CSR lens to ensure optimal outcomes for diverse stakeholders.

# Driving forces of CSR

- **Free Flow of Information:** Yes, blame the bloggers, but through the Internet and other electronic mediums the flow of information has shifted back to the stakeholders, especially in the case of three important groups: consumers, NGOs and the general media. Easily accessible and affordable communication technologies have permanently changed the game and only truly authentic and transparent companies will profit in the long term.
- **The Power of the Brand:** Brands are today the focal point of corporate success and much of the health of the brand depends on public perception of the corporation. In other words, reputation is key and honest CSR is a way to protect that reputation and therefore the brand

# CSR according to Companies Act, 2013

## Introduction

Section 135 of Companies Act, 2013 provides for provisions regarding Corporate Social Responsibility (CSR) requirements for companies. Every company falling within the prescribed threshold of paid up capital and net profits is required to comply with the provisions of CSR stated under the abovementioned section.

# Introduction

- The concept of CSR rests on the ideology of businesses giving back to society as they grow and benefit. Companies take resources in the form of raw materials, human resources etc. from the society. By performing the task of CSR activities, the companies are giving something back to the society. As commonly misunderstood, the CSR is not charity or mere donations. CSR is a way of conducting business, by which corporate entities visibly contribute to the social good.

# CSR according to Companies Act, 2013

## Applicability

On April 1, 2014, India became the first country to legally mandate corporate social responsibility. The rules in Section 135 of India's Companies Act make it mandatory for companies of a certain turnover and profitability to spend 2% of their average net profit for the past three years on CSR.

The CSR provisions are applicable to the following companies: Every company, its holding company, its subsidiary company and foreign company having in the preceding financial year:

Net Worth > 500 Crore

Turnover > 1000

Crore Net Profit > 5 Crore

# CSR according to Companies Act, 2013

- Compliance

When section 135 are applicable on the companies, it has to comply with the following requirements – CSR Committee: The Board of directors shall form a committee dedicated to CSR. The committee shall have minimum 3 directors of which one shall be an independent director.

However, if the company is an unlisted public company or a private company (not required to appoint an independent director), it shall have two or more directors in its CSR Committee. In case of a foreign company, the CSR committee shall comprise of at least 2 persons of which one shall be a resident of India.

# Who needs to spend on CSR?

- The companies which fall in the ambit of have of the following three criteria are required to spend on CSR and must establish a CSR committee. Such companies are required to do CSR spend amounting to 2 % of their average annual profit over last three years. Here are the criteria for CSR eligibility for the companies.
- Thus, section 8 companies must also establish a CSR committee and comply with CSR provisions when it meets the specified net worth, turnover, or net profits.
- Net worth of the company to be Rs 500 crore or more; or
- Turnover of the company to be Rs 1000 crore or more; or
- Net profit of the company to be Rs 5 crore or more.

# Constitution and functions of CSR Committee

- The CSR Committee of the Board shall consist of three or more directors, out of which at least one shall be an independent director. Foreign companies shall constitute CSR Committee with at least two persons in which one must be a resident person, authorised to accept notices/ documents served on the foreign company and the other as nominated by the foreign company. Unlisted public company (UPC) or a private company, which otherwise does not require an independent director on its board, shall not need an independent director for the purposes of this committee. Any private company which only has two directors on its board shall have the said two directors in the CSR committee.

# PENALTIES

If a company contravenes the provisions shall be punishable with fine which shall not be less than fifty thousand rupees but which may extend to twenty five lakh rupees and every officer of such company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or with both.

# Activities under CSR

- The activities (in areas or subject, specified in Schedule VII) that can be done by the company to achieve its CSR obligations include:

## Schedule VII of Companies Act 2013

- (i) eradicating hunger, poverty and malnutrition, promoting health care including preventive health care and sanitation including contribution to the 'Swachh Bharat Kosh' set up by the Central Government for the promotion of sanitation and making available safe drinking water:
- (ii) promoting education, including special education and employment enhancing vocation skills specially among children, women, elderly, and the differently abled and livelihood enhancement projects;

# Activities under CSR

iii) promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;

(iv) ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro forestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the 'Clean Ganga fund' set up by the Central Government for rejuvenation of river Ganga ;

# Activities under CSR

v) protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;

vi) measures for the benefit of armed forces veterans, war widows and their dependents;

(vii) training to promote rural sports, nationally recognised sports, paralympic sports and Olympic sports;

(viii) contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government for socio-economic development and relief and welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;

# Activities under CSR

- (ix) contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government;
- (x) rural development projects;
- (xi) Slum area development.

# Arguments for and against CSR

## Arguments for Social Responsibility

1. Justification for Existence and Growth
2. Long-term Interest of Firms
3. Avoidance of Government Regulations
4. Maintenance of Society
5. Availability of Resources with Businesses
6. Converting Problems into Opportunities
7. Better Environment for Doing Business
8. Holding Business Responsible for Social Problems



## Arguments against Social Responsibility

1. Violation of Profit Maximisation Objective
2. Burden on Consumers
3. Lack of Social Skills
4. Lack of Broad Public Support

# Arguments for CSR

**1. Justification for Existence and Growth:** Business uses the resources of society and is a creation of society, so it is expected to satisfy human needs by providing goods and services. Profit earning should be looked at as an outcome of service to the people. If the image of the business is good, it enjoys the support of society, and it can prosper and grow only when it fulfils its social responsibility.

**2. Long-term Interest of Firms:** A firm can be profitable and prosperous only when it thinks of being profitable in the long run. A firm and its image stand to gain maximum profits in the long run when it has its highest goal as **Service to Society**. A business has to fulfil social responsibility towards various groups of society, like workers, consumers, shareholders, government officials, etc.

**3. Avoidance of Government Regulations:** If a business does not want intervention from the government, then it must fulfil social responsibility. The government can restrict the freedom and flexibility of a business, and enact and force them to assume social responsibility, so businesses should voluntarily fulfil their obligations to society.

# Arguments for CSR

**4. Maintenance of Society:** If the people related to the business feel that they are not getting their dues from the business, then they may resort to anti-social activities. This can distort the image of the business and can be very harmful, so businesses must fulfil their social responsibility.

**5. Availability of Resources with Businesses:** The problems of society can be effectively solved with the help of valuable financial and human resources of the businesses. **For example**, managerial talent and capital resources, and years of experience in organising business activities can help society to tackle its problems better, given the huge financial and human resources at its disposal.

**6. Converting Problems into Opportunities:** Businesses can convert problems into opportunities by taking risks. It takes risk as the reward of profit bearing. It not only solves social problems but also provides opportunities for growth. **For example**, the problem of regional disparity can be solved by setting up industries in backward regions, and it can benefit the business as it gets various tax benefits.

# Arguments for CSR

**7. Better Environment for Doing Business:** There are little chances for the success of a business when society is confronted with diverse and complicated problems. Thus, in order to have a better environment for doing business, the business should meet its social responsibilities.

**8. Holding Business Responsible for Social Problems:** As business uses capital, physical and human resources of the society and a lot of social problems like environmental pollution, unsafe workplace, corruption, etc., arise due to the activities of a business. So it becomes the moral responsibility of the business to help society in solving problems and serving society.

# Arguments against CSR

**1. Violation of Profit Maximisation Objective:** It is considered that social responsibility is against the objective of profit maximisation. As business is an economic activity and its main goal is to earn and maximise profit.

**2. Burden on Consumers:** Huge financial investment, which has no proper return, is required to fulfil social responsibilities, like in the case of pollution control and environmental protection. The burden of such costs is usually passed on to consumers in the form of higher prices. It is unfair to pass the burden on consumers in the name of social responsibility.

# Arguments against CSR

**3. Lack of Social Skills:** There is a difference between the way in which how business problems and social problems are solved. A person might be good at managing a business but may not have the required skills to solve complex social problems. Therefore, social problems should be solved by specialised agencies.

**4. Lack of Broad Public Support:** Businesses do not get the support of people as the public does not like the involvement or interference of businesses in social programmes.

# **Module 10**

## **Ethical Issues in Global Business**

# GLOBALISATION

*Globalization* is the word used to describe the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information. Countries have built economic partnerships to facilitate these movements over many centuries.

# Why companies go global?

- Increase revenue potential
- Diversify the supply chain to overcome disruptions.
- Build brand presence and grow footprint.
- Gain a competitive advantage
- Balance out seasonal fluctuations

# Impact of ethics on global businesses

- The impact of ethics on global business is mainly because of three things
- Human Resources
- Social responsibility
- Environment

So we need to know,

- Ethics and management
- Ethics and corruption
- Corporate social responsibility

# Ethical Issues in MNCs

## WHAT IS AN MNC?

An enterprise operating in several countries but managed from one (home) country. Generally, any company or group that derives a quarter of its revenue from operations outside of its home country is considered a multinational corporation.

ETHICAL AND MORAL  
RESPONSIBILITIES EXPECTED  
OF MNCS

- Ethical Relativism
- Ethical Absolutism
- Ethical Relationalism

## ETHICAL RELATIVISM

- Ethical Relativism says that the obligation of the MNC is confined to following the laws and dominant practices of the host country.
- Some very under-developed nations may have low safety and environment standards.
- Corruption and bribery may be the norm/
- Laws pertaining to environmental pollution may be overlooked.
- This gives the MNC an excuse to toe the same line and get away with bare minimum compliance.

## ETHICAL ABSOLUTISM

- Ethical Absolutism advocates retaining exactly the same practices followed in the home country without amendments to fit the new milieu.
- If followed blindly, this can lead to conflicts.

## ETHICAL RELATIONALISM

- This refers to the view that moral judgments can vary from context to context.
- Relevant good practices followed in the home country can be adapted to the new situation after making contextual changes.
- Unlike relativism, this does not endorse following all the practices of the home country. But this view is ambiguous and has a lot of gray areas.

## SOCIO-CULTURAL IMPACT

- Traditional, small scale industries suffer because they can't match the quality, pricing, or marketing of the MNCs.
- Lots of unskilled and semi-skilled workers can go jobless.
- People will aspire to be a part of an elite reference group who use multinational products and those who can't afford them will be branded as 'unsuccessful'.
- Though rationalization has its advantages, it has undesirable effects like values taking a backseat, decreasing concern for fellow humans, undue tolerance to inefficiency and general inability to appreciate the finer things in life.
- Even among MNC employees, there will not be much job security.
- MNCs are 'footloose', i.e. they can change their plans, shift locations, and fire employees at the drop of the hat.
- This can trickle down and can have far-reaching impacts on the social psyche.
- The focus on technology can lead to large scale migration to cities resulting in their overcrowding, consequent scarcity of natural resources and the rise in urban poverty manifesting as slums.
- If MNCs choose to be insensitive to all this, the society will get negatively affected.

## GEORGE RITZER

- George Ritzer used the term McDonaldization as a metaphor to describe how the society and traditional business takes on the characteristics of the multinational fast food giant.
- According to Ritzer, the modus operandi of McDonalds rubs off and creates a society that tends to overemphasize efficiency, calculability, nonhuman technology and control.



# Ethical Misbehaviour at MNCs

Multinational companies' misbehavior refers to the actions of companies that operate in multiple countries and violate expected standards of conduct. Unfortunately, recognizing and analyzing such misbehavior is challenging for managers, because ethical and legal standards vary widely across countries. Moreover, a country's laws may not always align with the moral beliefs or preferences of its people, making it even more challenging for multinational companies to navigate the complexities of their diverse markets. Let us have a look at the common unethical practices at MNCs.

# What Are the Ethical Issues in Human Resource Management in MNCs?

- **Lack of Cultural Awareness**

1. Multinational managers inevitably deal with miscommunication and lack of cultural awareness. They must prepare their employees for appropriate conduct before sending them to their overseas destination. Training and cultural classes help to enlighten employees about different customs and practices overseas. A lack of cultural awareness could be shown by a lack of respect for the conservative or liberal nature of other cultures. HR managers should assume responsibility for providing employees the right knowledge to successfully navigate cultural issues in foreign countries.

# What Are the Ethical Issues in Human Resource Management in MNCs?

- **Bribery**

1. The Foreign Corrupt Practices Act prohibits bribery. However, this law cannot possibly cover all of the range of payments that international businesses encounter. Things like facilitation payments may be required to operate in a foreign country, and the U.S. government has ruled differently on multiple situations surrounding these types of payments, which provides the company with a true ethical dilemma, particularly a human resources manager who must aid an employee facing bribery attempts overseas. In addition, international companies face an environment of pervasive corruption, according to a 2011 survey by Ernst and Young. In that survey, 39 percent of respondents said corruption occurred frequently in their country. Some countries, such as Brazil and Indonesia, had very high rates of reported corruption -- 84 percent and 64 percent, respectively.

# What Are the Ethical Issues in Human Resource Management in MNCs?

- **Privacy**

1. Privacy is a pervasive issue for many companies. In addition, privacy laws vary in different locations. The European Union has much stricter privacy laws than the U.S. When the two sets of laws conflict, human resources managers must make a decision which to follow. For example, a European Union company that operates in the United States will have the choice to follow the EU's more restrictive policies or the more lax policies in the U.S. Some corporations choose to enforce the home country standards due to their belief that it is a better operating model that will produce better corporate results, as well as protection for their employees abroad.

# What Are the Ethical Issues in Human Resource Management in MNCs?

- **Compensation**

1. Another important issue to consider is the relative compensation levels for each country. Multinationals often have offices in both developed and developing countries where the salaries are quite different. For example, an American transferred to China might make 2 to 3 times their Chinese counterpart doing the same job. It is a bit unseemly to have people working side by side earning so differently for jobs requiring the exact same skill set. In this case, human resources management may face the ethical issue of whether to narrow the gap in compensation.

**Please refer to the cases that we discussed in the class for Ethical issues in going global. PDFs of both the cases are shared in the google drive.**

# Regulatory actions while going global

Doing business globally is a logical next step for many companies or industries where there are

- (1) needs for physical resources that are not in their home country,
- (2) untapped potential customers not in the home country,
- (3) economic conditions more suitable to production, such as price of labor, more favorable industrial infrastructure, etc., and
- (4) cultural, status, or social reasons to make a showing in another country, such as the fashion industry and the regular industry showcases in Europe and America. For these reasons, even with a changing climate, companies have just as much reason to expand their operations globally.

# Main Issues

International business operations require companies to navigate various legal issues to comply with local laws and regulations. The major legal issues in international business include:

- employment law,
- IP protection, contracts,
- business acquisition,
- investment screening,
- financial regulation and taxes

Lets understand the laws in  
detail

# Employment Law: Labor-Intensive Industries

- Some of the legal issues that need to be resolved with respect to staffing include drawing up contracts, checking laws on wages and other working conditions for employees, and knowing the rights at the collective bargaining level for workers in each country.

Labour and employment law: If a business hires or subcontracts overseas, it is subject to the respective country's labour and employment laws. Consulting legal counsel is essential in helping companies with compliance and risk mitigation. This comes up in any industry, some that are very labor/employment based such as talent & modeling agencies, film & television have to be experts in the intricacies of employment law.

# Employment Law: Labor-Intensive Industries

- Employment law is an essential consideration for companies looking to expand globally. The legal issues surrounding staffing overseas can be complex and require careful attention to detail to ensure compliance with local laws and regulations. One crucial aspect of employment law concerns the drafting of contracts for overseas employees. Contracts must be carefully reviewed and tailored to the local legal requirements to ensure that they are legally binding and enforceable. In addition to contract drafting, companies must also be aware of local laws governing wages, working conditions, and collective bargaining rights. Failure to comply with these laws can result in significant legal and financial penalties.

# Employment Law: Labor-Intensive Industries

- Another critical issue that companies must consider when going global is the labor and employment laws of the countries they plan to operate in. Each country has its own set of laws governing employment practices, and it is essential to understand these laws to ensure compliance. This is particularly true in industries that rely heavily on labor, such as talent and modeling agencies, and film and television production companies.
- Consulting with legal counsel is essential for companies looking to expand globally. Legal counsel can provide guidance on compliance with local laws and regulations and help mitigate legal and financial risks associated with employment law. Companies must also be aware of cultural and language differences when hiring overseas employees, as these can have a significant impact on employment relationships.

# Employment Law: Labor-Intensive Industries

- In summary, the intricacies of employment law as it relates to business going global can be complex and require careful consideration. Companies must be aware of local laws and regulations governing employment practices, draft contracts that comply with these laws, and consult with legal counsel to mitigate legal and financial risks. By taking these steps, companies can successfully expand their operations overseas while complying with local employment laws and regulations.

# Intellectual Property: IP Regimes & Strategies

This includes issues regarding the protection of the company's intellectual property, such as the use of patents, protection of trademarks, domains, and copyrights. Securing and enforcing these rights can be costly. However, contractual arrangements including licenses and employment agreements can be established before venturing overseas to mitigate risks and lower the expense. Protecting intellectual property (IP) rights is crucial for companies that do business globally. The legal and regulatory frameworks for IP protection can vary widely between countries, which presents a range of challenges for companies seeking to protect their IP assets overseas. Companies must navigate different laws and regulations, cultural norms, and business practices to ensure that their IP rights are respected and enforced.

# Intellectual Property: IP Regimes & Strategies

- From a legal perspective, companies must ensure that their intellectual property is protected in the countries where they do business. This includes registering trademarks, patents, and copyrights with the appropriate authorities in each country. Companies must also be aware of the legal frameworks for protecting their intellectual property in each jurisdiction, as these can differ significantly from one country to another. For example, in some countries, the legal system may not provide adequate protection for certain types of intellectual property, such as trade secrets.

# International Contracts: Drafting, Negotiation, and Enforcement

- When entering into international contracts, companies must take into account various key considerations that can affect the enforceability and practicality of the agreement. These considerations include language, jurisdiction, governing law, and dispute resolution. Language is a critical consideration as contracts must be drafted and negotiated in a language that all parties can understand. Failure to do so can lead to misunderstandings, ambiguities, and disputes. For example, in a case in Germany, a US company entered into an agreement with a German company to purchase certain products, and the contract was written in English. The German company later claimed that it had misunderstood a key provision in the contract due to the language barrier, leading to a dispute that had to be resolved through litigation.

# **International Contracts: Drafting, Negotiation, and Enforcement**

Entering into international contracts involves complex legal and regulatory challenges, and companies must carefully consider the language, jurisdiction, governing law, and dispute resolution mechanisms when drafting and negotiating these agreements. Failure to do so can lead to misunderstandings, ambiguities, and disputes that can have significant legal and financial implications.

# International Contracts: Drafting, Negotiation, and Enforcement

- Due diligence, valuation, and financing are also crucial considerations during the acquisition process. Due diligence allows the acquirer to assess the target company's financial and legal health. Valuation may be influenced by factors such as exchange rate fluctuations and local market conditions. Financing can also be complex due to banking regulations and currency exchange issues.

# Business Acquisitions: Legal and Regulatory

- Businesses that plan to acquire companies in foreign countries must consider a range of legal, regulatory, and business considerations. Understanding the legal and regulatory framework in the target country, as well as cultural and economic factors, is essential to ensuring a successful acquisition. By being aware of the differences and similarities in legal and regulatory requirements across European countries such as the UK, Germany, and France, businesses can make informed decisions when acquiring businesses abroad.

# Business Acquisitions: Legal and Regulatory

- The legal framework governing business operations in a foreign country, including corporate governance laws, tax regulations, employment laws, intellectual property laws, and environmental regulations, varies from country to country. Non-compliance with legal requirements can lead to hefty penalties and legal actions.
- For example, in Germany and France, regulatory bodies like the Federal Cartel Office (FCO) and Autorité de la concurrence, respectively, monitor mergers and acquisitions to prevent the abuse of market power. They can block a merger or acquisition if it is likely to harm competition in the market.

# Business Acquisitions: Legal and Regulatory

- The regulatory issues also include issues related to foreign investment regulations, competition law, and tax law, among others. In Europe, the regulatory environment can vary significantly from country to country. For example, in Germany, there are strict regulations governing foreign investment in certain key industries, such as defense and critical infrastructure. These regulations require foreign investors to obtain government approval before acquiring a stake in a German company in these industries. In France, there are restrictions on foreign ownership of certain industries, such as defense, energy, and transportation. These restrictions can impact the ability of foreign companies to acquire businesses in these sectors.

# Financial Regulations:

- One of the key challenges facing companies operating internationally is ensuring compliance with these regulations. This requires a deep understanding of the legal and regulatory frameworks in each jurisdiction, as well as the ability to adapt to changes in these frameworks over time.
- For example, the EU's General Data Protection Regulation (GDPR) has had a significant impact on companies operating in Europe, requiring them to comply with strict rules governing the collection, processing, and storage of personal data. Failure to comply with these regulations can result in significant fines and reputational damage, making compliance a top priority for companies operating in Europe.

# Financial Regulations:

- Overall, financial regulation is essential for ensuring the stability and integrity of the global financial system, particularly in the context of international business. Companies operating in Europe and other regions must stay up to date on the latest regulatory developments and adapt their operations accordingly to ensure compliance and minimize risk.
- Tax regulations also vary depending on the country a business is located in. If the company also has an international presence, specialized advice should be sought. Before going global, a corporation will want to carefully examine whether the foreign country has a tax treaty with their domestic nation, and the particular tax consequences of conducting business there.

# Social Obligations of Global Businesses

# UN Guiding Principles on Business and Human Rights

guidelines for action, the Guiding Principles on Business and Human Rights, intended to move beyond the debate on voluntary versus binding instruments in the area of human rights. The Guiding Principles rest on three pillars:

- 1.the state duty to protect
- 2.the corporate responsibility to respect
- 3.access to remedy

The first pillar describes the obligation of states to actively contribute to preventing human rights violations by companies, while the second pillar deals directly with the responsibilities of companies. This responsibility comprises not only a company's own activities, but also all relevant business relationships, e.g. the supply chain. The third pillar sets out how access to remedy and complaint mechanisms can be ensured in cases of human rights violations.

# Corporate social responsibility in line with the OECD Guidelines for Multinational Enterprises

- As for the OECD Guidelines for Multinational Enterprises, they offer a comprehensive code of conduct designed to provide multinational enterprises (MNEs) with guidance and support in their interactions with trade unions and in the areas of environmental protection, the fight against corruption and respect of the interests of consumers. The Guidelines also contain recommendations on overseas investment and cooperation with foreign suppliers. They were last updated in 2011, adding to the sections on human rights and due diligence obligations (responsibility for the actions of suppliers and business partners).

# The ILO's social standards

- The International Labour Organization (ILO), which was founded in 1919, aims to introduce minimum social standards around the world. The idea behind these efforts is to prevent companies from gaining competitive advantages by violating workers' rights.
- The mission and the actions of the ILO are based on four basic principles:
  - Freedom of association and the right to collective bargaining
  - Elimination of forced labour
  - Abolition of child labour
  - Elimination of discrimination in respect of employment and occupation

# Reporting standards

- There is no shortage of guidelines and guidance for companies wanting to find out more about the challenges in the area of corporate social responsibility and about what policy-makers and the public expect of them. They include specialised material on reporting or guidelines for individual economic sectors. Especially guidelines with a comprehensive approach to CSR, such as ISO 26000 or the German Sustainability Code, refer to the key, internationally-recognised standards listed in this article, when it comes to delivering on the crucial areas of action.