Business Ethics and Corporate Governance

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Preface

Once Winston Churchill and Lady Astor were informally discussing the issue of morality in a pub.

Churchill posed the question: If a very rich man promises one million pounds to a lady, would she temporarily marry him? Lady Astor pondered a bit and answered, "Yes, if the money was guaranteed."

Then Churchill asked her if she would temporarily marry him for 5 pounds. Nancy Astor's sharp reply was, "Of course not. What do you think I am a whore?" Churchill quipped, "We have already established that; we are now simply negotiating the price."

The fundamental lesson that we get from the above anecdote is that morality which is the quintessence of *Ethics* is indeed a volatile concept and gets more convoluted in a world dominated by material considerations of life. Thus, for some people, morality is context-bound and not something absolute. However, strictly speaking, this notion of morality is incorrect. The basic purpose of human life is happiness and not necessarily the acquisition of material wealth. Aristotle said that all things worthwhile should be done in the best way. However, an economist, like Buchanan, will advise us that we need not do all things, and even if we have to do all, we do not have to do in the best way, but in the most efficient way. But in order to do in the most efficient and effective way, what we forget is the ethical input.

The business world is often dominated by the idea of profit maximization which becomes the be-all and end-all of life, and in the process, it may, more often than not, take resort to many types of immoral and unethical practices. It is in this context that the subject of *Business Ethics* becomes very crucial for the would-be managers and business people.

It is gratifying to note that ethics of late has become a popular subject of study in both undergraduate and postgraduate levels in various universities and institutions in India and abroad. This is indeed a welcome trend. Since the subject is comparatively new, the supply of study materials is rather less. There are indeed many reasons behind writing this book. First, although there are books available in the market, some of these books are not comprehensive enough. Second, it is indeed difficult for ordinary students to access the available research materials from journals and researched books. Third, some of the published books are not well-balanced. The theory section may be well-written and comprehensive but suitable illustrations may be missing or inadequate. Last, the book covers many theories which are studied still today, and contextualizes the Indian models of ethics and philosophy. The book is divided into three parts. The first part discusses the theories of ethics, the second part analyses the application of ethical principles in the domain of business and the third part gives an insight into principles and practices of corporate governance in India as well as world at large. The concepts discussed in these three parts are well reflected in the 25 book end cases.

In the present book, I have presented a balanced analysis by providing theories, illustrations and examples. Each chapter provides *Key Terms, Test Your Knowledge (Objective Type Questions)*,

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Review Questions, Web Links and References. The book is written in a student-friendly manner. The meat of the matter is presented in a simple language devoid of jargons. Important ideas and points are put in bold and every chapter is made very precise and examination-oriented without compromising the essential ideas or points. I verily believe that the book will be immensely useful to the students of ethics of all Indian universities.

The book is primarily designed as a textbook for MBA students of Indian universities. However, it can also be used as a standard textbook for the subject in any university irrespective of its geographic location. The book will also prove useful for PGDBM, BBA, BCA and MBBS courses on the subject of business/professional ethics.

We learn as we teach. While writing this book, I have incurred huge intellectual indebtedness to many people who helped me in writing this book. I am thankful to Fr. Boni Sebastian for going through a part of the manuscript and giving his valuable suggestions.

This is basically a textbook with differences. At many places, I have incorporated original thinking, introspective exposition, analytical simplicity and my own points of view. However, a textbook is a textbook. It is said that those who can, do, those who cannot, teach, and those who cannot teach, write textbooks! The logic of the statement may seem to be appealing to many but not compelling to all.

B.N. Ghosh

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For others, I have consulted various websites, especially Wikipedia. For preparing the case studies, relevant materials from various newspapers, magazines and journals have been used with proper acknowledgement of the sources. Some of these are *The Hindu, News Daily, The Indian Express, The Times of India*, and *The Economic Times*. I have adapted news items that were published in these dailies before incorporating them in this volume. These cases are selected because of their ethical significance for the academic use of the students of business ethics.

Among the magazines from which I have drawn materials having ethical implications, some, like *Reader's Digest, India Today, This Week* and *Frontline*, deserve special mention.

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PART ONE

Theories of Ethics

CHAPTER 1

Definition and Ontology of Ethics

LEARNING OBJECTIVES

This chapter will help the reader understand

- The meaning, purpose, ontology and nature of ethics
- Distinction between ethics and morality
- Principles of ethics
- Kohlberg and Gilligan's theories of moral development
- Ethical reasoning, ethical absolutism and ethical relativism
- Cognitivism and non-cognitivism

Introduction

The logical starting point in understanding the concept of ethics is to demarcate science from philosophy–simply because ethics is a part and parcel of the latter. Philosophy is defined as the hypothetical interpretation of unknowns. Thus, science is an analytical description, but philosophy is a synthetic interpretation. Science gives us knowledge, philosophy gives us wisdom. However, it is imperative that we do not forget that every science begins with philosophy and ends with arts. Thus, arts give us beauty, science gives us utility and philosophy teaches us the futility of many of our mundane day-to-day happenings.

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Further, philosophy includes the **wisdom of the five fields**—namely, logic, aesthetics, politics and metaphysics. **Logic** is the study of the ideal method of argument, thought and analysis. The areas in logic include observation, induction, deduction, inference, syllogism, and the rules of reasoning. Inductive logic is based on empirical observations from which certain inferences are drawn. Deductive logic makes use of the inferences from the inductive logic and deduces generalization from universal facts to a particular case. A syllogism consists of a trio of propositions in which the third (conclusion) follows from the relational truth of two other propositions. For instance, from the two given propositions—all men are mortal, and John is a man—we can logically deduce the conclusion that John is mortal.

Aesthetics is the study of the ideal form and conduct. It is sometimes regarded as the philosophy of art and beauty. Politics is the study of the ideal form of government and social institution and organization. **Metaphysics** is the study of ultimate reality, and the interrelation between mind and matter. The nature of being (**ontology**) and the process of perception and knowledge (**epistemology**) are the subject-matter of metaphysics. Metaphysics is a complex analysis of matter, motion, space and time elements.

WHAT IS ETHICS?

Before we get down to a formal definition of ethics, the readers should attempt reading the following passage:

The teacher's wife reprimanded her husband saying, "When a student argues that multinational corporations are good for a country, you said, 'you are right', and when another student explained that they are bad for a country, you again said, 'you are right'. Surely they cannot both be right?"

To this question, the teacher answered, "My dear, you are quite right"! One of the characteristics that distinguish man from animals is the ability to judge right from wrong, and to separate good from bad. While human beings have that innate ability, animals do not possess that finer knowledge or judgment. Hence, ethics encompasses moral judgment that helps you differentiate good from bad, and right from wrong. Moreover, ethics is not concerned with good or bad in the material sense based on worldly standard. In the materialistic sense, right or wrong can be explained with reference to context, and in the ethical sense, there is something known as **ethical relativism** which implies that ethical behaviour is to be judged with reference to time, place and circumstances. Thus, whether MNCs are good or bad, as is the issue in the above discussion, is difficult to determine in isolation."

The meaning of **ethical relativism** and **ethical absolutism** will be elaborated further in subsequent discussion. Let us first define ethics.

Definition of Ethics

The term ethics is derived from the Greek word, *Ethikos* meaning conduct, custom or habit. These meanings are quite similar to the meaning of a Latin word, "mores". Therefore, ethics is regarded as the science of morality or simply, ethics is moral philosophy which deals with moral conduct,

judgment, habit, character, rules or principles. Habit needs to be distinguished from character. Habit is the outward expression of character, which is the inner disposition or bent of mind.

Human conduct which is the foundation of ethics, deals with right or wrong conduct with reference to the supreme ideals of human life. These ideals are deeply rooted in religion and handed down from generation to generation. These ideals comprise truth, honesty, non-injury to others, compassion, kindness, and peace, to name a few.

Listed below are a few definitions of ethics based on what has been discussed above:

Ethics is "the study of what is right or good human conduct". Ethics is "the science of ideal involved in human life". Ethics is "the science of moral judgment". Ethics is "the science of morals in human conduct". Ethics is "the study of the general nature of morals and of specific moral choices".

Branches of Ethics

Broadly speaking, there are five divisions of ethics. Applied ethics tells us how a moral outcome can be achieved. It is concerned with the practical application of the doctrines of morality. Normative ethics studies the determination of the correct moral standard or norm. Descriptive ethics deals with the moral values that people in a society try to abide by. Meta-ethics analyses the truth-value of ethics related propositions and practices.

Modern ethics concentrates on the deontological and consequential aspects of moral development and human behaviour.

Distinction between Morality and Ethics

Although, the two terms, ethics and morality are used as synonyms, it is necessary to know that both have different connotations. Morality involves individual character and disposition, but ethics studies how one should behave in a group or society. Ethics consists of a standard or code of behaviour of a group. Often, the various types of ethics like professional, social or corporate could be conflicting. For instance, a manager encounters a clash between personal morality and corporate ethics. The teachings of Jesus given in the Bible, for example, are morals, while the standard behaviour prescribed by human authorities is based on ethical considerations. The Josephon Institute of Ethics in America has recommended six core ethical values, such as, respect, responsibility, fairness, care, trustworthiness and citizenship. The basic distinctions between morality and ethics are given in Table 1.1.

Ethical considerations arise from right or wrong practices with respect to a profession. For instance, the fact that killing is immoral comes from the nomological axiom of the Bible's Ten Commandments. But professional ethics demands that the suspect needs to be defended—even if circumstantial evidence shows that he is a murderer. There may be a conflict between the personal morality of the lawyer and his professional ethics. In the same way, a person may consider abortion as immoral, but since it is legal in many countries, it is regarded as medically ethical.

 Table 1.1 Distinction between Morality and Ethics

	Morality	Ethics
1.	Prescribes right conduct for every one	Right code of behaviour for a group or profession
2.	Absolute and not changeable	Subject to change and relative in nature
3.	Individual disposition	Applied in the social system, groups or professions
4.	Nomological in origin	Arises out of specific recommendation of conduct in a particular profession
5.	Handed over from generation to generation; primordial in origin	It is developed and goes on evolving
6.	It is prescriptive	It is recommended to be followed in a profession

Moral and Meta-Moral (Non-Moral) Standards

Moral standards have certain rules and codes. But in a society, there are also some standards for non-moral things like etiquette, dress codes and rules of games, among the many. Moreover, both moral standards and non-moral or meta-moral standards are defined by certain authorities making them distinct. Table 1.2 gives clarity to the distinction.

 Table 1.2
 Differences between Moral and Meta-Moral Standards

Moral Standard	Meta-moral Standard
It is based on some concepts of morality.	It does not have to be so.
It is primordial in origin. Not given by authorities, but steeped in religion and nomological axioms.	It is not so. It is formulated by an agency or person.
It is idealized and normative.	It is practical and pragmatic.
It is neutral, impartial and universal.	It is relative in character.
Needs some inclination to follow morality.	It is practice-oriented.
It is superior to meta-moral standard.	Since it is man-made, it is vulnerable and hence does not extract respect.
Has some obligation to observe/obey the standard.	No such obligation.
Coming from within and inward.	Coming from outward.
Is a type of individual disposition.	It is based on accepted rules.
Its non-observance hurts and injures your sentiment.	It does not give you any such sentiment.

Who Sets Moral Standards?

The moral standard that is adopted in ethics for the purpose of passing judgment is set by the following agents and institutions:

1. Tradition and convention, and inter-generational practices

- 2. Various types of institutions, such as, religion, social institutions and educational institutions.
- 3. Nomological axioms
- 4. Knowledge, wisdom and experience
- 5. Family and friends

Kohlberg and Gilligan's Analysis of Moral Development

The stage theory of moral development which psychologists believe in reflects that the idealized moral standard in a person needs to be cultivated and developed gradually at different stages of life. Let us concentrate on two celebrated studies on moral development by Lawrence Kohlberg and Carol Gilligan.

In the 1950s, Kohlberg made an extensive longitudinal and cross-sectional study for a period of nearly 20 years to precisely analyse the pattern of moral development among the American males. According to him, there are three broad levels of morality development. However, each level can be further divided into two stages. Thus, there are six stages of morality development (see Table 1.3).

Table 1.3 Kohlberg's Stage Theory of Moral Development

Level One	Level Two	Level Three		
Pre-conventional level	Conventional level	Post-conventional level		
Punishment and obedience orientation	Interpersonal concordance orientation	Social contract/legalistic orientation		
Institutional-relativist orientation	Law and order orientation	Universal ethical orientation		

Kohlberg reasons that when there is a **cognitive disequilibrium** (CD), a person feels the need to pass on to another stage of moral development. The CD occurs when one does not understand the behaviour of another group in relation to his own group.

Stages of Moral Development

The **first stage** is defined by the study of consequence to you. In this stage, a person knows right or wrong on the basis of reward and punishment. When the mother punishes or rewards the child for their respective action, the child realises what is undesirable and what is right.

In the second stage, a rule is considered solid, if it brings some salutary effect or impact.

In the third stage, good moral behaviour involves living up to the expectations of those family members and friends for whom the person has respect.

The fourth stage is marked by respect and loyalty to community, society and the nation.

At the fifth stage, people become tolerant and liberal with the understanding that in a society there are different types of rules and regulations which may be mutually conflicting at times. But in spite of that people obey these contradictory community rules, traditions and regulations.

In the last stage of moral development, a person consolidates all his critical views on morality—through his own judgment and evaluation, he accepts some principles as the universal ethical principles because these are consistent, logical and comprehensive. These principles are abstract in nature and deal with rights and duty, social welfare, justice and ideal moral behaviour. They are universal in the sense that they can be applied anywhere and at any time.

Kohlberg observes that people generally progress through the stages in the sequence mentioned earlier (from stage one to stage six). He points out that the later stages are superior to the earlier stages because they are based on maturity, reflective thinking and situational experience, wider perspective and impartial reasoning. However, some people stunt their own growth because of their inadequacy to reach the last stage and remain stuck to a particular stage throughout their lives. Moral judgment to them depends on the characteristics of that particular stage.

Criticism Against Kohlberg's Stage Theory of Moral Development

A number of criticisms are levelled against Kohlberg's theory.

- 1. Moral development does not always follow a particular sequence as shown by Kohlberg; hence the sequential order, is not compelling.
- 2. Even if some sequence of progress can be observed in moral development, the stages themselves could overlap, or be skipped. Some later stages may come earlier. Thus, stage four (law and order orientation) may come much earlier when a person understands the importance of law and order. This knowledge is imbibed from family and friends.
- 3. Kohlberg has only discussed the male pattern of morality development and neglected the gender perspective and therefore the result is one-sided. This point is elaborated by Carol Gilligan.

Carol Gilligan's Theory of Moral Development

While approving the stages of moral development as emphasized by Kohlberg, Carol Gilligan emphasized the fact that the **female pattern of moral development** is of a special type. Moral development among women, as Gilligan observes, depends on and is conditioned by a well-knit system of relationships among family, friends and peer-groups. The fundamental driving force for moral development in Gilligan's theory is care and compassion. Gilligan describes three precise stages of moral development among women.

At the **pre-conventional (first) stage**, women care for themselves. In the **second stage** or what is known as the conventional stage, women internalize the prevailing moral norms or standards. Along with these norms, they learn to make sacrifices for their near and dear ones which would sometimes involve neglecting themselves. In the more mature **third stage (post-conventional stage)**, women generally maintain a balance—they care for themselves and others. In this stage, women become cautious and question the prevailing standard of morality which was initially accepted by them in the second stage. According to Gilligan, the male pattern of moral development is not suitable to explain the female pattern of moral development. The male pattern of moral development deals with issues that are more impartial, impersonal and somewhat abstract. Gilligan's female pattern is distinctly different.

The truth is that the male pattern also sometimes depends on care and compassion while developing the concept or standard of morality. In the same way, the female pattern, may also take into consideration, factors like impartiality and impersonal motivation. Thus, a more comprehensive theory of moral development will include both Kohlberg's male pattern development and Gilligan's female pattern of development of morality.

Similarities between Kohlberg and Gilligan's Studies

- 1. Both these studies present cognitive development theories.
- 2. Both the studies agree that there are three stages of moral development:
 - Self-oriented level
 - Group-oriented level
 - Reflective level in which people examine their own points of view.
- 3. Both these studies prove that moral development takes place through stages.
- 4. Both these studies come to the conclusion that moral development at the mature stage is better than that at the pre-conventional stage. This is so because at the mature stage, people evolve their own view based on sound judgment, experience and interaction with society.
- 5. Both the studies seem to suggest that the moral standard of a person is a relative concept and gradually takes shape in the process of evolution over time.

Table 1.4 Differences between Kohlberg's and Gilligan's Approach

Kohlberg's Theory	Gilligan's Theory		
Right-based analysis.	Care-based analysis.		
Believes in six distinct stages of development.	Take into account three distinct levels.		
Considers only the male pattern development.	Considers only the female pattern of development.		
Personal relationship with others is not a decisive factor in moral development of an individual.	Personal relationship is the basis of moral development.		
Love and care do not decide the trajectory of moral growth.	For women, everything is based on love and care.		

Undoubtedly, the studies by Kohlberg and Gilligan are important and point out the significance of evolution of our thought process in the development of morality and ethics. Even if one does not agree with these studies, there is no denying that moral development follows a route.

Ethical Syllogism (Reasoning)

In ethical reasoning, the moral standard of any country or society can be judged with reference to the set of universal moral standards. So it is necessary to gauge the universal moral standard in a particular situation. This is regarded as the major universal premise of reasoning. In ethical or moral reasoning, there are two interrelated ethical propositions, and on the basis of this relationship, one can arrive at the third proposition. The third proposition is called the inference or conclusion. The

whole logical process of drawing conclusions from the two given propositions is called syllogism in logic. Let us give an example:

A country is unjust if there is gender discrimination.

Saudi Arabia is a country where there is gender discrimination. Therefore, Saudi Arabia is an unjust country.

In this example, the first proposition can be regarded as ethically correct. Any form of discrimination is morally unjust in the sense that it violates human rights and goes against the natural principle of equality. The second proposition is to be based on strict empirical truth. If the second proposition is factually incorrect, we will not have correct ethical reasoning.

In a logical syllogism, the form of the argument remains critical. Given the form, one can use any related ethical proposition to arrive at the conclusion. In this process of ethical reasoning, the universal first proposition must be based on some accepted moral/immoral standard. The basic factual truth in relation to the first proposition for a particular case must be based on accepted moral standard, and then it will be possible to draw the valid conclusion. It should be noted that the conclusion drawn in the ethical syllogism is formally valid. It is also empirically valid because the second proposition is based on empirical truth as in the above example.

For the validity of moral reasoning, the terms used must have the same connotation. For instance, the expression "gender discrimination" must have the same meaning in both the first and the second proposition. It is in this context one can speak about *consistency*. The conceptual consistency of the expression "gender discrimination" is the primary prerequisite for the validity of the whole reasoning process.

Ethical Relativism and Ethical Absolutism

It is an empirical fact that all ethical norms and practices are not equally valid and applicable to all societies. Some ethical norms or practices are acceptable in some countries but not acceptable in others. For example, caste system or untouchability was accepted in India, but not in other countries. Matrimony between homosexuals is legally acceptable in the United Kingdom; based on marital ethics; but is considered unethical and immoral in other countries. Thus, ethical standards differ from country to country or from place to place, and hence the birth of ethical relativism. Ethical standards are relative to a situation, place, time and circumstances.

Criticism Against Ethical Relativism (ER)

- 1. If ER is correct, then the same practices cannot be criticized in other parts of the world. For instance, if drinking is not prohibited in the UK, it should not be prohibited in India. Such a reasoning is not tenable because circumstances may be different.
- 2. It seems that to the proponents of ER, all local moral standards are equally acceptable without exceptions. Morality in that case becomes a flexible concept without any rational basis.
- 3. ER believes that the only criteria for judging right and wrong are the local standards and practices. Such a standard of judgment is too constricted.
- 4. ER tends to believe that the moral standards of a particular society are the fundamental basis of judging it or for subsequent policy actions. This view is incorrect.

- 5. If injustice prevails in a particular country, it should not be the yardstick for others. For instance, the argument that the Indian caste system is good because it is steeped in tradition and hence should be emulated elsewhere, is objectionable.
- 6. ER does not lay emphasis on the universal moral standard. In fact, some moral standards are unchanged, and live on.

Ethical Absolutism (EA)

EA relies on the fact that some ethical standards are universal, permanent and absolute and are applicable to all countries and places. They do not change over time. For instance, the maxims like "Don't steal", "Don't lie" or "Respect your parents" have universal appeal and applicability. This is ethical absolutism.

Nature (Ontology) and Scope of Ethics

Ethics is a normative science. It sets the norm by explaining what ought to be the ideal human conduct and character. Hence, it is not a positive science. It studies what is right in human action in the pursuit of the supreme ideal good but it does not lay down the rules to achieve that state of perfection.

According to ethics, the morality of action depends on the inner motive and attitude and not necessarily the overt action, as Immanuel Kant maintains. When you cannot help a poor person because you lack the means to, your attitude still is moral and ethical.

One of the objectives of ethics is to observe and classify moral behaviour and justify them with reference to moral standard. Ethics is the science of ideals. It considers man as a selfconscious being who is conscious of his relationship with family, society and environment. Thus, ethics is very close to sociology and of course philosophy.

Ethics is sometimes defined as the science of character. However, it does not study the historical evolution or origin of conduct and character. But it does investigate the nature of moral ideals. When certain human actions are in conformity with the moral ideals, the actions are regarded as right. It is the duty of a person to pursue what is good and appropriate. Since moral judgments accompany moral sentiments, ethics is also concerned with moral sentiments. Adam Smith's book *The Theory Moral Sentiments* analyses the nature, characteristics and implications of moral sentiments. These sentiments include feeling of approval, disapproval, guilt, right and wrong.

In many cases, morality is a product of social milieu. Ethics is critical of popular morality. If an action is very popular and is adopted by many, it does not necessarily mean that the action is good or moral. If the majority of people in a society indulge in drinking, it does not imply that drinking is a morally ideal habit. The purpose of ethics is to throw light on the highest good of human beings and society and correct the existing inconsistencies.

The nature and scope of ethics can be summarised as follows:

- 1. Ethics deals with human behaviour that is related to character, conduct, moral issues and right
- 2. The human conduct that ethics studies are voluntary and not forced or imposed.

- 3. Ethics is a science in the sense that it gives you systematic knowledge about moral conduct, behaviour and moral standard. It is a type of social science.
- 4. Ethics sets the ideal moral standard for social and human welfare.
- 5. The moral standard is set with reference to religious tradition and custom. These standards are based on nomological axioms which have been prevalent in human society from time immemorial.

Having understood the ontology and scope of ethics, it is now imperative to appreciate the fundamental objectives of ethics.

Fundamental Objectives of Ethics

- 1. Ethics is concerned with human behaviour—to understand whether such a behaviour is in conformity with the standard ethical norm or not.
- 2. It sets an ideal standard of moral conduct of behaviour.
- 3. It is diagnostic in nature—it passes judgments on human behaviour.
- 4. It is also prescriptive—it recommends ideal ethical behaviour that can be followed.
- 5. It is analytical—it analyses overt human behaviour and conduct and passes judgment.

Four Critical Principles of Ethics

Ego-based Principle (Ethical or Psychological Egoism)

Human actions are essentially ego-centric and selfish. Even when a man is making a donation to an organization, his intention is to gain popularity which will feed his ego. However, as Adam Smith observed, some consequences of human selfishness may bring social welfare by satisfying human needs. However, there is a difference between selfishness and self-centredness. While the latter is aimed at furthering personal ambition, it does not harm the interest of others. Selfishness, on the other hand, is the achievement of gains at the cost of others. Thus, if a cake is bought for the members of a family consisting of three individuals, and half of it is eaten by a person before distributing it to others, the person can be called selfish, as he has reduced the share of others. But if a person buys a cake and does not share it with his friends, he is self-centred.

Rule-based Principle

This principle believes that ethical action should be based on certain given rules of ethics. In such a case, the consequences are not important, but the open action is crucial. For instance, the dictum: "always speak the truth" is important, whether its consequences are good or bad.

End-based Principle

This ethical principle is based on the notion of the consequence of actions. Thus, an action is undertaken only when it produces some positive results or utility. This is often termed as consequentialism or utilitarianism.

Care-based Principle

It is revered as the golden rule in ethics. In this rule, the action of an agent is based on care and compassion. Thus, if an accident victim is lying on the road, your involvement may bring less utility as it will involve time and money to give him the necessary medical care, and the consequences

may be dealing with a police case. So, utility and consequence based ethics, will not advise one to take care of the victim. The only relevant ethics in this case is care and compassion. The care-based ethics overrules all other principles and it is the essence of all religious teachings.

It should be noted that the **notion of justice** remains the basic guiding principle in all the cases.

The above four ethical principles have the following implications:

Although, the four principles of ethics are distinctly different, they have important implications for practitioners.

- 1. These principles suggest that in the same situation, different decisions can be arrived at, and depending on the merit, a particular principle can be applied.
- 2. Depending on the inclination of the user, any one of the principles can be translated into practice. It is the context that remains important. It is not necessary that one has to follow the same principle over and over again.
- 3. There are four ways of looking at the world through the lens of ethics. Each of the principles is unique in its own way. It cannot be said that one principle is better than the other—they are all equally appealing. However, to many, the caring principle is special.

Ethical Pluralism

The four basic principles of ethics that we have discussed above, namely, psychological egoism or self-interest, utilitarianism (or consequentialism), deonticism and care-based principles, focuses on different types of attitudes and information. If a person at all times and under all circumstances applies only one principle, he fails to understand the possible relevance of the other three, and important information may be relegated to the background. Secondly, by rejecting the other three principles, one might have given up the opportunity of applying the most apt principle in a particular context.

Ethical pluralism makes an attempt to integrate all the ethical theories or principles while considering a particular situation. In that case, conflicts can be resolved with the application of the correct ethical principle.

Both Adam Smith and Aristotle have used ethical pluralism in their studies. A study of Smith's important publications namely The Theory of Moral Sentiments, The Wealth of Nations and his lectures on jurisprudence show that he has laid importance to utility, value, self-interest, and relationships with family and friends and justice (Werhane, 1991). Aristotle has also observed that the fundamental function of ethics is to help human beings lead a good life, and that can be achieved by integrating the basic ethical principles. According to him, we should downplay the underlying conflicts between principles. The four principles of ethics, namely, justice, self-interest, group welfare and care and compassion constitute the elements of a meaningful life. Thus, ethical pluralism remains the best normative approach in practice.

Cognitivism and Non-Cognitivism

One branch of ethical philosophy claims that it is possible to know right from wrong or good from bad in a very clear and objective manner. This is called **cognitivism.** However, some philosophers maintain that it is not objectively possible to know what is good and what is bad. This is known as non-cognitivism.

Under cognitivism, one can include various types of ethical theories. Some of these theories are:

- Utilitarianism
- Consequentialism and non-consequentialism
- Religion-based morality

Some non-cognitive theories are:

- Duty based theory of Immanuel Kant (Deontological Theory)
- Natural law-based theory of rights

All these theories will be explained later in this book.

Summary

The chapter has encompassed and discussed at length the meaning, nature, purpose, and scope of ethics. In a nutshell, ethics is considered to be the science of morality as it deals with moral conduct. The different branches of ethics are normative, applied, descriptive and meta-ethics. It should, however, be noted that ethics is different from morality. Generally, morality is individual specific but ethics is the right code of behaviour for a group or profession. But in ordinary parlance, both morality and ethics are used synonymously. It is necessary to distinguish between moral standard. Moral standard is derived for the purpose of moral development or behaviour but non-moral standard is meant for the correct social behaviour or norms, like dress code, rules of games, and so on. There are many authorities who set the moral standard.

The moral development takes time to become a habit among human beings. In this context, Kohlberg has discussed six fundamental stages of moral development. While Gilligan approves of the six stages of development of Kohlberg, she points out that Kohlberg has ignored the female pattern of moral development. There are some similarities and some fundamental differences between Kohlberg's and Gilligan's approaches to the whole analysis of moral development.

While discussing ethics, it needs to be borne in mind that ethical norms and practices are only relative. However, it cannot be denied that ethical principles are absolute in character in that sense that they are valid in all situations and circumstances. Ethics is a normative science that helps build your character. Ethics is based on four basic pillars or principles: rule-based, end-based, ego-based and care-based principles. Ethical pluralism shows that it is better to follow all the important notions of ethics in explaining situations rather than follow only one of the principles. Cognitivism observes that it is possible to objectively identify right and wrong. However, some ethical philosophers think that it is impossible to do so. This type of ethical philosophy is called ethical non-cognitivism.

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Ethics Ethical Relativism Ethical Absolutism Morality Nomological Axioms Ethical Syllogism Principles of Ethics Cognitive Disequilibrium

Ethical Pluralism Cognitivism Non-cognitivism

Test Your Knowledge

	whether the following stateme								
	Ethics and morality are the sar								
(ii)	A person who is not moral must be immoral.								
(iii)	Ethical standard is all absolute.								
(iv)	Ethical standard is only relative.								
(v)	Selfishness is different from self-centeredness.								
(vi)	Ontology and epistemology are the subject matter of metaphysics.								
(vii)	A syllogism consists of four propositions.								
(viii)	There are certain ethical principles which are universal in nature.								
(ix)	Moral development is evolutionary in nature.								
(x)	Adam Smith believed in ethical pluralism.								
2. Fill in	the blanks								
(i)	Gilligan's theory is		_ based.						
	Kohlberg's theory analyses the pattern of moral development.								
(iii)	Psychologists believe in the		theory of mo	ral dev	relopment.				
(iv)	There are critical principles of ethics.								
(v)	The end-based principle is also known as								
(vi)	The title of Adam Smith's book is the Theory of Moral								
	Deductive logic deduces generalizations from the universal to the								
	In Gilligan's theory, personal is the basis of all moral development.								
	Morality depends not on overt action but on								
	Cognitivism asserts that it is to know what is good and what is bad.								
	se the correct option			υ					
	Categorical imperatives are								
	(a) Rule-based	(b)	Care-based	(c)	Ego-based				
(ii)	(ii) Gilligan's theory of moral development considers only								
	(a) Adults		Males	(c)	Females				
(iii)	The golden rule of ethics is								
	(a) Care-based	(b)	End-based	(c)	Rule-based				
(iv)	Ethical relativism is very:								
	(a) Common	(b)	Uncommon	(c)	Unknown				
(v)	"Do not tell lies" is a form of								
	(a) Ethical absolutism	(b)	Ethical relativism	(c)	Ethical pluralism				
(vi)	Ethics is essentially								
	(a) Positive	(b)	Normative	(c)	Whimsical				
(vii)	Aesthetics is the study of								
	(a) Ideal form and conduct		Ideal behavior	(c)	Ideal nature				
(viii)	In ethical reasoning, the third proposition is called								
	(a) Conclusion		Universal proposition	(c)	Syllogism				
(ix)	Ethics is connected with huma								
	(a) Behavior	(b)	Greed	(c)	Psychology				

Review Questions

- 1. Define ethics.
- 2. Distinguish between ethics and morality.
- 3. Enumerate the major characteristics of moral standards.
- 4. Explain the basic nature of the science of ethics.
- 5. Write a note on ethical relativism and ethical positivism.

Web Links

1. http://ethics.askdefine.com/

[Definition of Ethics]

- 2. http://www.yourdictionary.com/library/reference/define-ethics.html
- [Definition of Ethics]
- 3. http://www.cimaglobal.com/Documents/ImportedDocuments/fm oct06 upstanding [Definition of Ethics]
- 4. http://www.accountancyage.com/aa/feature/1779764/the-moral-maze [The moral maze]
- 5. http://kpaprzycka.swps.edu.pl/xPhilosophyIntroduction/08Relativism.pdf

[Ethical Relativism]

6. http://www.buzzle.com/articles/difference-between-ethics-and-morality.html

[Difference between Ethics and Morality]

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CHAPTER 2

Belief, Values, Attitude and Virtue

LEARNING OBJECTIVES

This chapter will help the reader understand

- The meaning of belief, attitudes, values and virtues
- Contemporary approach to beliefs
- Sources of values and attitudes
- Similarities and differences between attitudes and values
- Different dimensions of virtue ethics

Introduction

In Lewis Carroll's *Through the Looking-Glass*, the White Queen says, "Why sometimes I believed as many as six impossible things before breakfast?". This quotation can be used as an example of mockery against belief. The question posed here is: Can there be beliefs contrary to facts? Although possible, such a belief is generally called fantasy or delusional belief. Belief, values and attitude are all interlinked. Whatever you believe in determines your values. Values are assumptions about things or persons which or who ought to behave in a certain way that you believe in. If you believe in spirituality, you assume that spirituality is valuable and that people should be spiritual in nature. Once a person develops a certain value system, it merges with his attitude towards people and situations. It becomes an established way of responding or interacting with people. Attitudes do

not change or end easily. In the present chapter, we will explain the apparent relationship between beliefs, values and attitude. We then go on to explain the salient features of virtue ethics. Although some virtues are acquired, it is not uncommon that some are naturally endowed with or have proclivity towards being virtuous. For instance, two sons of the same parents being brought up in the same family environment may have different degrees of virtues or vices. This can be attributed either to the social milieu or to their inherent nature. Virtue also may depend on beliefs, values and attitudes to life and religiosity.

Beliefs

Beliefs stem from knowledge or information. It has an epistemic basis. Epistemology is the philosophical study of beliefs and knowledge. However, only true knowledge is the foundation for and is helpful for your understanding of the belief system. Beliefs are ideas or principles that are dear to people. Ethical behaviour of a person in many cases depends on beliefs and attitudes. Some of the basic assumptions of life and society are based on beliefs. Science believes that there is an order in nature. However, what we claim to know is mainly belief or judgment. But every type of belief cannot be equated with knowledge, because some of our beliefs may turn out to be false on verification. Knowledge or epistemological foundation of our understanding is not fool-proof, and our knowledge is only a matter of acquisition of degrees. True beliefs can exist without even direct perception of facts. Some beliefs are be supported by evidence and some are not. The evidence may be based on our perception and experience. The beliefs which are supported by evidence are called justified beliefs. Only justified belief is knowledge. Justified beliefs consist of two types of judgments: direct or intuitive judgment, and derived judgments. Direct judgments are based on our sense perceptions. Derived judgments are formed out of the existing body of knowledge.

In psychology, belief is the elementary form of mental representation and is also one of the fundamental bases of conscious thoughts. Belief depends on the moral state of the believer. In other words, a belief represents a mental state. Beliefs are sometimes defined as a mental attitude of acceptance or recognition of facts without verification. There are basically two types of beliefs: core beliefs and dispositional belief. Core beliefs are more or less permanent and difficult to change whereas dispositional beliefs are dependent and changeable.

Lynne Rudder Baker (1989) of Princeton University has analysed four main contemporary approaches to belief:

- 1. Our common-sense understanding of belief is correct.
- 2. Our common-sense understanding of belief may not be entirely correct, but is useful for making some relevant predictions.
- 3. Our common-sense understanding of beliefs is entirely wrong and is overridden by a theory which does not make use of beliefs.
- 4. Our common-sense understanding of belief may be wrong but it is not useless. It may be used in human beings and animals cases to make some predictive strategy.

Formation of Beliefs

There are the following six ways of belief formation:

- Beliefs come out of confidence in the spoken words of people we respect. This type of belief is called commendatory belief.
- We may have a belief from childhood about the existence of ghosts or supernatural phenomenon — they may be real or not. This type of belief is called existential belief.
- Beliefs can be adopted from our role models.
- In our formative years, somebody else's belief may be internalized.
- Sudden changes in life may also result in new beliefs, or cancellation of old beliefs.
- Some beliefs are formed on the basis of knowledge, research or commercials.

VALUES

Every person believes in certain critical values. Jesus Christ valued love, Mahatma Gandhi valued truth, Plato valued wisdom, and Moses valued justice. Value is anything which has utility or worth. It may be a physical or intrinsic value (in psychological or philosophical sense). A value is a general belief which helps differentiate good from bad. Values guide actions in your personal or social life. It is a particular standard that a community gives importance to. In most communities, moral values are assigned to fairness, justice, honesty and integrity to name a few. Mostly our actions are guided by our values. Moral value is something that is esteemed, or highly revered (Angeles, 1981, p.310). When we can assign values to particular objects, it becomes easier to make a choice. Values are related to culture, society or a system. When a particular thing conforms to our basic value or conviction, we prefer it, compared to another alternative which may appeal more to another person with another point of view. As a social phenomenon, values are inculcated and sustained through an adaptive process. Values are desires that have content and intensity. The content aspect of value indicates the nature of achievement or the ultimate benefits as realized by the user. The intensity attribute of value indicates the degree of its importance in a particular context. Individual values are commitments to which a particular person subscribes, like social justice, honesty, and so on.

Significance of Value

A set of values is critical since it gives a person direction and motivation to live in a desired way. Value is also socially useful and has many positive external influences for others. For instance, if a person is non-violent, he is helping others by not hurting them. Similarly, a person of good character is not only an ideal man but he is also a source of good work and inspiration for others. A knowledgeable man helps himself and others by disseminating his knowledge and new ideas.

A value system that a person is endowed with through experience and inherent predisposition, may help him in the following ways (Alex, 2010, p.35):

The value system helps a person in making clear decisions.

- The value system helps build the perception of an individual.
- A clear value premise helps a person arrive at flawless logical deductions and moral reasoning.

• It gives clarity of understanding to a person confronted with a particular situation.

Some examples of individual values:

- Adherence to justice
- Practice of honesty under all situations
- Hard work
- Sincerity
- Sacrifice
- Kindness
- Care and compassion for the poor
- Simplicity
- Respect for others

(The list is indeed very conservative here; one can add many more individual values.)

Types of Values

Three classificatory schemes are generally used by researchers in the categorization of value.

1. Terminal Values and Instrumental Values

Terminal *values* are those that a person wants to address at the end. As against the end, there may be many means to achieve the terminal value or the desideratum. These values are called instrumental values. In terms of spirituality, to be just or righteous is instrumental in the realization of God which is the terminal value. An instrumental value is necessary to achieve the ultimate goal.

2. Personal Values

The following are basic categories of personal values:

- **Egocentric value:** The value is directed towards satisfying the ego.
- **Socio-centric value:** The value aims at socialization and adaptation to society.
- **Existentialist value:** This value is in conformity with the existing reality.
- **Conformist value:** This is an orientation to achieve a materialistic goal by controlling the physical resources.
- **Supernatural value:** It a type of a metaphysical value beyond norms of the physical world to achieve the ultimate reality.
- **Tribalistic value:** It consists of submission of oneself to higher power and authority.
- **Deontic value:** It considers one's own duty as the supreme religion.
- **Utilitarian value:** In this type the aim is to realize the net benefits over cost.
- Consequentiality value: In this case, an important value is assigned to those actions having good consequences.
- 3. Many psychologists, philosophers and sociologists have classified values into the following categories:
 - Religious values
 - Economic values
 - Social values
 - Aesthetic values

- Political values
- Logical values
- 4. **Individual values** can further be classified into the following two categories:
 - Practical or pragmatic value
 - Moralistic or metaphysical value
 - Core values
 - Cultural values
 - Social values
 - Values relating to social responsibilities
 - Values relating to civic responsibilities
- 5. Another type of classification of value is based on the following:
 - Acquiring and dissemination of knowledge
 - Justice, righteousness and fair play
 - Care and compassion
 - Universal love
 - God-fearing attitude
 - Truth and non-violence
 - No desire for materialistic possession
 - Character-building
 - Honesty
 - Kindness and sacrifice

Characteristics of Value

- A value or values are **chosen freely** without any coercion or compulsion.
- A value is chosen from a number of options.
- The choice of value is made after taking into account different consequences of this choice.
- The value that is chosen is practiced and then sustained and applied at different stages of your
- Value makes a man. It shows up in every situation of his life.
- Value becomes a part of yourself and being. It persists and stays on, unless some drastic value changing situation and experience arises.
- Values are partly genetically determined, and partly acquired through experience and interactions.

Sources of Values and Attitudes

There are many sources of values:

- Parents and family
- Teachers and classmates
- Peer groups and friends
- Reference groups
- Culture and tradition

Let us elaborate on some **important sources of value:**

Family

The most important source of value formation is the family. Parents are the first people to instill the ideas of right and wrong and good and bad in the minds of young children. The conscience of the parents and their ideas on morality gradually are drilled into the minds of youngsters. If parents tell lies, the children pick up that habit and it will be very difficult to erase it in the coming years. Children experience moral development and distinguish between right and wrong through reward and punishment by parents too. Children in the course of time, internalize these moral lessons. At a young age children accept certain values without questioning them. They have blind faith in their parents. Thus, it is evident that moral reasoning does not develop at a young age. However, as children grow up they become capable of developing their own sense of moral reasoning.

Peer Groups

The second important source of value formation peer groups, friends and colleagues with whom you interact in day-to-day life. In the adult days, a person is influenced by the value system of his classmates, religious institutions, clubs and playmates. During this phase of life, the adult is confronted with several challenging issues involved in his acquired value system. He may, after moral reasoning once again, either retain his values or reject them in favour of new values. He may experience a wave of creative destruction. A good peer group may be helpful in inculcating good moral values and vice versa.

Role Models

In our lives you meet some people whom you admire, respect, adore and emulate. These people may be one of your teachers, a sportsman, a film star or a political leader. They exert a profound influence on the minds of an adolescent especially. A film hero's moral behaviour in a film which has become famous or notorious influences the minds of millions of fans all over the country. Like peer groups, the role models can also modify the values of people from good to bad, or from bad to good.

Institutions

Institutions exert a strong and significant influence on the minds of people regarding moral development of values. The institutions may be educational, religious or social. Social institutions through the process of socialization may mould values and attitudes. Similarly, a religious institution like a church influences value premise and value system. They bring about positive change and there influences have far reaching effects. Thus, a regular church-goer inculcates a value system that is morally progressive with qualities like compassion, care, love, kindness and sacrifice.

Values and Business

Generally, a business organization depends on the following types of values:

• Excellence in all fields of business, like production, marketing and distribution.

- Innovation in production technique, cost reduction, procuring and finding new sources of raw materials, finding new markets and in reorganizing the business. Innovation sustains creativity.
- Establishing credibility can be ensured by trust, goodwill, rapport with customers and suppliers, and consistent good performance.
- **Providing consumers with best services,** in particular after-sales services.
- Gathering market intelligence to know the status of the product and thereby improve the marketing mix, if required.
- Maintaining external and internal coordination of all product lines, marketing and factor use efficiency.
- Creation and development of corporate values towards employees, customers and suppliers, and social responsibility towards society.

Conflict of Values

Every professional has to live with two sets of values: personal and professional. These two values could be conflicting at times. However, whenever a clash occurs between these two values, professional and morally responsible people give preference to the professional value over the personal value or interest (Bivens, 2004, p.11). Thus, a judge may sentence his only son for murder or a teacher may punish his daughter for not learning the lesson—there are several such cases in society. Hence, in many cases, barring penal code cases, a compromise, trade off or a balanced approach may be possible. For instance, you are the forest officer and on your inspection tour you find a woodcutter felling a tree from the forest illegally. On enquiry, you learn that he is poor, jobless and his family is starving. If you are compassionate, you will tell him not to indulge in this illegal act again and impose a penalty on him. You pay him money which helps him pay his penalty and feed his family too. However, this kind of compromise although not impractical is rare.

In another instance, your Principal wants you to revise the grade of a student in the subject of which you are the teacher. Your official loyalty to the Principal will direct you to do so. However, your personal ethical principle prevents you from doing the needful. In such a case, there may be a third alternative. You may think twice on the matter and reconsider the case in terms of fairness. Will it be unfair on your part to increase the grade of one student and not the entire class (Day, 2006, p.33)? On the other hand, you may find instances to justify your action based on attendance of the student, his level of intelligence, his class participation and his compelling family background. In the case of media reporting too, there may be some potential conflict areas between the public's right to know everything about the reported case and the individual's right to privacy and confidentiality. For instance, it is not necessary to reveal the full name and address of a rape victim while reporting such a case. A compromise is possible in many cases by following a middle-path and collecting more and more compelling evidence in favour of your decision.

ATTITUDES

Your attitude towards life is based on a value system that you have inculcated. Values and attitude go hand in hand. Attitudes relate to a personal feeling, belief and predisposed ideas. Attitudes involve a hypothetical construct representing your likes and dislikes. Values guide your attitude. Attitude is a learnt predisposition of behaviour towards a person, group, object and environment. Attitudes regarding an object or situation may be positive, negative, neutral, or undetermined (unknown zone).

Tables 2.1 and 2.2 list out differences and similarities between attitude and values.

Table 2.1 Differences between Attitude and Values

Attitudes	Values
Attitudes represent predisposition	Values relate to judgments
Attitudes are mostly personal	Values are gathered from social and cultural parameters
Attitudes may amalgamate several beliefs	Values originates from a single belief

Table 2.2 Similarities between Attitude and Values

Attitudes interact with values	Values interact with attitudes
Attitudes affect the behaviour of people	Values affect the behaviour of people
Attitudes are learnt outcome	Values are learnt outcome
Attitudes are acquired from family, peers, role models and institutions	Values are acquired from family, peer groups role models and institutions
Attitudes are difficult to change	Values are difficult to change

Components of Attitudes

The Greek philosophers were the first to recognize the components and importance of attitude. Attitudes are tendencies to feel or behave in a particular way with respect to certain people, objects or events. Basically there are three major components of attitudes, better known as ABC.

• Affective Component (A) of attitude is the emotional aspect of your belief about a situation or object which could be positive or negative. Whenever you see the hero or heroine in a movie, you may be moved by their charm, dialogue delivery and charisma; all these evoke a positive response towards that personality. However, in some cases, the hero may show negative qualities, and therefore, you develop a corresponding attitude towards him. Your attitude is thus based on your emotion towards that person at a point in time. But the difficulty here is that the same person may reveal different types of behaviour at different times. Thus, in many cases, the attitude formation of a permanent nature becomes rather difficult. In the majority of cases, the basic nature of the person or situation being considered decides your attitude.

- **Behavioral Component (B)** of attitude relates to the individual's predisposition to respond. The behavioural component is the **verbal expression** of the intention of the individual. If any person or situation or event is liked by the agent, he will express it through his positive attitude of acceptance. Also, your behaviour in a particular context could lead to good or bad attitude in the mind of the observer. In this situation what is critical is the observed behaviour from which one can infer the nature of the attitude.
- Cognitive Component (C) In this case, there is a cognitive evaluation of the entity that helps form an attitude. The cognitive component is rational and the effective component is emotional in the formation of attitude. In the formation of correct attitude, it is necessary to take into consideration of both these components; otherwise the attitude may be incorrect. This is so because sometimes the first component dominates the second and vice versa.

As a matter of fact, attitude about morality is a combination of many factors including feeling (emotion), actual happenings (reality or rationality), thoughts and actions (Harrison, 1976, p.193).

VIRTUE ETHICS

Virtue ethics is a special branch of ethics founded by Plato and his disciple, Aristotle. The traditional theories of ethics are based on actions. For instance, the theory of utilitarianism observes that an action which maximizes **net utility** of the society is the right kind of action. Utilitarianism puts more emphasis on the greatest good of the greatest number of people. This idea is the same as the theory of **consequentialism** which says that a right action is the one which leads to good consequences. The theory of deontology believes that a right action is to be judged in terms of duty. Thus a person doing his duty well is performing the right action. The same notion applies to theories of justice, caring and compassion.

However, the problem is that even if a person is doing the right action, his character may be morally unethical. It is not the action that matters, but more importantly the character of the person performing the action. Hence, what is needed is a combination of both right action as well as correct character. Virtue ethics emphasizes the importance of right character among human beings. This is, however, not to say that all the alternative ethical theories mentioned above are devoid of the quality of virtue. But virtue theory exclusively puts an emphasis on character based on virtues. A man of virtue is always respected and praised because virtue is a special type of achievement which needs hard work and determination.

What is Virtue?

Moral virtue is an **acquired mental disposition** which forms a part of the character of a morally upright person which is further reflected in the behaviour pattern of that person (Velasquez, 2006, p.110). There can be a long list of virtues. However, the major virtues are honesty, sincerity, truth, courage, temperance, integrity, compassion and kindness. Virtue is the habit of deliberate choice of right activities and performance of duties in the correct way (Sinha, 2006, p. 286). Virtue is excellence of character. According to Aristotle, virtue is a permanent state of mind to perform the best things in life. The concept of best is to be decided on the basis of reason. Virtue is not a congenital disposition of mind but an acquired disposition which is in harmony with moral laws. Virtue implies both knowledge and habit (Mackenzie, 1956). Virtue constitutes only socially desirable human disposition and not all types of disposition.

Alasdair MacIntyre, an American philosopher, defines virtue as any human disposition that is praised because it enables a person achieve good human practices (MacIntyre, 1981, p. 204). The use of the expression, "human practices" has been criticized by many philosophers as being inaccurate. For instance, Pincoffs is of the opinion that moral virtues give us a feeling and a mental capability to judge persons so that it is possible to distinguish between a good and a bad person (Pincoffs, 1986).

A man of virtue is always happy. Aristotle observes that a man who does not feel pleasure or happiness in noble actions is not a good man. Virtue by itself is not happiness but happiness is the index of virtue. Happiness is discovered in performing some good actions based on reason. This view is also supported by modern eudemonism.

To Socrates, virtue is knowledge. However, this view is not fully correct in the sense that knowledge by itself does not give us virtue even though it may be a condition or the necessary basis for acquiring virtue. Virtue needs the knowledge of good and evil, and the internalization of only the good traits.

Wisdom and virtue involve living in accordance with the ethos of the people and time. Ethos implies the rules of morality based on ideals, institutions and collective moral habits and standards of people. Ethos is the morality of people expressed in definite rules and precepts, such as the Ten Commandments in the Bible.

To Aristotle, it is the habit of choosing the relative mean as determined by reason. The mean is the moderation of two extreme values which are vices. Thus, the virtue of courage is the golden mean between rashness and cowardice. The point of mean will not, however, be the same for every person. The essence of virtue lies in moderation, and when it is in excess or deficient, it becomes a vice. The moderation will imply that the person is controlling his instincts and impulses to the point which is consistent with the moral law of reason. But how does one know which is moderate (or the best mean) for him. Aristotle says that it is decided by prudence. However, all types of virtues under all circumstances cannot be based on moderation. For instance, when you are surrounded by enemies, you have to show the utmost courage to fight with the enemies and in that case moderation of courage will be a vice. Aristotle's theory of golden mean can be interpreted as a general rule but it has its limitations.

For St. Thomas Aquinas, a medieval theologian and economic thinker, virtue is that type of habit which enables a person to live peacefully and reasonably well in this world and also that ideal Christian habit which will ensure the union with God. These ideal habits are faith, hope and charity.

Virtue is the product of the rational self which can be realized by controlling instinct, desire, greed and illusions. This can be done with constant endeavour and habit. To possess this type of a noble habit is virtue. All worldly virtues are streamlined from this one single system of virtue (Unicity of virtue). This view is entertained by all philosophers including Plato and T H Green.

Since **temperance** is essential to control your senses and instincts, it is an equally redeeming virtue. Temperance is a type of self-discipline. Culture is another important virtue that leads to self development of personality. **Courage** is the power to conquer fear. Courage can be of different forms. Moral courage is the courage of conviction. Justice and benevolence are also critical social virtues. A few important moral virtues that make one's character noble are truth, beauty, goodwill, friendship, non-violence, love, loyalty, respect, renunciation, humility, righteousness, kindness, care, compassion and reverence to God, among other virtues.

Virtue is a relative concept. Virtue is relative to society, the nature of the state and social position and responsibility. While some virtues like patriotism and nationalism are virtues in all types of states, for some states, like a communist state, religious activities are not looked upon as virtues. For a totalitarian state, loyalty to ruler is a higher virtue than devotion to God.

People are given different social power, position and functions, and accordingly their virtues will differ. Thus, the virtue of a teacher is different from the virtue of a priest. In the **Varnashram Dharma** (caste-based classification of duties) of Hindu philosophy, the four different classes of people are to perform different functions, and therefore their virtues will be different. For instance, a Brahmin will engage in teaching, worship, and reading of religious scriptures, a kshatriya (warrior) will engage in protecting the motherland through battle and war, a vaishya (trader/farmer) will engage in trade and farming, and a shudra (a low caste) will serve all other higher castes.

The nature of virtue also differs from country to country and from time to time. In Greek society, pride is regarded as a great elite virtue, but it is not so in India. In some countries, courage is the most important virtue but not in others. In the olden days, simplicity was regarded as a prime virtue, but now it is regarded as foolishness to many. To be clever is an ideal virtue in the modern world. Thus, virtue has a contextual connotation, and therefore, it is a relative term.

Virtue has been classified in different ways by different philosophers (vide Sinha, 2006, 292-97). Some of the major classifications are shown in Table 2.3.

Table 2.3 Classification of Virtue

General Classification	1. Self regarding truth, beauty, temperance and courage.
	2. Others regarding justice, benevolence and patriotism.
	3. Ideal regarding love, truth and passion for the Almighty.
James Seth	1. Temperance (regulation of impulses).
	2. Culture (inner excellence and self-development).
	3. Justice
	4. Benevolence
Plato's Cardinal Virtues (Basis of all	1. Wisdom
other virtues)	2. Courage
	3. Temperance
	4. Justice

(Contd.)

(Contd.)	
Aristotle	Intellectual virtue (rationality and knowledge)
	2. Moral virtue (temperance, courage and habits for the realization of God)
	3. Aristotle accepted Plato's cardinal virtues but interpreted it in a narrower sense.

It needs to be noted in this context that some virtues are natural and some are artificial (Dienhart, 2000, p.111). Thus, kindness, compassion and generosity are natural virtues. They do not need any type of rule for their application. But artificial virtues like justice or politeness are based on rules made by society.

Virtues and Values

Is there a difference between virtues and values? Generally speaking, virtues are character traits which are good, and as such, they are subjective in essence. Values are different kinds of objects that can be both subjective and objective. Values and virtues are inter-related qualities. By nature, values can be intrinsic and instrumental. Virtues have different connotations in different contexts. During Aristotle's time, pride was a virtue in the Greek society and humility was a vice; but the situation is quite the opposite among Christians. Virtue in the context of wisdom relates to intellectual values, in benevolence, to social values, in the context of the economy, to economic values and so on. Thus, the habitual pursuit of different types of values in our life can help us develop different types of virtues. It is interesting to note that at some stages, and in some situation, some virtues and values do have common ground. That is to say, some virtues like simplicity, honesty, integrity, kindness and love can be regarded both as virtues and values.

Criticisms against Virtue Ethics

- Virtues are not enough for enhancing social welfare which depends on some right overt action. Virtues are covert qualities. Unless virtues are translated into action, there is no social welfare or personal improvement or gratification.
- At times, it becomes very difficult to distinguish between virtues and values, and to that extent, virtue ethics loses its importance as a separate branch of ethics.
- Virtues may be looked upon as vice. For instance, in Aristotle's Greece, humility was a vice but to Christians, it was a virtue. There is no clear-cut classification of unique virtues.
- A man may possess some virtues, yet he may be a bad man. For instance, a man may possess courage, prudence, justice and temperance (the four classic virtues) and yet he may be angry, cruel, nasty and vengeful.
- Virtue ethics fails to address the dilemmas that arise in applied ethics. For instance, in the case of abortion virtue ethics does not give any direction.

Summary

The chapter studies the nexus among beliefs, values, attitudes and virtues.

If these elements are favorable in a person, it is easier for him to be moral or ethical. The value system becomes a part of the person through the sub-conscious mind and the whole attitude formation becomes permanent. Attitudes die hard and they take time to change once they are entrenched into the human psyche. Spirituality and virtue strengthen the process of the ethicalization process.

In the journey to ethical life, belief plays a major role. True knowledge is helpful for your understanding and belief. Beliefs can exist even without perception and experience. Our understanding may or may not contribute to our beliefs. Beliefs can be formed in many ways including existential, commendatory, or self experience. Value is anything that is dear to us or have some utility. Moral value is a highly prized good. There are many types of values namely terminal, instrumental, social, political, or economic. There are many sources of value including family, friends, peer groups, institutions and environment. A business organization depends on certain cherished values. However, at the personal and professional level, there are many possibilities of value conflicts.

Our attitudes are generally based on our value system. But there are indeed many similarities and differences between values and attitudes. Attitudes have many components including behavioral, affective and cognitive components.

Attitude is a combination of rationality, emotion, thoughts and actions.

All theories of ethics are action-based. However, it needs to be understood that it is not so much the action but the character of the person performing the action that remains important. Virtue emphasizes the right kind of action and character. Virtue ethics is a special genre of ethics. Virtue is an acquired mental disposition which is praiseworthy because it enables a person to achieve the good that human beings endeavour. To Aristotle, it is the golden mean, i.e., the moderation of two extreme values. Virtue exists in that type of habit which enables a person to live peacefully and reasonably in this world and thereafter. It can be acquired by controlling instinct, desire, greed and illusions. Virtue is a relative concept but in all societies, certain human qualities like benevolence, temperance, courage and self-discipline are considered as great virtues. Virtues and values are inter-related categories and one may influence the other in many ways.

Key Terms

Beliefs Role Models Values and Business Values Aristotle's theory of Golden Family Attitudes **Epistemology** Mean Varnashram Dharma Virtue Ethos Plato's Cardinal Virtues ABC Components of Ten Commandments Attitudes Conflicts of Values

Test Your Knowledge

1. State whether the following statements are True or False

(i) Ethics and morality are the same things.

- (ii) A person who is not moral must be immoral.
- (iii) Ethical standard is all absolute.
- (iv) Ethical standard is only relative.
- (v) Selfishness is different from self-centeredness.
- (vi) Moral virtue is an acquired mental disposition.
- (vii) Derived judgement is based on our sense perceptions.
- (viii) Attitudes and values are inter-related.
 - (ix) Individual values are basically socio-centric values.
 - (x) Core beliefs are highly changeable in nature.

2. Fill in the blanks

(i)	The behavioural component of attitude is the of the intention of the
(1)	individual.
(ii)	The theory of observes that an action which maximizes net utility of the
	society is the right kind of action.
(iii)	The ideal Christian habits that ensure union with God are,,
, ,	and
(iv)	The values which a person tries to attend at the end are called
	There are primarily two types of beliefs, and
	is the philosophical study of beliefs and knowledge.
	Justified beliefs consist of two types of judgement, and
(viii)	The value that refers to the submission of oneself to higher power and authority isvalue.
(ix)	The orientation to achieve materialistic goals by controlling the physical resources is value.
(x)	The emotional aspect of our belief about a situation or object can be referred to as the component of attitude.
~1	

3. Choose the correct option

- (i) The philosophical study of beliefs and knowledge is better known as
 - (a) Ontology
 - (b) Anthropology
 - (c) Epistemology
 - (d) None of these
- (ii) Direct judgements are based on
 - (a) Our existing body of knowledge
 - (b) Sense perceptions
 - (c) Both (a) and (b)
 - (d) None of these
- (iii) The means to achieve the terminal values can be referred to as
 - (a) Instrumental values
 - (b) Individual values
 - (c) Both (a) and (b)
 - (d) None of these

- (iv) The behavioural component of attitude relates to the
 - (a) Emotional aspect of our belief
 - (b) The verbal expression of the intention of the individual
 - (c) The personality of the individual
 - (d) None of these
- (v) The three ideal values of Christianity that ensures union with God are
 - (a) Faith, Hope and Charity
 - (b) Personality, Generosity and Faith
 - (c) Fear, Hope and Belief
 - (d) Action, Personality and Fear
- (vi) The value that considers one's own duty as the supreme religion is
 - (a) Existentialist value
 - (b) Deontic value
 - (c) Derived value
 - (d) None of these
- (vii) Supernatural value relates to
 - (a) Metaphysical value beyond the norms of the physical world to achieve ultimate
 - (b) Submission of oneself to higher power and authority
 - (c) Both (a) and (b)
 - (d) None of these
- (viii) Virtue is
 - (a) An absolute concept
 - (b) Relative concept
 - (c) An utilitarian concept
 - (d) None of these
 - (ix) Caste-based classification of deeds is otherwise known as
 - (a) Varnashrama Dharma
 - (b) Religious Dharma
 - (c) Both (a) and (b)
 - (d) None of these
 - (x) Wisdom, courage, temperance and justice by Plato are the much known
 - (a) Ordinal virtue
 - (b) Cardinal virtue
 - (c) Terminal virtue
 - (d) None of these

Review Questions

- 1. What is attitude? What are the sources of attitudes? Why does your attitude change?
- 2. What is value? What are major sources of your values? Why does your value change?
- 3. Explain the basic similarities and differences between values and attitudes.

- 4. What is the importance of value in your life?
- 5. What values should a business organization be concerned with?
- 6. Write an essay on virtue ethics.
- 7. Elaborate on some ethical dilemmas arising out of conflicts of values by giving suitable examples.

Web Links

1. http://home.comcast.net/~icek.aizen/book/ch2.pdf

[Theories of Attitudes]

2. http://en.wikipedia.org/wiki/Virtue ethics

[Definition of Virtue ethics]

- 3. http://www.qld.ipaa.org.au/content/docs/iQ_Resources/iQ_Research/POGP/Values_and_ Ethics_FULL_version.pdf [Values and Ethics]
- 4. http://www.teacherdrivenchange.org/teacherdrivenchange/files/miguel_e_basez_phd.pdf [Measuring Values, Beliefs and Attitudes]
- 5. http://www.uk.sagepub.com/upm-data/17521_Chapter_5.pdf

[Values, Attitudes, and Behaviours]

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CHAPTER 3

Theories of Ethics

LEARNING OBJECTIVES

This chapter will help the reader understand

- The fundamental propositions of the major theories of ethics
- Similarities and differences among different theories
- Applicability of some theories of ethics
- Critical appraisal of many of the theories of ethics
- Concept and different contemporary theories of justice

Introduction

It was rightly said by **Voltaire** that if God did not exist, it would be necessary to invent 'Him'. The importance of God lies in creating in us a certain amount of obedience to godly virtues that help us live the right kind of life, behave ourselves in a godly way and to mould our character through some nomological axioms or principles by following divine examples. If God is not important, godliness continues to remain a decisive human virtue. There are many theories of ethics that seek to discover right and wrong moral behaviour. The basic purpose of ethics and morality is to help us lead a life of beauty and happiness with all the divine qualities like righteousness, justice, non-violence, truth, kindness, care and compassion, renunciation and love. In the following discussion, we will briefly concentrate on some of the major influential ethical theories.

TEN COMMANDMENTS

The Bible has given the following **Ten Commandments** to make followers morally good. The Christian concept of a good man incorporates obedience, devotion and love to God and people. The commandments are listed below.

- 1. Worship your God with all your heart, soul and mind.
- 2. Worship no idol, image or anybody except your God.
- 3. Observe Sabbath (the seventh day of the week) and keep it holy. None in your family including your domestic help is to work on that day. It is a day of rest. It is the day of special worship to
- 4. Do not use God's name for any evil purpose.
- 5. Respect your parents.
- 6. Do not commit murder.
- 7. Do not commit adultery.
- 8. Do not steal.
- 9. Do not accuse anyone falsely.
- 10. Do not desire another man's house, his wife, his slaves, his cattle, his donkeys, or anything else that he owns.

It is to be noted that in Christianity, idolatry which was prevalent in many countries in the past and even now is a sin. The tenth commandment needs a special mention. In modern times, the expression," do not desire...anything else" should mean anything valuable including money, gold, diamond, silver, or any other assets or wealth that belong to others.

The whole purpose of these commandments is to make people socially and personally moral by sacrificing rapacity, selfishness and irresponsibility.

Aristotle's Theory of Golden Mean

In our discussion of virtue ethics in Chapter 2, we had explained some important aspects of Aristotle's theory of golden mean. Virtue ethics is based on the idea of the golden mean. It is a virtue to follow the **middle course** between excess and deficiency. In other words, according to Aristotle, it is a virtue to follow the middle path because it requires some restraint and control of greed or instincts. For instance, courage is the middle ground between foolhardiness and cowardice, which are extremes and hence vices. The essence of Aristotle's theory of golden mean is the idea that moderation is a definite virtue to enjoy life and is the secret of a good and happy life. The attainment of excellence (virtue) is dependent on self-control, clear judgment and symmetry of desire. How do you achieve this? Aristotle observes that this is possible if we follow a life of reason and prudence. However, if we want to do that, it is necessary to follow the golden mean or middle path.

The concept of golden mean is the characteristic attitude of every system of Greek philosophy. Both Plato and Socrates followed and propagated this idea. In the temple of Apollo at Delphi, one finds a motto engraved 'meden agan' (nothing in excess) (Durant, 1961, p. 99). Youth is the age of extremes when he commits mistakes. When a person matures with reason, wisdom and prudence, he comes closer to the middle path.

The Greek philosophical idea on the golden mean is entertained by Buddhism. Buddhism advises its followers to adhere to the middle path by abandoning the sufferings of a very strict ritualistic life on the one hand and the pleasure and easy-going life of a worldly man on the other.

Aristotle says that the road to achieve excellence is the middle way (golden mean) which can save you many detours and delays. The qualities of character, according to Aristotle, can be structured in triads, for each of which the first and last will be extremes and vices, and the middle quality is the virtue for excellence. Thus, between humility and pride, we have modesty; between quarrelsomeness and flattery, we have friendship, and between Hamlet's indecisiveness and Quixote's impulsiveness, we have self-control (Cf. Aristotle's Ethics). However, it should be noted that the golden mean is not as exact as the mathematical mean (average). It is a flexible concept and is discovered by a mature person through the application of reason when confronted by different situations in life, training, experience and habituation.

However, as we had discussed in Chapter 2, it is not possible to follow the golden mean for actions like murder, theft, adultery, and so on (Beauchamp, 1982, p. 162). In the Nichomachean Ethics, Aristotle puts forward the idea that character building is essential for a happy and meaningful life. However, character is based on virtues. Virtues and moral values are inter-related in many ways and with constant practice a person can acquire the disposition of a person of good character. In this context, habit-forming is of prime importance. The golden mean is not only the right quantity but it occurs at the right time towards the right people, for the right reason and the right manner (Christians, et al., 2005, p.13). Aristotle explains that in order to be happy, some external aids are necessary; and only the golden path will not suffice. One of the important external helps comes from friendship.

Further, some philosophers observe that the mean is not always the middle path. In several cases, the involved moral dilemma can be solved by leaning more towards one extreme than the other. This is evident in cases of decisions regarding pay rise of employees or allocation of office responsibilities.

Aristotle's Nicomachean Ethics

Aristotle's Nicomachean Ethics (NE) is a comprehensive work on several types of ethical issues and principles. It is now studied as a part of historical philosophy. NE might have been edited by his son Nicomachus, or possibly, the work was dedicated to Aristotle's son. Whatever its value, there is no denying that it is a major work on Aristotelian ethics. The work was published in 350 B.C., which was later translated too. W.D. Ross made a very authentic translation of NE in English language.

The work consists of ten distinct books on ethics. These books are:

Book I

It discusses what is good for human beings. In this context Aristotle explains the meaning of the concept of good and why and how a man can be good. He also explains happiness as the supreme goal of life.

Book II

This book concentrates on the analysis of virtue which was discussed in detail in chapter two.

Book III

It elaborates on some aspects of human virtue including courage, temperance and generosity. The analysis is continued in Book IV.

Book IV

It goes on illustrating some moral virtues like gentleness, truthfulness, wit and charm.

Book V

It makes an analysis of justice and fairness, and gives examples of the essentials elements of just action and behaviour.

Book VI

This book dwells on intellectual virtue by illustrating his points of view.

Book VII

It discusses pleasures and evils, and the situations when pleasure leads you to evil. In this context, the book gives clarity to ideas of continence and incontinence.

Books VIII & IX

It elaborates on friendship which, according to Aristotle, is perhaps the best virtue. In this connection, he explains the advantages of friendship and, the qualities and requirements of a good friend.

Book X

The book is devoted to a detailed discussion of pleasure and politics. Aristotle believes that a good life is possible through properly practiced politics.

Lessons from the Nicomachean Ethics

NE explains the highest good in life is **eudemonia** (well-being or happiness) which can be achieved in accordance with virtues (excellence) in a sustainable way so that it permeates the human psyche throughout the life. NE shows how it is possible to be a good or virtuous man. Virtuous actions are possible through right actions, right habits and right character. The idea is similar to the philosophy of Buddhism. Like Aristotle, Buddha has also advised you to practice right understanding, attitude, action and speech (vide Chapter Ten of this volume).

UTILITARIANISM

Utilitarianism is a teleological theory regarding what we ought to do. It is a normative ethical principle of judging the right or wrong of a human action. According to this theory, social welfare is the sum of the well-being of all individuals. What should human beings do? The answer can be teleological or deontological. Deontological theory says that one's duty is of ultimate importance. Teleological theory points out than in the ultimate analysis, we should do only those things which can bring the highest level of happiness to the greatest number of people. It considers the utility of rules or laws, and is therefore, more concerned with policy formulation. Utilitarianism states that man's worldly happiness is the only good. This is a normative-positive test of all policies, actions and institutions.

The motto: "greatest good of the greatest number", was first voiced by Francis Hutcheson. Utilitarianism developed between the late eighteenth century and the last quarter of the nineteenth century. The main proponent of this philosophy is Jeremy Bentham who is revered as the father of utilitarianism. The other prominent members are David Hume, John Stuart Mill, Henry Sidgwick and Francis Hutcheson. Bentham introduced the doctrine of utilitarianism in the analysis of social action and policy. In the Greek period, utilitarianism was regarded as a form of hedonism (Epicureanism).

The classical concept of human nature is Benthamite in essence, which states that although human beings are selfish by nature, the selfishness, teleologically brings some social benefits. This is also the essence of Smith's theory of naturalism and optimism. As a matter of fact, policy prescriptions of the classical writers exude utilitarianism. In this connection, one can think of corn laws, factory regulations, poor laws and tariffs.

The neoclassical-marginalist school extensively used the concept of Utilitarianism since its inception in 1870s. Neoclassical writers, like Vilfredo Pareto, Leon Walras, William Stanely Jevons, Francis Ysidro Edgeworth, Alfred Marshall and P. H. Wicksteed were all utilitarians. The neoclassical school was really based on the concept of utility maximization (economic man). The neoclassical economists used the concept of diminishing marginal utility and interpersonal comparison utility to demonstrate that overall utility will increase if there is a transfer of income and wealth from the affluent section of the people to the poor. The richer section will lose some utility in this case but the gain of utility received by the poor people will be more overwhelming. This is one of the reasons why a system of equal distribution of income was preferred.

Welfare Economics, especially that propagated by Pigou and Pareto, begins with the concept of welfare that is tantamount to utility. Pareto lays down the condition that an optimal situation is one where the general utility (welfare) cannot increase without jeopardizing the utility of anybody else (Pareto Optimality). The notion of neoclassical economists (Hicks, Bergson and others) is based on the idea that welfare gains or losses are really utilitarian in essence. In our times, J.C Harsanyi, among others, advocates the maximization of average utility (preference). He prefers a social utility function without envy and jealousy. He advocates a policy that safeguards against our being worse off. He recommends social cooperation and emphasizes the need for moral principle in human action. Utilitarianism as an approach to moral action is popular in contemporary American society (Day, 2006, p.70).

The concept of utilitarianism has many loose ends and it means many things to many people. The following are the basic meanings of utilitarianism:

- Greatest good of the greatest number
- Maximization of pleasure
- Minimization of pains
- Maximization of happiness
- Satisfaction of desire

Although there are various meanings and versions of utilitarianism, there is one common philosophy underlying all these notions. They are basically concerned with the consequences of an action or judgment. The philosophy is anti-Kantian, in the sense that unlike the Kantian idea, it does not emphasize the intention of the moral action but on its end-result, the consequences. It is a philosophy which is the same as that of **consequentialism.** In the case of utilitarianism, the end justifies the means.

The theory of utilitarianism is sometimes interpreted in terms of **cost and benefit analysis** (CBA). An action is acceptable if the net benefit (benefit minus cost) is the greatest in a project as compared to other available projects or policies. The concept of utility involved in the theory of utilitarianism has been interpreted by many as **net benefit.** There are basically two variants of utilitarianism—Act Utilitarianism and Rule utilitarianism. (Brandt, 1959, pp. 253–54, & Smart and William, 1973, p. 4).

Act utilitarianism is concerned with those actions which will bring great benefits to great number of people. However, in case of act utilitarianism, the problem arises because some acts are by themselves not socially acceptable like stealing. Hence, act utilitarianism has to be supplemented with rule utilitarianism which gives direction to the former. An action in all cases may not bring about the greatest good of the greatest number. Obedience to rules (say traffic rules) will prevent chaos and will maximize happiness of passers by reducing accidents. However, the fact that "stealing is not acceptable" is not always correct to rule based utilitarianism, because sometimes, stealing can save innocent lives too (Weiss, 2009, p.75). Suppose accidentally John has been caught by a terrorist outfit and is asked to join the gang. He has agreed to do this by force and by nature, he is a moralist and does not want to kill anybody. The gang is making a plan in the night to plant a very heavy and powerful bomb in the congested railway station of New Delhi. If this is successful, the bomb will kill human lives. In the middle of the night, John steals the bomb and runs away from the place just to save human lives. He may be caught later and might be killed. But he is not concerned with that. This act of stealing, as many will agree, is not a sin. It is a correct action as per the philosophy of utilitarianism.

Utilitarianism based on the principle of CBA is an important part of decision—making in modern organizations and institutions. However, the concept of utilitarianism has a number of conceptual problems. Firstly, one needs to define utility in a unique manner. We have already seen that it has been given different meanings by different proponents. Utility is subjective and mental, and this raises an epistemological question: how do we gauge a person's happiness or feeling of pleasure or goodness? (Hoffman and Graham, 2010, p.180). **Secondly**, another tricky issue is the measurement of utility. Many people believe that being a subjective concept, utility is not measurable. However, there are two important ways to measure utility. Alfred Marshall, the leader of the neoclassical school of economics, said that the utility that one is expecting from a commodity can be indirectly measured by the amount of money he is prepared to pay for it. However, in the case of social policy or action, the application of market valuation approach to measurement of utility becomes difficult. Hence, when utility is measured in this way, we get **cardinal measurement.** As opposed to this, we can get another type of measurement (ordinal measurement) where utility or satisfaction is ranked (from highest to lowest, or vice versa). In the ordinal sense, utility leads to preference satisfaction. However, in the case of preference or ordinal ranking, we can only rank different utility functions to know which is better (or higher) but we cannot say by how much.

Limitations of Utilitarianism

- The theory is incoherent simply because you cannot maximize two numbers at the same time (greatest happiness and greatest number).
- Utility is essentially a subjective concept. There is no acceptable definition of "good".
- The concept (happiness) means different things to different people. There are also multiple meanings of the concept of utilitarianism.
- In the case of utilitarianism, the end justifies the means. This idea has been vehemently criticized by many. It is said by critics that for a moral action, both the end and the means must be good. To many, the means justify the ends, and not the other way round.
- Utilitarianism does not consider individuals or minorities. It does not care for individual entitlements, rights and distributive justice.
- There is a critical question that utilitarianism does not answer. Suppose some actions are by nature morally wrong, but their consequences are good. Utilitarianism will support those actions. But then this will not prima facie entitle the theory to be a moral theory.

However, in spite of its many conceptual limitations, the movement of utilitarianism has been instrumental in saving the conditions of common people. The philosophy of utilitarianism stood for the aspirations of the middle class. It has been the basis of many reformative movements in the fields of legislation, politics and socio-economic institutional changes around the world.

THEORY OF CONSEQUENTIALISM

A consequentialist philosophy is based on consequences of actions. Some human actions which are good for society at large are regarded as good actions. It is the outcome of the action on the society which is important. A consequentialist theory is end-based (teleology). If the consequences and end are good, then it can be recommended for implementation; otherwise not. Consequentialism embodies in itself two important schools of moral philosophy. These two schools are utilitarian and teleological schools. We have discussed earlier the basic ideas of utilitarian thought. Hence, there is a need for a separate discussion on the teleological theory.

TELEOLOGICAL THEORY

Greek philosophers, in particular Aristotle, popularized the teleological theory. The word teleology is derived from telos which means the end or consequences. Thus, the theory of consequentialism is directly associated with the teleological theory. There are indeed many variations of the theory of teleology. At the one extreme of the teleological theme, there may be egoism and at the other extreme, there is **utilitarianism** as suggested by Bentham and J.S. Mill. Utilitarianism provides a criterion for the concrete decision-making process to choose an action or policy. An action is taken only if it maximizes the **net utility or benefits** from the given circumstances, and also, the project is accepted if it is the best among all the available projects in terms of net benefits. Thus, there, apparently is a moral basis of choosing the project. However, the net gains or benefits may also be yielded by a project which is otherwise not supportable on moral grounds. The cost-benefit calculus

that is used for the calculation of projects in the context of utilitarianism does not say much about morality.

Egoism which is a form of teleology accepts any decision which produces individual gain or benefit. These benefits include pleasure, power, name and fame. An egoist will choose a situation which will increase his personal gain or satisfy his ego. The basis of egoism is self-interest. Many people are of the opinion that an egoistic person or organization is governed by self-interest. They will go to any extent to maximize their gains and objective functions. They are short-sighted and unethical in principle. However, there is another variety of egoism known as enlightened egoism which is socially better than pure egoism. Enlightened egoism takes into account a long-run perspective and also allows for the welfare of people and society, but in every case, the self-interest remains the primary consideration.

Another aspect of teleological theories, especially utilitarianism is the focus on minimizing harm to affected individuals. This makes the theory popular in the public eye. Rule-utilitarians follow certain rules to maximize their gains or net utility. They support the rule of laws in a country as they believe that by following rules, the society can maximize the total gains. However, if there are alternative rules in a particular situation, the utilitarians will choose that rule which would promote greater utility. There may be a problem with the rule-utilitarians. They will not bribe anybody because this is the law of the land. However, if bribe giving can lead to larger benefits than the cost, then they will perhaps bribe officials to gain some favours. Suppose Smith is a utilitarian like Robin Hood. He always helps people in distress. Smith owns a big business house where several poor people work. Smith has applied for a contract to supply goods to a multinational company, but he is not sure about getting it. In that case, Smith will not hesitate in bribing the MNC boss to get the contract. He is the follower of correct conduct but in this case, he makes an exception otherwise he will have to retrench his poor workers. Thus, bribing helps him maximize the utility (benefits) of his employees. So, for a rule utilitarian, rules give him a guideline and at times, he violates them. To an act utilitarian, bribery is acceptable if it leads to maximum gains or net utility. If corruption can save many lives, both act and rule utilitarians will perhaps support it.

Teleological theories do give a definite perspective to make moral choices by comparing competitive alternatives, and the relative impact on people. On this count, the consequentialist theory fares better than the theory of deonticism. Teleological theories are, however, criticized on the ground that they rely too much on unknown and uncertain results, and neglect the rights and needs of minorities. These right and needs may be in conflict with those of the majority.

KANTIAN DEONTICISM AND CATEGORICAL IMPERATIVES

The Greek word "deon" means duty. Deontology refers to a particular type of ethical behaviour based on rights and duties and not merely its consequences—it is the intention or motive that matters rather than the consequences of the overt action. Thus, deontologists are non-consequentialists which is governed by certain dos and do nots. As per the principle you should not steal or kill even if they lead to maximum gain or happiness. The principle of deontology is based on the idea of correctness or rightness of moral behaviour. However, there are absolute moral behaviour patterns that are recognized universally as good behaviour, like respect your parents and elders.

According to deontologists, the nature of moral principles is permanent and stable. The performance of these principles into action determines the degree of ethical behaviour of an action. What is right or wrong is an individual perspective based on virtue and values which are acquired from nomological axioms, tradition and culture. However, it must be pointed out that whilst teleological philosophers give more emphasis on the ends associated with an action, deontological philosophers emphasize the means.

The philosophy of deonticism has found its best expression in the hands of Immanuel Kant (1724–1804), a celebrated German philosopher. Kant advised us to do that act which can be universalized and 'do that unto others which you want them to do to you'. The principle is stated in the Bible: "do not judge others; otherwise, you will be judged." Your good act must be an example of universal behaviour.

Kant is the leading founder of the **principle of universalism.** This is also known as **deonto**logical ethics. It is a kind of non-consequentialist ethics. The basic idea of this ethical principle is that the ends can never justify the means of an action. Universal ethical principles are based on justice, rights, fairness, honesty and respect (Kant, 1964). Kant makes it clear at the beginning that:

- 1. Morality is impartial. It applies equally to everybody.
- 2. Morality is concerned with our intentions and not necessarily with the consequences of our actions.

There are two types of deontologists: Act deontologists and rule deontologists. Act deontologists believe that the ethicalness of a person can be known by his overt actions which should be based on justice, fairness, benevolence, equity and kindness Kant (1972, p. 229). Act deontologists observe that deontological rules provide only guidelines. In other words, act deontologists insist that people should have some knowledge about certain rules which are right and act accordingly without any reference to deontological rules.

Rule deontologists believe that there are certain rules of morality that people should follow while making decisions. These rules are framed on the basis of moral and logical principles to guide human actions. The ethicalness of a person's behaviour is to be decided on the basis of these rules. Kant's **categorical imperatives** and the **Ten Commandments** of the Bible provide some of these rules. These rules guide ethical behaviour and actions which eventually override other contextual local practices.

Categorical imperative has the following two building blocks:

- A person should choose to act in a way which is acceptable to him if another person acts in the exact same behaviour in that same situation.
- In the situation of an ethical dilemma, a person should act in a way that respects and treats all the others involved as ends as well as means (Friedman, 1978, pp.119–28).

The first principle is absolute and it does not admit of any exception under any situation. Categorical imperatives are the guidelines that will allow the decision-makers to do their duties in such a responsible way that all persons involved will be respected and not neglected.

Criticism

- Sometimes other elements in a deal become compelling before the narrow sense of duty. Smith is performing an important official duty on which the lives of many innocent people depend (e.g., negotiation with the terrorist group). Suddenly there is a call from his house conveying his mother's deteriorating health. What will Smith do? Both require his attention and involve his duties. The theory of deonticism is silent in such cases.
- It is often difficult to follow your duties blindly when confronted by a situation that demands immediate attention. Smith is in front of a city traffic light when suddenly the green signal is put on and all vehicles start moving. His duty as a pedestrian is not to cross the road. However, he finds that a small boy is running through the road. Smith runs across the road without caring for his life just to save the life of that small boy. Is it a deontological act? Many deontologists will say that Smith should not cross the road when the green signal is on.
- There are examples that show that Kant's theory of morality goes wrong. For instance, an employer in Iran pays lower wages to a woman employee for the same job compared to the man, and it is accepted by the woman. According to Kant's theory, the employer is acting morally in this case. But critics may point out that this is basically unethical because gender discrimination for the same work (both quality and quantity) is morally wrong.
- It is not a good behaviour to follow blindly one's own duties as directed by your boss. The duties may be wrong or immoral. The boss asks Smith to mix water with milk. Should Smith perform such a duty? There may be a conflict in many cases between duty and morality, or between right and wrong duties. Deontological principle does not clarify these conflicting cases.

CONSEQUENTIALISM VS DEONTICISM: A RECONCILIATORY APPROACH

Utilitarianism and consequentialism are used in the ethical theories in the same sense, since both these doctrines depend on the end-result of an action. However, on keener observation they are not the same. Utilitarianism is based on the notion of net utility maximization. It is a social policy or action that seeks to yield greatest happiness or utility for greatest number of people. The methodological approach followed to measure the net utility is the cost-benefit approach (CBA) where the value of total benefits is greater than that of the cost of the project. There are many conceptual problems in such a type of calculation. We will mention only a couple of these problems.

What is happiness (or, good) or utility? How will you measure it? There is indeed no satisfactory answer. In terms of the CBA approach, the net benefit is accepted as the appropriate criterion to accept a project or policy. However, the project may generate a net benefit and yet, it may be entirely unethical.

Our contention is that **consequentialism is different from utilitarianism**. The former simply depends on good consequences for a policy to be supported but the latter has nothing to do with any consequences other than utility. On the other hand, consequences may be of many types. We may retain the consequentialist structure of the utilitarian theory but reject the notion of utility which is a highly objectionable quality (Mackie, 1990, p.149). The concept of utility or goal can be replaced by some sort of concrete entity which can be quantified or objectified.

One can consider in this context, the gain or loss in terms of some basic political or social goods like liberty and freedom. The basic economic goods that may be considered are the basic necessities of life without which life will be impossible. If consequentialism leads to the availability of more of these basic or primary goods, then nobody will have any objection to utilitarianism or consequentialism, and they can be said to be the same in essence. The basic point that we are driving home is that you should develop **non-utilitarian consequentialism**. The same idea was proposed by Mackie (1990) but it was not fully developed by him.

The consequentialist structure can be modified by introducing some moralistic rules, principles, duties and rights or virtues. If we do so, it will merge with the theory of deonticism. The impact of the theory of deonticism can be reduced by taking away those duties that are contrary to moral principles. In deonticism, duty is the main consideration. However, not all duties are morally correct; some duties given to you by your superior officer may be morally wrong. So, one is justified in rejecting those duties. We should include in deonticism only those duties that are based on those rights that will increase social welfare. In such a way, one can think of a reconciliation between consequentialism and deonticism. Consequentialism will lead to the production or availability of more of primary goods or services and deonticism will lead to more social welfare. Such a reconciliation can retain the basic philosophy of both the principles and make them complementary to each other.

RIGHTS AND DUTIES

Right is the entitlement or empowerment to do certain things. For instance, a teacher is entitled to teach in a class and a priest is entitled to worship. Rights are moral claims of individuals recognized by society. There are many types of rights, like, legal, constitutional, fundamental and moral. Right gives us the liberty and choice and empowerment. There are many basic rights given to every citizen of a country. These rights include life and security, education, freedom of speech, employment, express opinion, legal remedies, contractual right, equality and human rights. Rights are based on several sources of authority (Tuck, 1979). Moral rights give individuals the freedom to pursue one's own interest so long as the interests of others are not violated. Moral rights need to be justified, and they are necessary for self-realization. These rights are essential for the highest personal good and social benefits.

Negative and Positive Rights

Negative rights are rights to be free from interference by others; life, liberty and property rights, according to Robert Nozick (Dienhart, 2000, p.124). This view of Nozick is not accepted by several. **Positive rights** are those that others have a duty to supply. If you have a right to education, others must supply schools, teachers and books.

Kant and Rawls argue that rights are based on your **intrinsic value**. Rights vary between different social groups as there are many traditional ways of respecting and expressing human worth and dignity (Dienhart, 2000, p.124). To Nozick, your **intrinsic value resides** in your fundamental right to life, liberty and property; to Kant, it lies in your ability to make rational decisions and duties to

respect all human beings and to do what is morally good. To Rawls, your intrinsic value lies in our ability to do justice based on free and fair distribution. John Locke observes that human beings have natural right to life, liberty and property; and by virtue of **a social contract**, the state is assigned rights to protect them. The purpose of the state is to ensure that people respect and do not violate each other's rights.

Hohfeld (1923) considers all rights as relationships. There are four types of rights:

- Claims (A claim entitles a person to demand something from another person).
- Privilege (Liberty/No-claim. Therefore, one is free to do something).
- **Power** (A legal relationship or claims can be created by power to control others).
- Immunity (This enables a person to resist the powers of others over a person having immunity). It disables others.

Duties

Rights and duties are correlative terms. Duties are moral obligations. The main duties that a person should perform are as follows:

- Respect for truth
- Respect for laws
- Respect for society and the state
- Respect for life
- Respect for freedom and personality

Duties are determined by the status and particular station of life.

There are generally three classes of duties:

- Duties to self (health, self-development, capability expansion and so on).
- **Duties to others** (duties to family and friends, relatives, neighbors, society, humanity, animals and plants, and the country).
- Duties to God (devotion, prayer, meditation, worship, communion and love for God)

Kantian Theory of Duty (Categorical Imperatives)

Immanuel Kant distinguished between duties of perfect obligation and of imperfect obligation. The former duties are generally duties which are precise and definite and can be exacted from individuals. The latter duties are mostly positive and are indefinite, unlimited, and cannot be exacted from individuals.

Kant explains that you have to act ethically irrespective of the need of others. There are **four principles** of Kantian theory of Duty (see also the earlier discussion on Categorical Imperatives in this chapter):

- Morality of your action depends on what you intend to do and not on the consequences.
- Moral rules are **impartial**, and these apply equally to everyone.
- An action is moral only if you can justify the **rule** that everyone can follow.
- People are not merely means to an end. They should be **treated as human beings with infinite value**.

There are two precise rules for determining a morally right duty in the Kantian Categorical Imperatives.

Reversibility: It implies that you should perform your duty involving others in such a way that you will like others to perform their duties towards you in exactly the same way.

Universality: A person's justifications for acting in a particular way should be the so exemplary that they will induce others to act in the same way. This is why your action must be universal in nature.

Robert Nozick's Ideas on Duty

- In Robert Nozick's view, it is the duty of everyone, in particular the state, to ensure that there is **no restriction on freedom** for people and there is **no coercion** imposed by the state. However, when a person is coercing others, his freedom may be restricted.
- Like Kant, Nozick asks everyone to regard individuals as an end and not as a means to an end.
- The ideals of free market should be promoted.
- Since the basic rights to life, liberty and property are negative in character, it is duty of the state to ensure that these rights are not violated.

ROBERT NOZICK'S THEORY OF ENTITLEMENT AND PROPERTY RIGHTS

Robert Nozick is an American philosopher and Nozick's publication (1974) has been a controversial but an interesting book. In the following analysis, we will explain the main points of Nozick's theory of entitlement and property rights. These two concepts are inter-related. His entitlement theory (ET) is a theory of distributive justice. He refers to the holding in private poverty as something related to justice in holding (1974, p.150). To him, private property indicates self-ownership. Nozick is a libertarian and gives too much emphasis on freedom in every matter including the acquisition, transfer and disposal of property. But freedom is to be punctuated by justice. There are three important constituent elements of ET:

- Principle of justice in the acquisition of private property.
- Principle of justice in the transfer of private property.
- Rectification of injustice in the case of unjust transfer of private property.

If justice is followed in the case of the first type of holding, the possessor has the right to entitlement. Similarly, if principles of justice are followed in the case of the second type of holding, the possessor is entitled to that holding. Nozick warns us by saying that none is entitled to justly hold any property except through cases One and Two as stated above. ET upholds the view that there should be justice in the distribution of property (holdings). The purpose of the Third rule (stated above) is to protect the weaker sections who have been victimized in property matters. It is quite possible that the wealthy, influential or powerful people might have cheated the poor possessor in a deal. It is, therefore, necessary to enforce the correct principle of rectification so that the loser gets proper compensation.

Two important influences have been the bases of Nozick's ET. It is firstly based on John Locke's ideas on private property. The second is the philosophy of Immanuel Kant who has suggested that people are ends in themselves and all of them, in a sense, are equal. The basic idea of Nozick's theory of entitlement is to create a strong system of property rights and the operation of a **free market economy.** He is of the opinion that a voluntary transfer of property is a just transfer. Transfer under duress, temptation or false promise is unjust.

In this context, Nozick observes that taxing rich people in the name of social programmes for the poor and also the redistribution of income from the rich to the poor is inherently unjust. This is so because the state is collecting money by coercion rather than through voluntary transfer or transactions.

In the case of the **creation of any value or product**, the creator has the right to enjoy or use it in any way he/she desires. It is unjust to dispossess the rightful holder or creator by temptation or force. If somebody has the just right over something, then justice demands that this right should not be violated (Nozick, 1974). The entitlement theory of Nozick goes against the two popular theories of distributive justice.

- Nozick does not agree with the Marxian theory of equality. According to Nozick, inequality is natural. Equality is a contrived notion that is unjust and unnatural.
- Nozick also does not believe in the **difference principle of Rawls.** He dislikes the idea that there should be redistribution of income or goods from the rich to the poor.

Nozick's entitlement theory is **unpatterned and historical.** His unpatterned theory is based on choice. His entitlement theory is against the violation of property rights. Although the entitlement theory looks like something original, it is not free from criticism.

Criticism against Nozick's Theory of Entitlement

- Nozick's view that taxation is unjust is not true. In many cases, the tax payers receive *quid pro quo* (benefits in return).
- Nozick is not completely accurate in assigning a minimal role to the state. In fact, to ensure
 property rights and to introduce compensatory justice, a strong role of state is very essential.
- Nozick is in favour of proper and voluntary bequests. However, bequests in the long run show all the evils of unearned income, inequality and loss of productivity. It draws us more towards feudalism than a free market economy that Nozick favours.

W.D. ROSS' SEVEN PRIMA FACIE DUTIES (RULES)

W.D Ross (1877–1971) was an American intuitionalist who has given seven absolute moral rules for human beings to live a happy life. These rules (see Ross, 1930) are:

Fidelity

This is essential to maintain a good relation in a society by keeping promises and being honest in all situations, and respecting the rule of mutual trust. The whole structure of any long-term relationship is based on trust or fidelity.

Justice

In dealing with people and in the distribution of basic goods, justice and fairness should be practiced by people. The idea of justice is based on equity and fairness. Without justice, no moral rule or dealings can be made effective in a society.

Gratitude

Gratitude is basically an individual virtue that makes life enjoyable and pleasant. It is necessary to return a favour by words or deeds of gratitude. It makes a person endearing, and he becomes worthy of favour in the future.

Reparation

It is a kind of compensation for the injury and harm done to others. This is a form of justice. Reparation should be proportional to the damage done. Although in many cases, the appropriate type and amount of reparation cannot be made, it is a good moral rule to make a compromise by both the parties involved.

Beneficence

You must be benevolent in nature and do good to others whenever necessary. Thus, kindness and compassion are important in reducing the impact or eliminating undesirable situations.

Non-malice

This means the prevention of injury or harm to others. This is possible only when it is non-violent. This moral duty also implies a mindset that does not bear ill to anybody. It shows equal love and good relation with every person.

Self-improvement

Ross's rules do include provisions for constant self-improvement by practicing virtues and a value system in accordance with the principles of morality. Unless people are constantly inculcating the principles of good moral behaviour and applying them in actual practice, self-improvement does not become possible.

Ross's prima facie duties are concerned with what people ought to do. Many philosophers do not consider these rules to be duties. They observe that these should be called *responsibilities*. Ross calls these rules as prima facie duties because while deciding to act, all these rules (duties) need to be taken into consideration. No duty should be considered in isolation. It is for this reason that you must follow the principle of ethical pluralism.

ALBERT CARR'S THEORY OF BUSINESS ETHICS

In an interesting article in *Harvard Business Review* (1968, pp. 2–8), Albert Carr favours business ideas which reminds you of a similar stand taken by Adam Smith and Milton Friedman. Both Smith and Friedman have pointed out that the first ethic of a businessman is to do his duty in such a way that leads to the maximization of profits. Albert Carr goes one step further by saying that the **profit** maximization principle should be followed by business people even if it involves lying. According to him, deception is a legitimate part of business. He compares business with poker games. In such a game, there are rules, but within the broad framework of rules, it is permissible to bluff in order to mislead or hoodwink the public (customers or suppliers). Carr warns the business people that if bluffing is not done, there is a possibility that the business will undergo losses. In such a case, there should be a distinction between business and family life. Family ethics and values are not relevant in business. A businessman may be ethical in his private life but he cannot apply the same moral principles in his own profession (business). The two worlds are entirely different.

Carr approves of the following types of business tactics to maximize profits:

- Deception (say, in a business like food processing products).
- Neglect of safety devices (say, in automobile industry).
- Utility companies that practice regulatory capture, bribe government officials to extract unduly large payments from electricity users.

In all these cases, companies are justified in bluffing to earn more profits. So like in poker, Carr observes that deception is not considered to be a bane. It is a part and parcel of the game. However, Carr cautions, that companies should comply with the spirit of the law. Bluffing is justified; but should be done very discreetly, so that one is not legally caught. Advertisement such as "This is the best product in the market" is acceptable. But malicious deception is wrong, as it intends to harm other people.

Critical Appraisal

Carr's theory can be supported on the following two grounds:

- Carr's theory can be supported on **teleological ground**. The telos (end) of every business enterprise is to maximize profit. Carr supports the idea that ends justify the means. A teleological theory does not imply that means need be ethical. So in order to maximize net gains, business people can be unethical.
- Carr's thesis can also be supported on the basis of ethics of utilitarianism or consequentialism. A businessman knows the consequences of his actions while maximizing his profit. His utility or "good" lies in this materialistic behaviour. Thus, his actions can be supported on the ground of utilitarianism.
- But if the intention of the business enterprise is to cheat customers and suppliers and to produce financial losses to them, the actions are wrong, according to deontological ethics. Such deception is wrongful behaviour. However, there is no objection to profit maximization if it is done in an ethically correct manner. Business in practice cannot go beyond a certain limit. Carr is aiming at proving too much at the same time and making unwise suggestions.

Carr seems to believe in **ethical relativism.** He points out that whatever is ethical in in a family is not ethical in business. A business has its own ethics.

CONCEPTS AND THEORIES OF JUSTICE

Philosophers observe that there are **three worthwhile** things in this universe and none of them can be defined in a compelling way. They are: truth, beauty and justice. The word "justice" has several definitions. In the perspective of bounded human rationality, we will make an attempt here to analyse a few well-known theories of justice. Before beginning a discussion on a few cognitive theories of justice, it is necessary to explain briefly a few relevant concepts of justice.

What is Justice?

The term "justice" is derived from the word "just", which means "appropriate", "proper" and "fair". The word "fairness" is regarded as the most appropriate equivalent to the term "justice". When a treatment is accorded to a person in proportion to what he deserves, he can be said to be treated in a just way. For instance, when a labourer is asked to work and paid wage equal to the market value of his physical productivity, the payment is based on justice. Justice is something which can be regarded as reasonable on both moral and empirical grounds. **Justice is a normative social order**. It is a form of righteousness. When some people are in bondage, justice implies freedom to them. Absolute justice is divine and is difficult to achieve in the real world. In the actual practice, we come across what is known as **relative justice.**

Types of Justice

There are many types of justice. These are briefly explained in the following pages.

1. Procedural Justice

There may be justice in an act. However, what is important is to see whether that action has been performed complying to the law or through a correct procedure. For instance, a labourer is asked to do a job but is forced to accept the terms and conditions imposed by the employer. Here the procedure is unjust. In the same way, the property of a poor person can be transferred or sold in an illegal manner or by force. These types of action go against the procedural justice.

2. Commutative Justice

Commutative justice is a form of justice where fairness or justice is ensured at the beginning and all people are treated equally. In other words, people start on the level field. The background of the people is totally irrelevant in the case of commutative justice. Commutative justice also ensures that all people are given equal opportunities for development. Further, the fairness of exchange between two or more parties involved is of prime consideration. Thus, it is said that the remuneration to a factor of production must be equal to its marginal productivity. In such a case, there is no exploitation; and justice is done to the factor of production. It is in this sense that the neoclassical theory of distribution can be said to be just.

3. Compensatory Justice

In the case of compensatory justice, some compensation is given to the person who has been treated unequally in the past. The point is that the compensation for the injustice done in the past must be proportional or equivalent to the loss sustained by an individual in question. But, in many cases, it is difficult to assess the appropriate amount of financial compensation. For instance, if somebody has lost his hand while working in a factory, what would an accurate compensation be? The payment of a particular amount sanctioned by the factory or by a legal institution may not take into account his all-round incapability, social stigma and future losses in the absence of his hand. However, in the present social system, some amount of compensation is granted, depending not on the requirements of the loser but on the capability of the person giving the compensation. Sometimes, it so happens that the payment of compensation

is either too low or too high for a prolonged period. This may lead to **reverse injustice**. For instance, the granting of some special favour to backward classes or castes for a very long time may mean injustice to higher castes or classes of people. This may create reverse injustice to these classes and castes.

4. Retributive Justice

This ensures some form of punishment to a defaulter. The imposition of fines or penalties, however, may not be adequate or just in a particular situation. Sometimes, the punishment may be more than what is needed and sometimes, it may be less than what is necessary. There is no objective criterion to impose just punishments in several cases, whether it is fixed by the court of law or done by a particular person to whom wrong has been done. Thus, where simple fine should be imposed, the authorities may order rigorous imprisonment. The basic purpose of retributive justice is to prevent the person from doing similar type of unjust work in the future. This is often not done in actual practice. In the case of retributive justice, the main criterion for punishment should be the motivation for the crime or what is called *mens rea*. If the motive for the crime is not established beyond reasonable doubt, it is unjust to impose any punishment.

5. Communitarian Justice

This refers to a system of justice shown to a particular community which has been suffering in the past from injustice (say, the tribal people in Australia). Tribal people in many countries are not given equal freedom and rights like other citizens. Therefore, communitarian justice will imply that these people are given some rights and liberties which may be political or economic in nature.

6. Distributive Justice

Distributive justice is very critical for human society as a whole. The basic idea of distributive justice is to treat equal people equally and unequal people unequally. Therefore, it can be either vertical or horizontal in character. The principle of distributive justice upholds the view that the benefits and burdens in a society must be distributed equally among its members. However, there may arise a situation where the resources to be distributed are limited compared to the number of persons sharing these resources. In such a case, certain principles need to be followed like first-come-first-served, ladies first or the sick and disabled people may be given more preference than a normal person.

The principles of justice are the principles of fairness. Justice is also regarded as a method or system of ensuring equality to all who are equal and unequal. In Public Sector Economics, which deals with public choice and the collective decision-making process, the issue of justice becomes extremely important. Such public decisions may make some people worse off and some people better off. Therefore, the principle of fairness assumes a significant role.

For the purpose of public choice, social welfare and reforms, what is important is the concept of distributive justice which means the application of the principles of fairness in the distribution of income and wealth in a society. However, the concept of fairness is often unfairly complicated with various subjective interpretations. We have a number of theories of distributive justice, some of which will be elaborated here.

THEORIES OF JUSTICE

We will start our discussion on theories of justice with utilitarian theory.

Utilitarian Theory

It considers any action which leads to the maximum benefits and happiness of the greatest number of people in a society as a just action. For example, it is indeed very difficult to measure the concept of utility because it is a subjective concept, similar to the concept of happiness. However, the theory judges the rightness or wrongness of human action in terms of the principle of maximum benefit or happiness. However, it does not take into account the impact of that action on minorities. Therefore, this theory does not seem to be justified in many cases. The utilitarian theory takes into consideration the well-being of most of the people but not all of them. It says that if the benefits are more than the cost of an action, the action is justified. (A more detailed discussion on utilitarianism is given previously.)

Egalitarian Theory of Justice

This theory is based on equality in the matter of distribution of burdens and benefits. This is an important theory of distributive justice. The theory seems to give importance to absolute equality. It does not take into account ability, efforts and need. Thus, according to this theory, the rich and poor will get the same benefits and will make the same sacrifices. This theory has been criticized on many grounds.

Criticism Against the Egalitarian Theory of Justice

Firstly, since human beings are not equal, it is said that the principle of equality is not a just principle. Some people are more intelligent, more capable and educated than others. Therefore, these people should be treated in accordance to their ability.

Secondly, it does not take into account the genuine need of people. Some people may need social goods more than others because of large families or inadequate sources of income. The principle of justice requires that these people should be given a bit more from the social stock of necessary goods.

Thirdly, if all people are treated equally, there would be no incentive for the hardworking and intelligent people to produce or achieve more.

Lastly, absolute equality is meaningless. What is more important is not absolute equality but equality in terms of capability, need and resource endowment. Thus, a rich person should contribute more and a poor person may contribute less or nothing to the national exchequer by way of taxation. Thus, it is seen that the concept of equity is more meaningful than that of equality.

However, there is no denying the fact that every person must have equal political rights and opportunities regarding rights and duties, and everybody must be ensured some basic minimum standard of living.

Capitalist Theory of Justice

The basic principle of Capitalist Theory of Justice is that everybody should receive the benefits according to his contribution. Thus, a worker whose productivity is higher will get higher wages than a labourer whose productivity is low. Capitalist justice favours inequality because inequality leads to differential contribution. Thus, a person with more talent, experience and qualifications will be able to contribute more to capitalist's profits. It is based on the assumption that human beings are essentially unequal. Therefore, justice wants inequality to be accepted as the basis of just reward.

It is sometimes problematic to measure the actual contribution of a factor of production. However, the productivity of a factor of production can be measured by the market value of its marginal productivity. There are many methods to calculate the value of marginal productivity of a factor of production. In the case of services being produced by Government employees, it is difficult to calculate objectively the marginal productivity of a worker who is working in the services sector like education or hospitals. It is sometimes argued that a person who is working for a longer period of time should be given higher wages compared to a person who is working for a shorter time. This is not always a correct principle because longer duration of work does not automatically mean higher productivity. It is the intensity of work which is more important than mere work efforts.

Criticism Against the Capitalist Theory of Justice

Firstly, a criticism that is often levelled against the capitalist theory of justice is that it does not take into account the needs of the people and neglects the requirements of the people with less abilities and opportunities. The principle of contribution does not consider the cases of socially disadvantaged or physically handicapped people.

Secondly, the practice of market valuation of productivity is itself incomplete or imperfect, as market prices are often distorted by many factors.

Marxian Theory

Marx (1867) was of the view that only the establishment of communism could guarantee the needbased wage payments to workers. Thus, communism to Marx is a just economic system. The capitalist system cannot be reformed to bring justice to the labour class because under capitalism, all institutions including the legal system, and the state are pro-capitalist instruments. Justice requires that the wage system should be need-based. However, the question of the measurement of needs will depend on the stage of economic development and also on the level of human development that is aimed at. The needs should include not only the individual needs but also the social needs of human beings. In spite of debates over the issue of needs, it has been accepted by almost all that the needs must take into account a fair standard of living for the working class. Marx has remained very critical of the capitalist idea of encouraging inequalities as the basis of principle of justice. Marx has given a number of instances where he has proved that a capitalist system is basically unjust, particularly to the working class. We will explain briefly these instances.

Surplus Value

A capitalist does not pay a labourer according to the productivity of his labour. The wages under a capitalist system is always less than the productivity of labour. Every worker creates a surplus value which is equal to the total productivity of labour minus the wage that is paid to him. The positive difference between these two is called **surplus value**. This is pocketed by the capitalists. Thus, a worker under a capitalist system is always exploited. The greater this surplus value, the greater is the degree of exploitation.

Capital Accumulation

- Capitalism survives on the basis of capital accumulation which leads to centralization of capital and concentration of capital. Concentration of capital is a process of capital deepening where capital per worker is increased, or a particular technique of production is made more capital-intensive. The taking over of weak enterprises or the merger of small capitalists can be called the process of centralization of capital. The development of these two forms of capital accumulation leads to the growth of monopoly capitalism. As a result of centralization of capital, the bourgeoisie and small manufacturers are wiped out. Most of them become **proletarians**. It has been pointed out by Lenin and others that monopoly is the intensification of and not the negation of capitalism. In fact, monopoly capitalism grows out of intense capitalist competition. The growth of capital accumulation hinders the interest of the working class because this leads to more automation in the production process, resulting in displacement of labour by machinery, and the result is the growth of the reserve army of **labour.** A capitalist mode of production in the long run creates a pool of unemployed and under-employed labour.
- The reserve army of labour created by capital accumulation leads to increase in poverty among the labour class. Capital accumulation adds to the absolute deterioration of the condition of the working class. The relative deterioration is called immiserization of the proletariats. However, another condition, known as proliterianization of the working class, is created when the workers are fully unemployed. The workers under capitalism not only suffer from physical poverty including malnutrition, under-nutrition, and poor living conditions but also from social poverty, implying discrepancy between wages, inequality in consumption, inequality in opportunities and in resource endowments.
- According to Marx, a capitalist system is unjust because of many reasons including distrib**utive injustice**, lack of freedom and liberty and denial of human rights.
- Capitalism leads of alienation of workers. This alienation takes many forms such as alienation from society, family, products made by workers, rights and freedom and from the self also. In the context of alienation, capitalism cannot be said to be a just system.

Marx has elaborated how labour power is regarded as a commodity under capitalism. The **commodification of labour** is totally unjust. Capitalism leads to de-humanization of labour power. Marx was so disillusioned with system of capitalism that he believed the tradition of private property system to be error ridden. The capitalist exploits labourers on the basis of the ownership of the means of production and not because of his superior ability. Marx also has castigated the role of the Government by saying that the state is not neutral under capitalism; it always works in favour of the capitalist class. Under such a situation, no justice can be expected from the state.

Criticism Against the Marxian Theory

The Marxian theory of justice has been subjected to several criticism. Briefly discussed here are a few major criticisms.

Firstly, Marx's prediction that economic conditions of workers under capitalism worsens, has not been supported by historical evidence. They say that in a country like the United States, the relative economic status of workers is gradually improving. This is, however, a polemical issue, and can be settled only with more empirical evidence.

Secondly, Marx's idea that workers should be given need-based wage, has not been accepted on economic grounds. Critics point out that the payment of wages should be based on contribution. Marx's analysis that under capitalism workers are exploited is perhaps true in the sense that they are paid lesser wages than the value of their marginal productivity. The surplus value is absorbed by the capitalist.

Thirdly, Marx's view that the free market is an unjust system because it generates inequalities has been criticized by non-Marxists by saying that justice does not mean equality. It is also argued that inequalities are essential to bring about more efficient allocation of resources. This is better than the system of equality. The point is debatable. Better allocation of resources has nothing to do with distributive justice. It has been accepted almost universally that a system of growing inequality stands in the way of establishment of a just society. Inequality can be tolerated if it is in favour of less fortunate members of the society (**Rawlsian difference principle**). However, this is conspicuous by its absence in capitalism.

Lastly, it is pointed out by critics that the demise of the Soviet Union is proof that the Marxian theory is unworkable in actual practice. However, it should be noted that the disintegration of the former Soviet Union does not prove the end of Marxism. As a creed, Marxism will perhaps never die and many of the basic tenets of Marxism are still true.

Socialist Theory of Justice

Socialism is based on the idea of equality of human rights, freedom and dignity. Socialism is the first or the lower phase of communism. In this system, the ideal form of distribution will be: "from each according to his ability and to each according to his needs". Socialism stands for the abolition of class conflicts, through the socialization of means of production. Socialist production is based on the idea of maximum social welfare and justice. It tries to establish equality in the sphere of production as far as possible. The class distinctions are gradually abolished and fully obliterated during the higher phase of socialism (communism). There is no exploitation of one by the other. The social properties are held by the state, the collective firms and co-operative societies. Production is done by the people and for their maximum benefit. All people work collectively and labour is socialized. The surplus product is utilized for the purpose of socio-economic development. The institution of state is very essential under socialism. The State is the owner of the

means of production. It looks after the interest of the people by organizing production, distribution and exchange. Under socialism, the state does not represent the interest of any particular class, but it stands for the interest of all people.

Socialism promises to transform the society from the realm of necessities to the realm of freedom and justice. It gives more emphasis on the ability of people to contribute to the social stock of goods and services and the distribution is based on the needs of the people.

Criticism Against the Socialist Theory of Justice

Firstly, under socialism, there is no correspondence between the contribution of a worker and his needs. In such a case, the remuneration is not based on contribution but on the needs of the people. This practice cannot be said to be just in the sense that contribution has no relevance for fixing wages.

Secondly, the needs of people are very ambiguous. There may be physical, social, present and future needs. The needs may vary in quality too. What type of need is to be taken into account under socialism is the question.

Thirdly, since remuneration depends on needs and not on the ability or contribution, there is no incentive for the workers to increase his productivity. Thus, under socialism, it is likely that social productivity will reduce.

Lastly, under socialism, individual freedom may be restricted because the occupations will not be chosen by freewill. There may often be a conflict between the ability and the individual choice. Since the distribution is based on needs and not on choice, ultimately the need will prevail and the choice will be relegated to the background.

John Rawls' Theory

John Rawls' theory of justice (1971) has been regarded as a landmark that provides an alternative to the theory of utilitarianism. Rawls complains that political theory in the past was sandwiched between two dominant ideas: theory of utilitarianism and philosophy of intuitionism. Rawls was not happy with either of these doctrines, and therefore, attempted to find a comprehensive political theory that could rationally explain the structures of intuition and also explain satisfactorily the principles that should govern distributive justice.

Rawls' theory is based on the following three principles:

There should be equal liberty for all citizens with respect to essential fundamental rights including human rights, freedom to own private property, freedom of speech, civil liberties, and freedom of expression. These are the basic goods which are highly essential for any citizen to live a meaningful life. These basic goods, according to Rawls, should be equally distributed.

There should be equality of opportunities for everybody so that the person can pursue his own line of action or profession for the maximum capability expansion and growth.

Some amount of inequality is permitted to exist but there should be an attempt to improve the economic conditions of the unfortunate people in the society (**Difference Principle**).

A morally warranted situation for justice will have to be based on some neutral position at the beginning, which Rawls refers to as the **original position**. In this original position, the parties (the rational people) will choose those principles which they will apply to themselves. This is the same as the Kantian moral ideas of reversibility. The original position should also be such that the principles of justice chosen must be equally applicable to everyone. This is called the **principle of** universalizability.

According to Rawls, social welfare is the welfare of the worst off members of a society. Rawls' theory tries to answer **two basic questions** of distributive justice:

- 1. How can we find the principles of justice?,
- 2. What are these principles of justice?

The answer to the first question is that it is necessary to have a contact which is shielded under the veil of ignorance. While answering the second question, Rawls rejects the importance of merit because merit comes from heritage, upbringing and natural endowments that are irrelevant from the moral point of view. All primary goods like liberty, opportunity, and so on are to be distributed equally unless an unequal distribution is to the advantage of the least favoured. The difference principle states that difference is allowed so long as they gain the least advantaged. In Rawls' theory, no person deserves to benefit exclusively from his talent; but it is not unfair to allow such benefits when they work to the advantage of those who were less fortunate. This is precisely the essence of Rawls' principles. Under the difference principle, people only have a claim to a larger share of resources if they can show that it benefits those who have lesser shares. However, in general, people are not indifferent to the way the benefits produced by their collaboration is distributed, and there may be a conflict of interests unless there is a set of principles. The importance of a set of principles needed for the division of advantages among the participants is clearly recognized by Rawls when he says:

A set of principles is required for choosing among the various social arrangements which determine this division of advantages and for underwriting an agreement on the proper distributive shares. The principles are the principles of social justice: they provide a way of assigning rights and duties in the basic institutions of society and they define the appropriate distribution of the benefits and burden of social cooperation. A conception of social justice, then, is to be regarded as providing in the first instance a standard whereby the distributive aspects of the basic structure of society are to be assessed.

(Rawls, 1971, pp. 4–9)

According to Rawls, justice can be achieved on the basics of a hypothetical social contract characterized by a situation so as to lead to the conception of justice. The point of the contract is to determine principles of justice from the conception of equality. Rawls is interested in commutative **justice** with an equal start and opportunity and fairness to everyone.

Given the position of contractarian equality among the members making the hypothetical contract, justice would constitute a significant part of rational choice. Rawls advises to choose a situation or strategy where in the worst situation, the payoff would be the largest among the smallest (maximum) i.e. maximize the gain in the worst situation. However, for an unknown and uncertain situation, Rawls suggests that people in the original position should choose the difference principle.

People's claim to social goods should not depend on natural endowments. Under the difference principle, people only receive extra reward for their talents if that leads to the benefit of the less-well off. Rawls defends the **difference principle** by saying that it counteracts the inequalities of natural and social disadvantages. In his theory of justice individuals are expected to think about justice in terms of the rules that should govern their self-interest without recognizing their talents, endowments and social position.

Rawls presumes rational individuals would agree to two rather different principles—equality in the assignment of basic rights and duties, and socio-economic inequalities are permitted only if these result in compensating benefits for everyone. Rawl's theory of justice makes use of distinctive restatement and application of the social contract and rational choice theories. Rawls' theory states that the principles of justice are really the choice of rational people under the hypothetical situation of equalized liberty, and under such a situation, justice can be regarded as the outcome of fair agreement or bargain.

The parties making a contract or agreement for justice as fairness must be rational and mutually disinterested. John Rawls interprets rationality in a narrow sense as the most effective means to the given ends. The basic merit of the contract terminology, Rawls states, is that it conveys the idea that principles of justice may be conceived as principles to be chosen by rational persons. Rawls suggests that his principles of justice are superior for two reasons: (1) they spell out the idea of fairness with clarity (2) they are the outcome of a hypothetical social contract.

Criticism Against Rawls' Theory

- 1. The **original position** which is hypothetical in the case of his theory does not specifically say anything about the principles of justice which are morally acceptable. The original position may also suggest the importance of duty (Deontic Theory) or the theory of consequentialism.
- 2. Rawls' difference principle will not be accepted by all. Why should rich people sacrifice their money and wealth for the betterment of poor people in a capitalist society? Many will argue that the differences in wealth and income are the reflection of individual talent, intelligence and ability, and such differences are natural.
- 3. The hypothetical **social contract** that becomes the basis of Rawls theory, is not practically helpful for having a theory and principle of ideal justice.
- 4. Rationality has been defined too narrowly by Rawls as the most effective means to a given end. He has not defined the nature of ends (just or otherwise) and the most effective means. Effective means can be interpreted in terms of time or in terms of physical inputs or in terms of cost. Each one of these will have different socio-economic implications.

However, in spite of these criticisms, it should be pointed out that Rawls has analysed some important elements of justice by combining his notions on equality and inequality. Although he has taken into account socio-economic inequalities, he has not failed to suggest some ways and means to improve the living standards of downtrodden people.

Libertarian Theory

The most important proponent of libertarian thinking is Robert Nozick (1974). According to him, the transfer of income or wealth from the rich to the poor is unjust for many reasons. Nozick is an anti-consequentialist. This means that it is not the outcome of any action that is important, but it is the process that remains decisive. According to Nozick, only those processes are just where exchange is voluntary.

According to Nozick, any justified distribution of benefits and burden will take into account the free choice of the individual. If any action or policy is imposed on an individual in the matter of exchange, it is not justifiable. A person's choice has to be given full credit for creating a just situation. The motto is—from each according to his choice and to each according to what he has chosen. In other words, if a person has created something, he should be allowed to keep his own creation, provided he wants it; it is not justifiable according to Nozick to take contribution from one citizen to increase the welfare of another citizen. Such a type of distribution is not permitted by the Nozick's theory. Nozick also does not support the idea of infringement of individual freedom by any authority. To Nozick, justice means freedom. So imposition of any rule or policy that curbs the freedom of individual will be unjust. The only type of distribution which is justifiable is the one which is based on the free choice of individuals. If something wrong has been done by the policymaker in the past, a way must be found to undo such things.

However, this is a very complicated task for the government and society. The libertarian view says that the entitlement theory of justice should regard economic outcomes as just only when they arise from acquisition by the state (or dispossession by the state) of what was not earned or what was not voluntarily transferred. Just acquisitions in a sense are those that do not violate individual rights and freedom, the distribution of income, therefore, must remedy these previous violations. Nozick's theory relies heavily on the concept of rights and freedom in the matter of property rights and ownership. The present property rights are mostly found to be unjust. Therefore, the attempt to redistribute such property is just. The concept of freedom developed by the libertarian thinkers is a negative concept in the sense that it upholds non-interference with anybody's freedom and rights. The idea of Nozick has given rise to many debates about the concept of equity. It is indeed difficult to know what is right and what is wrong.

Criticism Against Nozick's Theory of Justice

Firstly, if a person has to depend on his creation, as Nozick observes, then most of the poor persons in a society will remain poor forever, as most of them have inadequate resource endowment and lower level of ability.

Secondly, Nozick does not favour the idea of income transfer from the rich to the poor. In such a case, the level of socio-economic inequality will go on increasing. The theory is anti-progressive.

Thirdly, if some people's lives can be saved by coercing others a bit, or distributing income from the rich to the poor, the ultimate social or individual gain may be remarkable. However, Nozick's view is narrow and rigid.

Lastly, Nozick has given primary importance to freedom from coercion. What about other forms of freedom? He is not concerned with basic human freedom like freedom from poverty and unemployment, ignorance and starvation. These forms of freedom are equally important as the freedom from coercion.

Quranic Theory

Justice is one of the most used words in the Quran (Koran). According to the Islamic system, it is man's responsibility to establish justice. Allah commands justice and welfare. The fundamental principle that guided the social formation of Medina was the equality of men. The most honored person in Islam is the one who is the most righteous. Justice is equated with what is socially good for all. The Islamic concept of justice in the distribution of income and wealth does not require reward for everyone irrespective of one's contribution to society. Islam tolerates some inequalities and allows differential earnings. Implicitly, the desirable pattern of income distribution is based on the principle of equity. The quality determines the quantity. For instance, a man having two wives need not buy the same length of cloth for each wife; since one may be shorter or slimmer than the other. Islam advocates the provision of honorable living for the unfortunate who are unable to participate in productive activities. It supports the program of basic needs (ma-ash) for every family.

Social justice constitutes freedom, but with some constraints, as dictated by the religious prescriptions. Social justice guarantees individual freedom against the misuse of power (Naqvi, 1981; 86). The starting point of social justice is the equality of all before law. Social justice requires that the poor be levelled up and the rich levelled down. Islam prohibits the concentration of wealth and power in a few hands. The possessor of wealth in Islam is merely a trustee, who should spend the wealth in such a way as will maximize social welfare. There is a built-in institutional mechanism for the desirable pattern of redistribution of income through zakat (compulsory contribution for the benefit of the have-nots). There is also a provision of **sadaqah** (occasional offerings) of alms to the needy. The Islamic concept of justice is aimed at minimizing social inequalities through religious prescriptions. As a matter of fact, true belief in Allah automatically entails devotion to justice and righteousness.

The **consequentialist philosophy** envisages that a just action is that which is based on the possible consequences of the action, policy or choice. Thus, it is the outcome of the action and policy of choice. Thus, it is the outcome of the action that is important for the evaluation of any public policy or choice. The utilitarian theory of justice is based on consequentialism. Under this system, if consequences are good from the point of social welfare they are justified. If the consequences are bad, the action cannot be considered as just.

The **deontic philosophy** is associated with Immanuel Kant. According to this philosophy, an action is just if it is done as a duty. These duties or rules may be the rules of natural justice, moral principle, codified rules or what may be categorical imperatives. The idea is similar to rule utilitarianism which states that social welfare or utility can be maximized by adhering to codified rules or laws. New age utilitarians are deontological in their attitude. However, all the theories discussed earlier are designed in a normative framework. It is necessary to integrate these theories of distributive justice to make them amenable to and a part of the mainstream economic theory that is still dominated by the idea of Pareto Optimality.

Gandhian Concept of Justice

Gandhi assigns a critical role to justice. Gandhi observes that justice for the individual is prime to him and all else comes after that (Gandhi, September 17, 1919.). In Gandhi's conceptualization, justice constitutes natural universal justice and is based on rights. To him, justice is an unconditional claim to certain universal, natural, inherent and inalienable rights earned by duties. Duties are preconditions of rights that are to be earned through proper performance of duties. Being influenced by the theory of karma (action, as enshrined in Hindu religious scriptures, especially the Gita), Gandhi placed much more significance on karma without any attachment and expectation of rewards. Justice empowers a person to enjoy certain natural rights, such as equality of social status, equal social and economic opportunities and equal enjoyment of freedom. Gandhi has talked about at least six different types of justice (see Figure 3.1). These mainly relate to social justice, pure justice, justice as natural rights in some situations, justice in the absence of duress, justice as fair treatment, justice as a situation where no harm is done to an opponent in dispute, and the Satanic concept of justice. He was deeply concerned about social and economic justice, which was closely connected to his basic philosophy of non-violence. To Gandhi, justice is a prerequisite for non-violence (Bhattacharya, 1969:395). These two Gandhian concepts are so interconnected that neither could be understood without studying its relations with the other. It needs the Hegelian concept of relations. One of the most important contributions of Hegel was his **theory of relations**, which stated that nothing can really be understood in the true sense of the term without knowing its relation to other related concepts or things. The same philosophy applies to the case of Gandhian concepts of non-violence and justice.

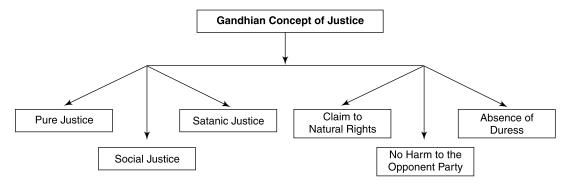


Figure 3.1 Gandhian concept of justice

According to Gandhi, an action is just when it does not harm either party to a dispute (Gandhi, 1958–84, Vol.14:233). This idea of justice is the very heart of Gandhi's *satyagraha* and **conflict resolution.** To Gandhi, the simplest principle of justice depicts that situation where nobody should be forced to do anything under duress (Gandhi, 1958–84, vol. 4:266). He has explained some important principles of justice in connection with mill workers' strikes in Ahmedabad in 1917. His ideas are contained in various leaflets that he distributed to the workers and employers in his bid to settle disputes. According to him, the cheating game of the employers towards the workers was the Satanic notion of justice prevalent among the capitalists in the Western or modern world

(Gandhi, 1958–84, vol.4:233). The workers themselves also might have been influenced by the Satanic concept of justice when they put forward a list of demands simply because they thought that the union was strong enough to do so.

Speaking of the *Satanic concept of justice*, Gandhi writes:

In the present war in Europe.... no means is considered improper in defeating the enemy. Wars must have been fought even in the past, but vast masses of people were not involved in them. We would do well not to introduce into India this despicable idea of justice. When workers make a demand merely because they think themselves strong enough to do so, regardless of the employers' condition, they will have succumbed to the modern, Satanic idea of justice... you will never find in ancient India that a situation in which the workers starved was regarded as the employers' opportunity. That action alone is just which does not harm either party to a dispute.

(Gandhi, 1958-84, vol. 4: 233).

The Satanic concept of justice is wicked in nature and is motivated by revenge and selfish personal gain. As against this auto-centric concept, there is the notion of **pure justice** which is according to Gandhi is motivated by compassion, kindness and pity shown by the employer towards the subordinate or dependent employees. Thus Gandhi writes:

There was a time in India when servants, passing from father to son, used to serve in the same family for generations. They were regarded and treated as members of the family. They suffered with the employers in their misfortunes and the latter shared the servants' joys and sorrows. In those days, India was reputed for a social order free from friction, and this order endured for thousands of years on that basis. Even now this sense of fellow-feeling is not altogether absent in our country. Where such an arrangement exists, there is hardly any need for a third party or an arbitrator. Disputes between a master and a servant are settled amicably. There is no room in this arrangement for increase or reduction in wages according as the changing needs of the two might dictate.

(Gandhi, 1958-84, vol. 4: 232-233)

The Gandhian concept of **pure justice** is quite consistent with the Rawlsian difference principle, which recommends a skewed distribution of income in favour of the poor and deprived sections of a community. An example of a system of pure justice in India is to be found in the practice of the *jajmani system* in ancient India to which Gandhi has alluded in various places in his writings. Gandhi observes that in the past, the people of India had achieved great things because they made pure justice the law of their life (Gandhi, 1958-84, vol. 16:316). In explaining the concept of pure justice, Gandhi writes:

Pure justice is that which is inspired by fellow-feeling and compassion. We in India call it the Eastern or the ancient way of justice. That way of justice which has no place in it for fellowfeeling or compassion is known as Satanic, Western or modern justice.

(Gandhi, 1958-84, vol. 16:302–03)

In Gandhis' conceptualization, justice is basically tantamount to fair treatment (Gandhi, 1968, vol.6:445). Justice must be laced with generosity and mercy. Gandhi observes: "Justice needs to be tempered with generosity as much as generosity needs to be tempered with justice (Gandhi, 1958-84, vol. 88:259).

He was convinced that *swaraj* could never be achieved by usurping the rights of any community, big or small, but by ensuring even-handed justice and fair treatment. Although the term fair treatment admits various subjective connotations, it is not wrong to think that in the Gandhian concept of justice, the term includes the basic idea of **natural justice**, equality and rights. He lamented that British India was rife with injustice. To cite but one example, Gandhi said that he saw almost daily courts in India denying justice and distorting the truth. In his words "...in the district of Khurda, acknowledgements of enhancement of revenue are being forced from the people practically at point of the bayonet" (Gandhi, 1928, 12 June).

Appraisal of the Gandhian Concept of Justice

Gandhi's concept of justice is a combination of two important philosophical theories—the **Kantian** deontic philosophy and the philosophy of consequentialism. For Gandhi, to do one's assigned duty is a way to earn rights; he never became uncritical about the nature of duties. Only those duties that are just, sanctioned by natural laws, and consistent with religious practices need to be performed. These, then, are the categorical imperatives for him. The duties assigned by the higher authority or by the state can very well be violated if these are immoral, unjust and repugnant to the religiosity of men. Thus, Gandhi was not an uncompromising follower of deontic philosophy. He was a discriminating consequentialist in the sense that he would like us to do only such work whose consequences are ethical, morally upright and practically just. Thus, one can find an amicable and no contradictory conflux of deonticism and consequentialism in Gandhi's concept of justice.

Gandhi never subscribed fully to the **utilitarian philosophy** of the greatest good of the greatest number. However, these two notions (Gandhian and utilitarian) of justice converge at many points but there is no time when they part ways. A utilitarian, to be logical, will never sacrifice oneself, whereas the greatest good of all. As a votary of non-violence and services to others, he was not prepared to do any work that was not good for the society, nation and humankind.

The teachings of the *Gita* inspired Gandhi to do morally and socially just work without thinking about the fruits of actions, which are to be decided by God. It is in the context of social justice and equality that Gandhi considered the possession of wealth as something ethically unjust (Gandhi, 1931, 23 Sept). Gandhi's concept of social justice includes socio-economic equalities and fair treatment, which can be attained through the non-violence means of satyagraha. As Gandhi observes:

I have always held that social justice, even unto the least and lowliest, is impossible of attainment by force. I have believed that it is possible by proper training of the lowliest by non-violent means to secure the redress of the wrongs suffered by them.

(Gandhi, 1969:138)

The Gandhian theory of justice, if one can call it a theory, was an amalgam of all the theories that have been elaborated upon earlier. His believed in the holistic notion of justice. His concept of justice was quite similar to the utilitarian theory. To him, a just law or action is that which not only maximizes the welfare of the greatest number of people but of all the people. He was not prepared to accept that such actions were impossible in actual practice. However, he was not completely a utilitarian because he did not support the idea of an individual behaviour that is based on the principle of utility maximization without caring for the social welfare. One should not fail to note here the **principle of agency and structure**, which is explained by Gandhi in terms of reciprocal needs for interdependence. Gandhi supported the Marxian theory of justice in the sense that it is based on the need for the absence of exploitation of the poor working class by the rich capitalist class. Like Marx, he also believed that justice lies in the payment of need-based wages to the working population. To Gandhi, justice is a relative term (Gandhi, 1935, 1 June).

Gandhi was Rawlsian in the sense that he was interested in **commutative justice**—justice with an equal start, equal opportunities and equal fairness to all classes of people. Like Rawls, Gandhi also had a soft spot for the poor and the so-called lesser mortals for whom he favored a little bit of inequality and human kindness in the matter of distribution of resources.

Further, Gandhi did not agree with the libertarian view that the transfer of income and wealth from the rich to the poor is unjust. In fact, on many occasions, Gandhi himself recommended such transfers. However, he agreed with Nozick's suggestion that it is the duty of the state to find some mechanism to undo the wrongs done in the past. The implications of the Gandhian theory of justice also support the libertarian view that just acquisitions must not disturb the rights and freedom of individuals. Like the Islamic theory of justice, Gandhi's concept of justice recognizes the equality of all human beings and wants the possessor of wealth to be the trustee of the wealth for the benefit of all. Gandhi also favoured the policy of leveling up the poor and leveling down the rich for the sake of socio-economic equality. Gandhi has suggested basically a couple of methods for combating injustice.

There are two ways of countering injustice. One way is to smash the head of the man who perpetrates injustice and to get your own head smashed in the process. All strong people in this world adopt this course. Everywhere wars are fought and millions of people are killed. The consequence is not the progress of a nation but its decline. Soldiers returning from the front have become so bereft of reason that they indulge in various anti-social activities. But through the other method of combating injustice, we alone suffer the consequences of our mistakes; and the other side is wholly spared. This other method is satyagraha. One who resorts to it does not have to break another's head: he may merely have his own head broken. He has to be prepared to die himself suffering all the pain.

(Gandhi, 1916, 27 July)

The method of satyagraha as a means to achieve justice was first applied by Gandhi in South Africa and then in India. The history of this struggle for all practical purposes became the history of the remainder of Gandhi's life in South Africa, and especially of his experiments with truth in that subcontinent and in India (Gandhi, 1927:266).

Summary

The discussion on "right" and "wrong" has been attempted by a number of theories. The Bible has in this context given ten commandments—the most important of them are to love your neighbor and to worship God with all heart, soul and mind. Aristotle has put more emphasis on human virtues like benevolence, courage and kindness. He has advised to follow in every matter a golden mean which is the mean between two extreme values. In his *Nicomachean Ethics*, Aristotle has put forward the idea that character-building is essential for a happy and meaningful life; but character is based on virtues.

Utilitarianism is based on the principle of greatest good of the greatest number, The theory of consequentialism is an end-based theory: an action is good if the end result is good. Theory of consequentialism is directly associated with teleological theory; it emphasizes telos (the ultimate end). Kant emphasizes on the fact that no action is good or bad by itself; what matters is the intention behind the act. He has put more emphasis on duties. He has proposed the principle of universalism which is anti-consequentialist in nature. We should do only those acts which can be universalized. According to Kant, categorical imperatives are ethical acts which must pass two tests: Firstly, a person's reasons for acting in a particular way should be the reason which should induce others to act exactly in the same way (universalizability). Secondly, you should perform your duty on others in such a way that you will like others to perform their duties on you in exactly the same way (reversibility).

Nozick explains that the state must ensure that there is no restriction of freedom. To him, individual is the end and not the means. The basic human rights must not be violated. According to him, inequality is the natural principle and it should not be reduced, and it is improper for anybody to distribute income of the rich among the poor people. The transfer of property or income should be voluntary and not by coercion or any other means. Albert Carr's theory of business ethics considers bluffs in business as a permissible phenomenon. Is this fair? In any discourse on ethics, the concept of justice is the most important. Justice is regarded as fairness. There are many types of justice including retributive, communitarian, and compensatory, commutative, procedural and distributive justice. The utilitarian theory of justice asserts that an action is just if it leads to the greatest good of the greatest number of people. The egalitarian theory is based on equality. In the capitalist theory of justice everybody should receive according to his contribution. However, the Marxian theory asserts that wage should be need-based. This is possible only under communism. This is also the view of the socialist theory. Rawls' theory emphasizes on equality of opportunity for everybody, and equal liberty for all citizens. However, he is in favour of the poor people and advocates for the improvement of their economic conditions through difference principle.

The Quranic theory puts emphasis on equity, social welfare and righteousness. Some amount of inequality is permitted, and it allows differential earnings. To Mahatma Gandhi, justice is based on rights. It consists of absence of duress, claims to natural rights and no harm to anybody. He advocated welfare of all. He also supported the Marxian theory by saying that wages should be need-based. Like Rawls, he also stood for equal opportunities, equal fairness and equal rights and also some favours for the poor people. He did not agree with the libertarian view that it is unjust to distribute rich men's wealth among the poor. Like the Quranic theory, he supported the idea of levelling up the poor and levelling down the rich.

Key Terms

Hedonism Act Deontology Veil of Ignorance Utilitarianism Enlightened Egoism Social Justice W.D. Ross's Seven rules Hedonism Libertarian View Epicureanism Nichomachean Ethics Communitarian Justice Golden Mean Principle of Universalism Contractarian Justice Ten Commandments Categorical Imperatives Distributive Justice Act Utilitarianism Justice Procedural Justice Rule Utilitarianism Fairness Egalitarian Theory of Justice Ordinal Measurement Retributive Justice Anti-Consequentialist Cardinal Measurement Reverse Injustice Compensatory Justice Procedural Justice Telos Jajmani System Egoism Equity and Equality Rule Deontology Difference Principle

Test Your Knowledge

1. State whether the following statements are True or False

- (i) 'Do not tell lies' is a Christian Commandment.
- (ii) Utilitarianism is based on the principle of cost and benefit.
- (iii) A consequentialist theory is a teleological theory.
- (iv) The Kantian theory of deonticism is based on the idea of performance of duties.
- (v) Albert Carr's theory suggests that it is perfectly right to bluff in business.
- (vi) According to the Greek philosophy, the best life is the life of contemplation.
- (vii) There are 15 Christian Commandments.
- (viii) The theory of "golden mean" is associated with the name of Aristotle.
 - (ix) The concept of "categorical imperatives" is associated with the name of Immanuel Kant.
 - (x) The capitalist theory of justice says that everybody should be paid according to his contribution.

2. Fill in the blanks

(i)	Retributive justice ensures some form of punishment to		
(ii)	Gandhi's theory of justice advocates greatest good of		
(iii)	The difference principle is associated with the name of		
(iv)	The Nichomachean ethics is written by		
	Libertarianism is associated with the name of		
(vi)	philosophy envisages that a just action is that which leads to good conse-		
	quences.		
(vii)	Robert Nozick says that it is to transfer income or wealth from the rich		
	to the poor.		
(viii)	The Kantian theory of justice is based on the ideas of reversibility and		
(ix)	Justice is equivalent to		
(x)	According to Karl Marx, leads to alienation of workers.		

3. Choose the correct option

- (i) Socialism is based on the principle:
 - (a) From each according to his ability to each according to his needs
 - (b) From each according to his ability and to each according to his contribution
 - (c) From each according to his desire, to each according to his needs
- (ii) Karl Marx shows that under capitalism, labour power becomes a
 - (a) Commodity
 - (b) Free good
 - (c) Basic good
- (iii) Reserve army of labour signifies
 - (a) Unemployment
 - (b) Military power
 - (c) Young terrorists
- (iv) Egalitarian theory of justice is based on the idea of
 - (a) Equality
 - (b) Inequality
 - (c) None of these
- (v) Utility can be measured in
 - (a) Two ways
 - (b) Three ways
 - (c) Four ways
- (vi) The teleological theory is basically concerned with
 - (a) End or consequences
 - (b) Morality
 - (c) Total costs and benefits
- (vii) In Kant's theory,
 - (a) It is the intention or motive that matters
 - (b) It is the actual action that matters
 - (c) Both action and motive matter
- (viii) Rights are
 - (a) Empowerments or entitlements
 - (b) Liberties to do anything
 - (c) Powers to control
 - (ix) Surplus value is equal to
 - (a) The difference between the value of total product of labour and the wage paid
 - (b) Net profit
 - (c) Value which is unaccounted for
 - (x) Utilitarianism has been explained as the theory of
 - (a) Net benefit
 - (b) Net cost
 - (c) Benefit equal to cost

Review Questions

- 1. How will you distinguish between utilitarianism and consequentialism? Explain.
- 2. Make a reconciliatory approach between consequentialism and deonticism.
- 3. Explain the salient features of Aristotle's golden mean.
- 4. What is a teleological theory? Analyse its various ramifications.
- 5. Discuss the Biblical assertion of the Ten Commandments of the Christian ethics. Which of the commandments you think is the best?
- 6. Critically analyse W.D. Ross' seven *prima facie* moral rules.
- 7. Why do our ethical decisions differ?
- 8. Explain why does a good man sometimes do ethically bad works?
- 9. Distinguish between the utilitarian and the consequentialist notions of justice.
- 10. Write an essay on Rawls' theory of justice.
- 11. Compare and contrast the ideas of justice under capitalism and socialism.
- 12. Bring out the salient features of the Gandhian theory of justice.
- 13. Why is capitalism considered as an unjust system by Marx?
- 14. Which of the theories of justice that you have studied here appears to be most appealing to you and why?
- 15. Compare and contrast the Gandhian concept of justice with the theories that you have studied.

Web Links

- 1. http://jan.ucc.nau.edu/~dgs2/theories.pdf [Nine Theories of Ethics that Rule the World]
- 2. http://www.princeton.edu/~ppettit/papers/1974/A Theory of Justice.pdf

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- 3. http://www.cupr.org/VI3/Storelli-VI3.pdf [John Rawls' Principles of Justice]
- 4. http://www.tannerlectures.utah.edu/lectures/documents/Striker88.pdf

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CHAPTER 4

Ethics and the Market Structure

LEARNING OBJECTIVES

This chapter will help the reader understand

- Price and output determination under perfect competition, monopoly and oligopoly
- The concept of measurement of monopoly power
- Regulation of monopoly
- Cartelization: theory and practice
- Ethical issues and the market structure

Introduction

A market is a place of interaction between buyers and sellers. The geographical location of the market is of little importance. Transactions can be done at any place. So, in order to be a market, the exclusion principle must apply. This means that a person, who is not paying, can be excluded from the market. Therefore, a market is a neutral institution and a place where exchange of goods and services is based on the principle of fair play. A market can have one or more sellers or buyers. Thus, there may be monopoly, duopoly or oligopoly. From the buyer's side, there may be monopsony, duopsony or oligopsony.

The existence of all these types of markets will create a market structure. The purpose of this chapter is to analyse the output and pricing conditions of different types of market structures and

organizations, and more importantly, to pin-point the ethical issues embedded in each type of market system.

Perfectly Competitive Market

Perfect competition has the following characteristics:

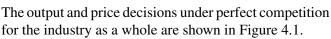
- 1. There are many buyers and many sellers.
- 2. There is free entry and exit for any firm.
- 3. Every firm is a price-taker.
- 4. No firm is able to increase or decrease the price level in a perfectly competitive market.
- 5. The goods are homogenous in quality.
- 6. The firms are guided by the philosophy of profit maximization.
- 7. The products are all divisible.
- 8. There is no Government intervention or regulation affecting the market.
- 9. The market is transparent and there is perfect knowledge on the part of the seller and the buyer about the prevalent market conditions.
- 10. There is complete mobility of factors of production in the industry.

Distinction Between Perfect Competition and Pure Competition

Perfect competition is a broader concept than pure competition.

In pure competition, the last two characteristics of perfect competition described above, namely perfect knowledge and perfect mobility of factors of production, are not present. Both perfect competition and pure competition are illusory concepts, as they do not exist in the real world.

Determination of Output and Prices Under **Perfect Competition**



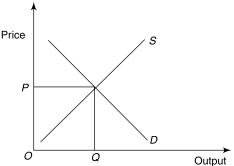


Figure 4.1 Output and prices under perfect competition

The pricing and output decisions can be described both for the short and long run.

The equilibrium price is the market-clearing price. At that price, the quantity demanded and supplied will be equal.

In the short run, firms can make profit or sustain losses, or can make only normal profit by attaining the breakeven. It should be noted that the average revenue, marginal revenue, average cost and marginal cost are all equal at the point of equilibrium. Under perfect competition, the Average Revenue Curve and Marginal Revenue Curve are equal and horizontal. It is possible for a firm in the short run to earn super normal profit or economic profit. However, in the long run this profit is competed away, as there is free entry in the market. It is competition that reduces the prices to

the minimum level giving maximum benefits to the consumers. Such a situation also ensures minimum profit (normal profit) to the producers to stay in the business. Perfect competition is justified because it works against the possibility of concentration of economic power in a social system.

In the short run, the firms making losses will not immediately leave the industry. They will try to adjust their internal production conditions so that they can in future attain the equilibrium price without incurring losses. Such firms will continue to exist so long as they can cover the average variable cost. However, after waiting for a reasonable period of time, if a firm cannot recover the average variable cost, then it will have to shut down.

Long-Run Equilibrium Output and Price

In the long run, a firm will attain equilibrium under the following two conditions:

- (i) The price must be equal to marginal cost
- (ii) Price must be equal to the average cost

Under perfect competition, since the price level is the same, i.e., the Average Revenue (AR) curve and the Marginal Revenue (MR) curves are perfectly elastic (horizontal straight line). The Marginal Cost (MC) curve must cut the Marginal Revenue curve from below in order to determine the equilibrium output and price. The Average Revenue curve is nothing but the demand curve. In the long run, under perfect competition, a firm will produce at the lowest point of the Average Cost (AC) curve as shown in Figure 4.2.

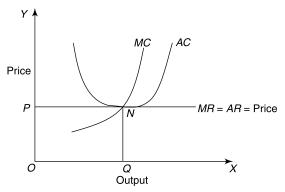


Figure 4.2 Perfect competition situation the lowest point of the AC curve.

There are **two implications** of production at

Firstly, the firm will have the maximum amount of output at the minimum possible price. Secondly, the firm will have a situation of equilibrium where there will be a breakeven point; this means that the firm will make no profit or no loss. In other words, the firm will have an economically optimum or ideal size, that it is the best for society and also for the producer because it leads to a situation of maximum efficiency from the point of view of the producer as well as the consumers. This situation of zero profit is to be interpreted cautiously. The zero profit does not mean that the firms are not making a profit. The firms are indeed making normal profits. The firms are making positive accounting profits, and these profits are different in the long run. In the accounting sense, the differential managerial skills, experience and cost-reducing internal economies and the impact of all are taken into account. Thus, a firm which is more efficient and competitive will make an accounting profit. For instance, a manager with better skills and experience will get a higher salary in the accounting sense and the firm will get a higher profit if it has better technology and efficiency. Thus, it is possible for a good firm to earn more profit even in the long run. Better efficiency and technology will lead to a reduction in the average cost of production per unit of output. But in the economic sense the average cost will equalize the average revenue and marginal revenue.

In the long-run equilibrium, a firm under perfect competition will have the following conditions:

$$P = MR = LMC = LAC$$

In the long run, a firm in the perfectly competitive market cannot exist unless it is able to reduce its cost to minimum and which is equal to the prevalent market price. Thus, in a sense the firm tends to be of optimum size.

Competitive Equilibrium and Efficiency

A perfectly competitive market which is in equilibrium shows efficiency in terms of consumers and producers. There is efficiency in production which is called **allocative efficiency.** This is achieved when the price level is equal to Marginal Cost (P = MC). The consumers are able to get consumers' surplus and producers are able to produce those commodities at the minimum possible price (producer's surplus). Thus, a competitive equilibrium is an efficient equilibrium as shown in Figure 4.3.

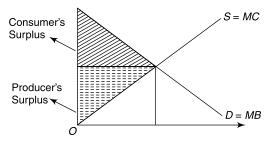


Figure 4.3 Equilibrium and efficiency

Where is the Competition in Perfect Competition?

It is sometimes felt that the expression, *perfect competition*, is a misnomer because there does not seem to be any competition. This is so because the prices and the quality of goods are the same and everyone is earning normal profits (production at the minimum point of AC curve ensures normal profit). So, where is the competition?

The answer to this question lies in the fact that it is because of intense competition among the producers that price equalizes in the market. Moreover, the competition is present, every firm wants to maximize profit by selling more so that the total normal profit is the largest. Every firm is trying to achieve the goal of total sales maximization which will lead to normal profit maximization.

Ethical Issues in Perfect Competition

From the above discussion, the ethical issues involved in perfect competition become very obvious.

Firstly, the system of perfect competition (PC) seems to be just in the sense that it is generating maximum output under the given situation. Given an appropriate distributive mechanism, it should ensure that everybody is getting his largest share of output. PC leads to maximum satisfaction in terms of needs. Social welfare means that a situation of maximum output is better than that of minimum output. Thus, PC is a situation of abundance where nobody suffers from the scarcity of products.

Secondly, PC is justified on the ground that both consumers and producers are happier consumers get some consumer's surplus because of lowest possible prices of products and producers are satisfied because they can reap producer's surplus by supplying the output at the lowest possible cost. PC ensures an efficient condition in the realm of production and consumption. It is ethically a just market condition, nothing can be better than this. In terms of utilitarian ethics, no other market structure will be as beneficial as PC.

Thirdly, under PC, not only the output is maximum but the price of that output is minimum too. Both these situations are ethically justified in the sense that they can be helpful for the poorer section of the society. Other things, remaining the same, one should expect that PC will lead to lesser poverty and deprivation.

Finally, marginal cost pricing rule, that fixes price equal to marginal cost, can ensure allocative efficiency. In such a situation, no factor of production (including labour) is exploited. Since the remuneration to a factor of production is made equal to its contribution or marginal productivity, it can be said to be the just method of remuneration.

MONOPOLY

A monopoly is a type of market form where there is only one seller controlling the entire supply of a single commodity which has no substitute. A monopoly firm is a price maker firm. Monopoly arises because of efficiency, large-scale production, specialization and presence of barriers. The barriers may be purely economic or legal in nature. There are some major differences between perfect competition and monopoly (See Table 4.1).

 Table 1.4
 Differences between Perfect Competition and Monopoly

Perfect Competition	Monopoly	
1. Many buyers and many sellers.	1. One seller but many buyers.	
2. Price is lower and output is generally higher.	2. Price is higher, output is lower.	
3. Monopoly power is absent.	3. Monopoly power is present.	
4. AR and MR curves are horizontal.	4. AR and MR curves are downward sloping.	
5. Only normal profit is possible in the long run.	5. Super normal profit is possible.	
6. There is economic efficiency.	6. There is no economic efficiency.	
7. Price is the same.	7. Price may not be the same.	

In spite of many differences discussed above, there are two important similarities between perfect competition and monopoly.

- 1. In both the cases, the equilibrium output and prices are determined by the principle of MR = MC.
- 2. Both these market firms are governed by the basic objective of profit maximization.

Output and Price Determination under Monopoly

A monopolist generally makes profit as shown in Figure 4.4.

However, in the short period, a monopolist may incur some losses too. But this eventuality is very rare.

The AR and MR curves for a monopolist are downward sloping. This means that to sell more of his output, he has to reduce the price. It is not always necessary that a monopolist's price will be higher than the price under perfect competition. This is so because price depends on the cost structure, technology and input-use. A monopolist who is inexperienced and has no control over inputs may face spiraling costs. Then there may be some legal restrictions to

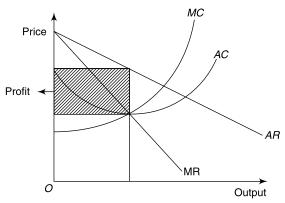


Figure 4.4 Price determination under monopoly

increase the mark-up; so a monopolist may neither be able to increase the price of his product at his own will or his mark-up margin at any rate he wants. When a monopoly power becomes very high, the Government likes to control such a power for social welfare.

Measurement of Monopoly Power

Monopoly power implies the amount of discretion which a monopolist possesses to fix up the prices of his products and the degree of control over his output decisions. There are different methods of measuring monopoly power which have been discussed below.

1. According to **A.P. Lerner**, the monopoly power can be measured in terms of the gap between monopoly price and price under perfect competition;

The degree of monopoly power = (P - MC)/P

(P is the equilibrium price of the monopolist; MC = Marginal cost of the monopoly firm which is in equilibrium).

If we take a positive value of P and MC, we find that the monopoly power is positive. In the case of a commodity, the MC = 0 (free good) but the price is say 20, the value of monopoly power will be = 1. If the price is 20 but the MC is also 20, then the value of the monopoly power will be = 0. Thus, Lerner shows that the degree of monopoly power varies between 0 and 1.

2. J.S. Bains has argued that the degree of monopoly power can be measured by the monopoly firm's super-normal profit.

Monopoly power is equal to (R - 0)/R.

The opportunity cost of owner's capital is O and the actual profit is R. The margin for the risk is assumed to be zero in this analysis. If the value of this is zero, there is no monopoly power and if it is greater than zero there is monopoly power. The higher the value of R-0/R the greater is the monopoly power.

3. The degree of monopoly power can also be measured by **concentration ratio.**

The concentration ratio measures the size of the largest firms' shares in the total sales or assets or profits of the whole industry. One can consider a number of firms to estimate the concentration ratio (traditionally, concentration of four large firms is taken into account). Suppose the market shares of 4 firms are respectively, 0.30, 0.20, 0.10 and 0.05. Then, we take the cumulative market shares and calculate the monopoly power. Thus, the cumulative market shares will be respectively: 0.30, 0.50, 0.80 and 0.85. Therefore, in a four-firm model, the concentration ratio may be 0.85 (CR = 85%). One can then compare this result with a 5-firm concentration situation and compare the degree of monopoly power. Concentration ratio refers to the market share of the largest firms in an industry. If the concentration ratio is 85 per cent, it means that the largest firms have 85 per cent of market shares. Two problems vitiate the result. Firstly, the result will be different, if one takes assets, or profits rather than sales. Secondly, unless there is a cut-off point, one does not know whether a particular concentration ratio indicates monopoly power or not. In the United Kingdom, a CR ratio of more than 65 per cent indicates monopoly power.

4. The degree of monopoly power can be measured by **the price elasticity of demand.** Monopoly power is the inverse of the price elasticity of demand. Thus, if the price elasticity of demand is 0.5, the monopoly power = 1/0.5 = 2, but if the elasticity is 4, the monopoly power is $\frac{1}{4}$. It becomes clear that the degree of monopoly power will be higher in the case of inelastic goods and lower in the case of elastic goods. This outcome stands to reason.

There are other measures of estimating the degree of monopoly power which we need not discuss here.

Regulations of Monopoly

Since a monopoly price is generally high and output is low, there arises a need to control monopoly, and this is done through different types of regulatory measures. The following are the major regulations to control monopoly.

- 1. The Government can impose **price regulation** on monopolists through various strategies. However, if the price is above the competitive price level, the welfare loss due to monopoly cannot be completely eradicated.
- 2. Various types of taxes can be imposed on a monopolist. These taxes may be a lump-sum tax, or may be a specific or per unit tax. The impact of a lump-sum tax may be borne by the seller and buyers may be spared the tax. The most common taxes are excise duties and sales tax. However, the monopolists may be able to transfer the tax to the buyer. This will depend on the elasticity of demand for his product. If the elasticity of demand is very low, the tax burden is borne by the buyers. However, if the elasticity of demand for the product is high, the tax is generally borne by the monopolist.
- 3. Many countries now are coming up with anti-monopoly legislations to promote greater competition in the market.
- 4. Another way of regulating the monopoly is to introduce the marginal cost pricing where **P = MC**. In such a case, the efficiency in the allocation of resources can be ensured.

- 5. The Government can also **prevent by legislation cartelization and collusion** among the firms which are producing similar types of goods.
- 6. Through various measures, barriers to enter a particular type of business can be reduced.
- 7. It is also necessary to **break large firms into small firms** and prevent big firms from getting bigger and ultimately turning into a monopoly.

In the case of India, the MRTP commission has been entrusted with the task to ensure that monopoly power and restrictive trade practices do not grow to a dangerous level. However, the MRTP, in several cases lacks the legal authority to impose punishment against the big monopolists.

Ethical Issues in Monopoly

Monopoly is diametrically different from perfect competition in terms of ethical considerations.

Firstly, monopoly is socially unjust in the sense that it produces lower output thereby creating a situation of scarcity. Under this situation, people have to suffer to get the output at a reasonable price which is detrimental to poor people and to the society as a whole. This form of market is not conducive for the maximization of social welfare.

Secondly, product prices under monopoly are unreasonably high. Poor people cannot afford the products being produced under monopoly. Social welfare is significantly minimized. Even though the monopoly price is sometimes discriminatory, it is not determined whether the poor will gain.

Thirdly, under monopoly, the goods having inelastic demand (necessity) which are generally consumed by poor people are priced higher than those commodities that have more elastic demand. This implies that a monopoly is specially unjust to lower income groups.

Finally, to maximize profit may not be unethical per se, but to reduce the availability of output in a bid to maximize profit is unethical behaviour.

OLIGOPOLY

Oligopoly is a type of market where there are a few sellers and many buyers. The number of sellers may be three or more. However, the exact number has not provided by any definition of oligopoly. It is generally understood that under oligopoly, there are only a few sellers.

Most of the time, prices under oligopoly are rigid. This happens when the demand curve is unpredictable. In such a case, there is an asymmetric response from one firm to another firm's price change.

If one firm raises the price, other firms will not do so. This is why the top portion of the demand curve is elastic. But if the price is reduced by a firm, others will follow. If they do not comply, then they will loose customers. So, the first seller will not gain much by reducing the price level. Thus, the bottom portion of the demand curve is relatively inelastic Thus, oligopolistic **price remains** stable and rigid.

Collusive Oligopoly: Cartel

Some oligopolists may work on the basis of collusion and form a cartel. They produce the same type of goods and agree formally to follow a uniform price and output policy, as the OPEC countries producing petrol.

Determinants of Cartels

A cartel is formed on the basis of the following characteristics of production:

- 1. Homogenous products.
- 2. The products should have inelastic demand.
- 3. There is a geographical concentration of firms of producing similar type of products.
- 4. There is the absence of legal restrictions.
- 5. Few firms produce the products.
- 6. There are entry barriers.
- 7. There is the absence of substitutable commodities.

Price and Output Decisions

The basic purpose of cartel formation is the maximization of profits. The cartel may also advise the member firms to produce output at costs which are equal. The members are free to fix their output for sale. But they cannot change the price formally agreed by the cartel. However, in a perfect type of cartel system, the members are not allowed to change the level of their individual output either. In extreme cases, however, the whole market is divided and the members are allowed to change the levels of output and price when they desire. The cartel acts like a monopoly with full control over output and prices of all firms which are its members.

Each individual firm determines its own output level at the point of intersection between the MC and MR curve. The individual MR curve is determined by the profit maximizing MR of the industry.

CARTELS IN INDIA

Adam Smith, the father of Economic Science, wrote in his Wealth of Nations that "when the people of the same trade meet, the conversation ends in conspiracy against the public or in some contrivance to raise prices". The statement is true in the case of cartels in both developed and developing countries. In India, cartelization is present in many of the industries like iron and steel industry, pharmaceutical retailing, cement industries, private airlines, transmission towers, electric cables, construction and transportation, to name a few. Cartels are also present in tyres and trucking industries and family planning devices.

Most of the cartels are to be found in those industries that produce intermediate goods and also in service sectors. As a result of cartelization the prices of finished products escalate, and the consumers experience difficulties to buy those products. For instance, the pharmaceutical cartels demand 2000 per cent profit margin. A study by Pradeep Mehta revealed that the cement industry in India recently introduced a 50 per cent price hike in the recent past. The MRTP Commission has found 44 cement companies guilty of cartelization in 2004. Most of the cartels in the pharmaceutical industry in both developed and developing countries control vitamin production. The vitamin cartels are very active in the European union, US and also in India. But no legal action is being taken against those cartels.

The Finance Ministry of India was recently thinking of launching competition audits to reduce and restricting these unhealthy practices. The new Competition Commission of India has an ambitious agenda in this regard. The MRTP Commission has also been conducting surveys to unearth those cases of cartelization which are harmful to the public. However, it is beyond the power of the MRTP to punish the cartelers. In a recent case against a cement company, the Supreme Court of India rejected the punishment imposed by the MRTP Commission on the ground that the Commission had no legal jurisdiction over the cement cartels in India. Many such cases of cartelization and their monopolistic practices are being gradually reviewed by research studies in recent years.

Source: The Hindu, December 22 and 26, 2007

Ethical Issues in Oligopoly

An oligopolistic system is involved in many types of unethical practices some of which are briefly discussed here.

Firstly, as Adam Smith pointed out, a system of business practices by some firms (oligopoly) with or without cartels, is a type of conspiracy against the public. This conspiracy ultimately leads to price inflation which goes against the poor consumer. This is ethically unjust.

Secondly, oligopolistic market practices, particularly in the case of collusion or cartelization, may lead to the curtailment of production, which means that the society is deprived of some necessary goods and services, and social resources remain under-utilized. This is ethically unjust especially in a situation if these goods are to be used by sick people, babies and the poorer section of the society. The creation of artificial scarcity for maximizing profits is a moral crime.

Thirdly, cartelization and collusion are organized unethical practices that reduce the supply and increase prices. There is no moral justification for this type of business behavior. Thus, on ethical grounds, this type of organized group strategy should be condemned and legally punished. This is the reason why cartels have been legally banned in several countries.

Lastly, oligopoly prices remain unpredictable. If the price is increased by a firm A, but others do not follow the same strategy, firm A will lose his customers. There is usually no move by a firm to reduce the price of its own product either, even if the situation permits. This is so because although he may attract some additional customers by doing so, he may be a loser (in terms of cost) and there may be retaliatory price cutting by his rivals. If the rival firms reduce their prices at a rate which is higher than that of the first firm, firm A that initiated the price reduction will lose his customers. Thus, usually under oligopoly, the price level remains 'sticky' and stable. However, for many reasons, price stability may be unjust when situations demand price reduction. Even if the cost of production substantially reduces, the consumers do not get any advantage of that under oligopolistic market structure. This is obviously unjust.

Summary

A market is a neutral institution and a place for exchange of goods and services. There are many types of markets including perfect competition, monopoly, duopoly and oligopoly. The existence of all or some of these types of markets creates a market structure. A perfectly competitive market is characterized by many sellers, many buyers, one price and the same quality of goods. A particular seller cannot influence the price of goods. He is only a price-taker and not price-maker. Because of stiff competition in the market, the price is the lowest and the output is the highest. Perfect competition is a much wider concept than pure competition. In perfect competition, there is no possibility of concentration of economic power. Every firm under perfect competition earns normal profit only. A perfectly competitive system is an efficient system because there is allocative efficiency and there is consumer and producer surplus. Perfect competition seems to be a just system because of many reasons. It generates maximum possible output at minimum possible price, making both consumer and producer happy—the price is based on marginal cost.

Monopoly, on the other hand, is ethically an unjust system because, prices are high but output is low. There is a concentration of power; no economic efficiency and the producers get super-normal profit. These are the reasons why monopolies need to be regulated. The regulation is done through price control, control on the profit margin, taxation, and so on. Under oligopoly, a few sellers control the market. However, because of inter-firm actions and reactions, oligopoly price remains sticky. Some oligopoly firms may firm a cartel and follow more or less the same price and output policies.

Cartelization has become a serious problem both for consumers and for the government. It is unethical in the sense that it increases the prices of products and reduces the volume of output. Adam Smith says that it is a system of business practices by some firms which is a sort of conspiracy against the public. Cartelization and collusion are organized unethical business practices. Moreover, when price reduction is called for, because of market condition, it is not done by the system of collusive oligopolistic practices. There are many cartels in the world and also in India. The OPEC cartels, vitamins cartels in the USA, EU and India are some examples. They make hundred per cent profits, increase social cost and malpractices but unfortunately no serious legal actions are taken against them.

Key Terms						
Perfect Competition	Efficiency	Oligopoly				
Competitive	Monopoly	Cartels				
Equilibrium	Monopoly Power	Ethics of Market Structure				

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Perfect competition is a much wider concept than pure competition.
- (ii) In perfect competition, output is maximum and price is the minimum.
- (iii) Monopoly is a socially just system.
- (iv) In general, oligopoly prices are sticky.
- (v) The degree of monopoly power is measured by the gap between the monopoly price and the price under perfect competition.
- (vi) Price regulations are not required for a monopolistic market.
- (vii) Normal profit is not possible in the long run in a perfect market situation.
- (viii) Marginal cost pricing rule fixes prices equal to marginal cost.
 - (ix) In a perfect competition, the AR curve and the MR curve are inelastic.
 - (x) Cartelization and collusion are organized unethical practices that reduce the supply and increase prices.

2. Fill in the blanks

(1)	in a monopoly market situation, both the AR and the MR curves are				
(ii)	Perfect competition is a situation of, and nobody suffers from the				
····					
(111)	If a firm cannot recover even the, then it has to finally shut down.				
(iv)	In a perfectly competitive market, the goods are				
(v)	The degree of monopoly power can be measured by calculating				
(vi)	The Government can impose on monopolists.				
(vii)	The Commission has been entrusted to see the monopoly power and				
	restrictive trade practices do not grow to a level which is dangerous for society.				
viii)	is a type of market where there are few sellers and				
	buyers.				
(ix)	produce the same type of goods and agree formally to follow a uniform				
	price and output policy.				
(x)	J.S. Bains has argued that the degree of monopoly power can be measured by				

3. Choose the correct option

- (i) In the long run, a firm will attain equilibrium under the following two conditions:
 - (a) The price must be equal to marginal cost
 - (b) Price must be equal to the average cost
 - (c) Both (a) and (b)
 - (d) None of the above
- (ii) Under perfect competition, since the price level is the same, the Average Revenue curve (AR) and the Marginal Revenue curve (MR) are
 - (a) Perfectly inelastic
 - (b) Perfectly elastic

	(c)	Vertical to each other				
	(d)	None of the above				
(iii)	The	The number of cement companies found to be guilty of cartelization in 2004 is				
	(a)	44	(b)	56		
	(c)	40	(d)	100		
(iv)	Ada	Adam Smith is the father of				
	(a)	Social Science	(b)	Economic Science		
	(c)	Philosophy	(d)	Moral Science		
(v)	One of the determinants of cartel formation is that					
	(a) There is a geographical concentration of firms producing similar type of produc					
	(b)	The firms are widely spread throughout	ıt the	world		
	(c)	Both (a) and (b)				
	(d)	None of these				
(vi)	And	other way of regulating the monopoly is	s to i	ntroduce the		
	(a)	Average cost pricing	(b)	Total cost pricing		
	(c)	Break even pricing	(d)	Marginal cost pricing		
(vii)	The	e Wealth of Nations was written by				
		Adam Smith	` /	Winston Churchill		
	(c)	Karl Marx	(d)	Theodore Roosevelt		
viii)		e basic purpose of cartel formation is				
	` ′	To reach the break even situation				
		Maximization of profits				
		Minimization of profits				
	` ′	None of the above				
(ix)			pow	er can be measured by monopoly firm's		
	_	er-normal profit?				
	` ′	Adam Smith	` /	Karl Marx		
		J.S. Bains	(d)	Both (a) and (b)		
(x)		der perfectly market competition, it is				
		not only that the output is minimum bu		-		
		not only that the output is maximum b		•		
		(c) not only that the output is maximum but also the price is maximum				
	(d)	none of the above				

Review Questions

- 1. Distinguish between monopoly and perfect competition.
- 2. Is monopoly always higher than competitive price? Give reasons for your answer.
- 3. Examine the concept of Nash equilibrium in the context of duopoly.
- 4. How will you measure monopoly power? Explain briefly the major models.
- 5. What is a cartel? Write a note on cartels in India.

Web Links

- 1. http://free-books-online.org/management/business-ethics/competition-and-the-market-introduction/ [Competition and the Market: Introduction]
- 2. http://managementinnovations.wordpress.com/2008/12/02/ethics-in-the-market-theoriesand-definitions/ [Ethics in the Market: Theories and Definitions]
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CHAPTER 5

Ethics and Governance:Law, Bureaucracy and Globalization

LEARNING OBJECTIVES

This chapter will help the reader understand

- The relation between ethics and laws
- The nexus among governance, bureaucracy and ethics
- Relation between bureaucracy and ethics
- Globalization, global governance and ethical issues
- Multinational capitalism and its unethical practices

Introduction

"It is better for a city to be governed by a good man than by good laws", so said the Greek philosopher Aristotle. Governance by a statesman is indeed far more desirable than that by politicians. Aristotle was implicitly emphasizing the need for an ethically desirable system of governance by dedicated statesmen. There is in fact a fundamental difference between a statesman and a politician. A politician looks for the future election, whereas a statesman looks for the future generation. In general, a modern-day politician is more like the character of Rhett Butler of *Gone with the Wind*, who does not 'give a damn' about anything in the public domain. Unfortunately in the present world, there are more politicians than statesmen. However, good governance is required to carry on day-to-day administration and achieve a steady and sustainable rate of economic growth, human

capability expansion, fairness and justice, reduction in poverty and hunger, and for transferring the people from the realm of necessity to the realm of freedom. There are many areas of interactions among governance. However, in the present analysis, we will concentrate only on the involved ethical issues that connect the related topics. An attempt will also be made in this chapter to discuss some of the pressing global issues of the contemporary world.

ETHICS AND LAW

Both law and morality are man-made. However, there are some absolute notions of morality that remain more or less permanent in human society—in the relativist sense morality is the product of humankind. There are some natural laws existing from time immemorial and they are like **natural** justice. In contradiction to the natural laws, there are also positive laws that are made in a state. In the ethical sense, positive laws must be in congruence with natural laws. If there is a conflict between natural and positive law, the former will vanguish the latter. The principle of natural law supports the theory of objectivism in ethics (Mackie, 1990, pp. 232–35). In the ethical sense, natural laws are intrinsically objective and hence are supported by the principles of morality. Natural laws are believed to be based on **divine commands**. The existence of natural laws makes it difficult to reform such laws and at the same time such laws can be used as constraints for the application of some positive laws which are not consistent with such laws.

Natural laws may be helpful for the implementation of many ethical principles via the positive laws. Some political goals can be based on ethics and as such can be enforced more strongly for the popular support. If the purpose of political policy is to make human life beautiful, enjoyable and happy, then political goals can be based on ethics because all these are also the basic objectives of ethics. Thus, in a sense, **politics and ethics go together** for quite a distance.

Should laws be based on ethics? The answer to this question is absurdly simple in the sense that almost all civil and criminal laws follow the basic principles of ethics. The laws that prohibit killing, stealing, burglary, cheating, and so on are based on ethical foundations. The ethical principles are first line of defence for the concept of good laws. The formulation and implementation of such morally-based laws are also parts of ethical principles. In many of the cases, the legal system provides the framework to regulate and ensure an ethical system of behaviour in a society. Law represents a collective moral standard of a society at a particular juncture of history. However, the legalistic code may not always conform to the ethical code of behaviour, and vice versa. There are some laws in some countries which are Draconian in nature and inhuman, and totally unfair. Some laws support gender and racial discrimination. Some laws, as in South Africa in the past, may work against the majority of population, and some are against the minorities.

In many cases, the respect for law is due to respect for the moral authority. The moral respect for laws is the foundation of human culture (Day, 2006, pp. 46–49). There may also be the fear of punishment or coercion. Even though law imposes some restraints on the liberty of human beings, still laws are obeyed because they are supposed to maximize the social welfare or bring about an order in a society which otherwise will be full of chaos and confusions without such laws. One of the best examples is perhaps the traffic laws and rules. There is then a definite **nexus between** laws and morality. In many countries and for many social issues, legal issues are based on moral

dimensions. Suppose that there is a prohibited area and people from outside are not permitted to enter the area. If some journalists observe from a distance that somebody is being molested there. Is it morally right for the journalists to enter the place and save the victim, even if there is a notice that "Trespassers will be Prosecuted"?. Many experts will opine that it is morally right for the journalists to do so. But in a similar case, in Puerto Rico (Camp Gracia) in 2000, the court observed that journalists had no special right of access to the facility not available to the general public and the violation of the law is not permitted (Day, 2006, p.48).

It is imperative to understand that all moral issues cannot be or are not codified. For instance, offenders of your sentiments, betrayal by friends, unkind behaviour, insulting words, unilateral breaking up of long-standing relationships and so on are not legally punished. But in spite of all these aberrations, most of the times, the basic legal obligations are based on ethical principles. The best examples are provided by the various clauses and provisions of civil and criminal procedure codes of any country. However, this does not mean that all moral principles are taken care of by laws. There are many types of social aberrations like the marriage between two adults even without the consent of parents is legally valid, and in the same way, the sexual relations between two consenting adults. But, these are not morally supported activities.

All types of ethical actions may not be governed by law. Generally speaking, laws prescribe the critical minimum human behaviour but ethical behaviour goes beyond that limited human action or behaviour. Laws deals with specific and covert human behaviour, but ethics deals with both overt and covert human behaviour. One of the basic purposes of ethics is to guide and develop the correct human behaviour. Laws are meant to prevent and control some negative overt human behaviour which may be detrimental to the person or to the society at large. In the enforcement of laws certain agencies are necessary; ethical behaviour does not need any enforcing moral agency but it is done by the free will of the morally conscious person. A person who is a good citizen and obeys laws is not necessarily a person who is fully ethical.

In many cases, laws are silent about the normative behaviour of a person as a social being, but ethics may enjoin on him some necessary social obligations. For instance, law does not ask you to respect your teachers or parents, but ethics wants you to do so. If your next-door brother is dying of starvation, no law can compel you to help him with food, but ethics will tell you to share your food with him out of compassion and care. Suppose that somebody from your neighbour's family has died today and it is also the birthday of your only child. In this case, law does not prevent you to celebrate the birthday of your child, but your moral conscience (or ethical self) will prevent you to celebrate the function with pomp and grandeur.

However, it needs to be noted in this context that all laws made and used in a country do not smack of morality. Some laws are based on local traditions, customs, habits and necessity. Even in different parts of the same country, there may be divergent moral practices. This is supported by the notion of **relativist ethics**. Indeed, ethics is sometimes relative in character. For example, differences in religious practices may necessitate different types of laws for people of different faith and religious traditions. Thus, for a Muslim, it is perfectly ethical to have four wives but it is an offence in Hinduism. If the same type of law is followed and applied in cases of differences, there may be the inevitable possibility of conflicts. However, the conflicts need to be contained through negotiation and cooperation. Laws then should try to promote mutual tolerance and respect for the moralities of different communities. It is the basic purpose of governance to encourage and sustain this spirit of mutual tolerance and brotherhood. However, an immoral or unethical act is not always punishable but an illegal act is.

In some cases, it is considered **morally right to violate laws**. Some of these cases are:

- 1. Laws can be violated if the law is in contradiction to the moral standard of the society.
- 2. Laws can be violated if they are against the general cherished feeling of the people.
- 3. Laws can be violated if such laws are against the higher moral principles involved, or, if there is any compelling moral obligation to be protected. For instance, if the law asks the citizens not to visit a country (A) for political reasons, but some citizens find that in that country (A), human rights are rampantly violated, the citizens of another country are morally right to violate such a law and should visit the country for protests.

In all these cases, Mahatma Gandhi advocated and participated in Civil Disobedience Movements (CDM). In the 1960s, Martin Luther King did the same thing. In such a case, the citizens can ignore the established law of the country if they all of them jointly feel that such laws are morally unjust. But in order to be legitimate, the CDM must have the following characteristics (Olen, 1988, pp. 33–34).

- 1. All the participants must strongly believe that the law being enforced by the state is unjust and immoral, as the salt law in India during the British regime.
- 2. The protests must be based on non-violence and non-cooperation and non-injury to others.
- 3. The participants must be prepared to suffer the consequences of such civil disobedience.
- 4. CDM can be resorted to when all the negotiations and attempts for a peaceful settlement have failed.

GOVERNANCE, BUREAUCRACY AND ETHICS

The term *governance* does not have the same connotation as the term *management*. Governance is more relevant for an open system but management is more esoteric and indicates a closed system. Governance is concerned with the ideology, objectives and strategy to achieve the goal. The governance of a country is more of an exoteric nature. The main stakeholders in a state are the citizens. The government has to look after the interests of its citizens and even foreigners who are not its citizens. Governance is effected through certain rules and regulation. The rule of law will ensure that everybody in the country is subject to the rules and regulations of the land, irrespective of caste, colour and creed, religion, profession, social position, and so on. The existence of the rule of law can improve and reinforce the legal, judicial and the law enforcement systems for the country.

Good governance is based on transparency and accountability not only to the parliament but also to the people in general and institutions in particular. The governance must ensure that there are neutral and strong agencies to settle the principal-agent problems which at times may lead to clash and conflicts. A system of incentives incorporating proper punishment and rewards for the works done by citizens and agencies can be an important method of making the system of governance a workable proposition. A good governance must ensure justice, equality inclusive of gender, racial and economic equality, individual freedom different types of basic rights (including human rights).

Ideology

Governance is generally based on some cherished ideology. It may be democracy, dictatorship, communism, socialism, or any other ideology. In fact, people get the type of government that they deserve. Thus, one type of government is not the substitute for the other. In the contemporary world, democracy has found popular favour as the most acceptable system of governance. However, contestability theory suggests that all systems of governance have both good and bad points. Democracy is not free from some ethical problems, though many other system, like dictatorship, may be morally more unjust.

Ethical Issues in Democracy

- Democracy delays everything, it is governance through procrastination. But justice delayed, they say, is justice denied. In many vital matters of life and country, delay may cause more sufferings and hardship for the common people.
- In a democracy, all are supposed to be equal. There is no special consideration for those who are unfortunate, have limited capabilities and less contestabilities. It also does not do justice to those who are more capable, and more competent. However, in actual practice, though all are supposed to be equal, some happen to be more equal.
- Although political freedom is ensured to all, no guarantee is given for economic freedom. Without this, the life of poor and destitute becomes meaningless.
- It is a system of governance by the majority. If the majority of the people are corrupt, it would be a government by the corrupt people. Majority cannot always determine an acceptable ethical basis.
- Democratic governance suffers from the tyranny of the majority. Minorities are neglected, repressed or unfairly treated in a democracy. Majority voting is not a perfect procedure for the production of public goods as people often do not reveal their preference.
- As Schumpeter observes, there is nothing in democracy that makes it desirable. It does not possess any moral quality nor is it morally superior (Schumpeter, 1947, p. 256).
- Democracy is based on **majority voting**, but is ruled by selected representatives. In many democracies, simply through the immoral process of buying votes, money politics hollow promises to unsuspecting public, unscrupulous people including gangsters, under-world mafias and corrupt rich people get elected; and later on, they exacerbate and sustain the regime of corruption in public life. In India, many corrupt ministers and politicians are spotted out from time to time, but they never go behind the prison. Such is the travesty of democracy.
- Kenneth Arrow in a seminal work (1951) has shown that it is **impossible to have a consistent** social choice in democracy. In fact, social choice through majority voting does not lead to a socially optimum level of welfare (Ghosh, 2001, p. 269). Arrow subscribes to methodological individualism rather than the metaphysics of general will.
- Democratic elections suffer from many types of **procedural injustice**. People who are fortunate to be born in rich families or who have amassed wealth through moral or immoral means can contest effectively for elections, and in many instances, these elections are far from free and fair. Once elected, they satisfy their dark urges and try to stay put through

various types of strategies like **log-rolling** and **pork-barrel politics**. Log-rolling is called the vote-trading in which case X votes for Y's proposal and Y votes for X's proposal. Log-rolling sometimes makes majority voting apparently efficient and is based on the utilitarian principle and self-interest. The process, however, is ethically wrong. The practice does not really reflect the majority choice in a natural way. It is contrived and cannot be said to be efficient and ethically justified.

In order to be in the game of politics, politicians often nurture their constituencies in a way that is not economically justified. That they will like to see that good projects are located in their constituencies which are their vote banks, even if the location is unjustified, the investment is not wise and the whole project may be a white elephant. The cost exceeds the benefits and the government becomes a loser. Pork-barrel politics can influence government decisions quite unreasonably with special interest effect. The government may be guided by a special interest groups (or pressure group) or minority preferences. In the event of economic loss to the government, the whole society may suffer, and therefore, pork-barrel politics is not ethically justified.

- Empirical observations show that in almost all the democracies of the world, poverty, **inequality** and exploitation are on the increase, and poor and uneducated masses are becoming more and more vulnerable. Apart from this, one democracy is attacking another for selfish gains, and international hatred for some democracies is constantly increasing.
- Although the Athenian democracy is supposed to be pure and genuine, it is a fact that it was **rooted in slavery and patriarchy and chauvinism**, and the slaves and women did not have the right to vote (Hoffman and Graham, 2010, p. 109). The present-day democracy may be a bit better relatively but not in absolute terms. The same class struggle continues still today; some of these are silent and some are violent.

In the realm of governance, whatever may be the nature of governing mechanism, there are possibilities of sub-optimalities. In a situation where bureaucracy is functioning without much control, there is a chance of **regulatory failure** in the area of governance. There are indeed various reasons for regulatory failures. The first source of this is the conflicting goals of regulations. For instance, the objectives of **equity and efficiency are conflicting in nature.** Some other conflicting objectives are: social welfare and profitability, and price and quality of products. Some governments may often try to over-regulate or under-regulate. In such cases, the result may be more disastrous than that of a regime of non-regulation. In many cases, the government policy may appear to be good for the people, but due to **corruption** among political entrepreneurs, there may be **policy failures** mainly due to **implementation failures**.

Corruption index is very high for India (ranking 70 among 163 countries) as it is in China which has the same rank (Ghosh, 2009, p. 94). In an analysis of governance in less developed countries (LDCs), like India, it needs to be mentioned that in India, more economic freedom is necessary to ensure sufficient job opportunities for the unemployed and underemployed labour force. In many countries of the Third world, growth is taking place without corresponding expansion in employment. This is ethically no sustainable growth rate. Secondly, there are less opportunities for the underprivileged people, women and ruralities in the drama of economic growth. They feel like defeated winners who have won the so-called political freedom but not economic freedom.

Continued emphasis on quantitative growth rate has increased income inequalities in both India and China over the years. Gini coefficients (a measure of income inequality), were 0.30 for India and 0.27 for China in the year 1986. But these increased to 32.5 for India and 44.7 for China in 2004 (see, Ghosh, 2009, p. 28). This shows that income distribution from the rich to the poor has not remained at the ethically justifiable pattern.

Politics is the game of elections, and the process, the governments experience what is called political business cycles which are harmful for people. Thus, because of its ideology, one government might have put more emphasis in eradicating unemployment without caring for inflation. But this government is defeated in the election, and a new government comes in, the policy may be completely changed, and the country experiences a new political equilibrium. This time, the country will experience less unemployment but more inflation as it was neglected in the past. Thus, the management of **political cycles** is an important part of governance in any country. In a country like the United States, the unethical impact of political business cycles (inflation and unemployment) on the populace of the country is very prominent.

Inflation and unemployment generally occur as a result of political instability which in turn may aggravate income inequality. Thus, there seems to be a correlation among political instability, inflation and income inequality. Needless to add, a high degree of income inequality is not only unethical but is also associated with illegal activities, social instability and unrest. For politically unstable poor countries, this vicious circle continues unabated.

BUREAUCRACY AND ETHICS

In the governance of a country, bureaucracy has a special role to play not only in formulating polices and but also in implementing them. The Niskanen model of bureaucracy (1971), it is pointed out that

- Bureaucrats generally try to maximize the total budget for their bureaus.
- Bureaucracy its utility functions that include many variables like salary, power, patronage, pecuniary motivation, easy management and so on.

The bureaus have the same type market power as in monopoly. This is so because the bureau is often the sole producer of a particular type of product which is sheltered from competition (say, defense products). Thus, as a producer, each bureau is unique in its own way and enjoys some monopoly power. Bureaucracy expands by increasing the size of the budget every year. How is it made possible? This is possible because the (minister) has to depend on the bureaucracy; and its information base cannot be challenged by the minister. It is to be noted that the relationship between a minister and bureaucracy is like that of a bilateral monopoly where settlement has to be made by way of compromise. Because of information asymmetry between a minister and a bureaucrat, of a department, bureaucracy often enjoys a unique position as it possesses a stock of better and more updated information. The proposed budget expansion by the bureaucrat is thus granted by the minister, and this results in inefficiency (see for details, Ghosh, 2001, pp. 91–95). This can be simply explained in the following way.

The efficient output is produced at a point where marginal social benefits (MSB) are equal to marginal social cost (MSC). However, there is no cost control and the budget is surplus, the bureaus produce output at a point where the MSC is higher than the MSB. Thus, there is loss of efficiency under bureaucracy. This may result from misuse of inputs, (harbouring surplus labour, featherbedding practices, and so on). Very often, under bureaucracy, due to favouritism and nepotism, labour employment is extended beyond the optimum level. Employment of a large number of people is regarded as a symbol of power. Bureaucracy also leads to social inefficiency by increasing the **transaction cost** of negotiations through **rent-seeking** and bribery. The transaction cost is very high and cannot be monitored. The minister and the bureaucrat often are in collusion to divide the gain.

Rent-seeking is a type of behaviour that may confer on the bureaucrat practicing it, through the misuse of his official power and position, the possibility of extra benefits, pecuniary or otherwise. Political agents practice it in exchange of their monopoly rights for granting special favour regarding licensing, permits, market power, and so on. Rent-seeking is an unethical way of increasing wealth through non-market forces, often through political market. In such a situation, various pressure groups use the state to increase their wealth and the political entrepreneurs make some quick bucks by selling their monopoly rights of control and regulation. Rent-seeking breeds bribery and corruption, and through these, the private parties try to buy the laws and regulations in their favour. This is often known as **regulatory capture**. Rent-seeking is often socially wasteful because it is not used for increasing real productivity. It creates a situation of monopoly market where output is restricted, price is escalated and **consumers' surplus** is lost.

People now tend to believe that with the introduction of liberalization, India was able to free the private sector from the clutches of bureaucracy. This perception is not fully true. Arguably and evidently, during the period of liberalization, bureaucracy in India created many pressure points and introduced controls at many levels through rent-seeking. In a country like India, automatic clearances are anything but automatic, and people across the business line still now suffer from many types of bureaucratic pressures.

GLOBALIZATION, GLOBAL GOVERNANCE AND ETHICAL ISSUES

Global governance is a process of global institutional interaction for the management of the global economy in the wake of globalization when there is the absence of global government. A little elaboration is needed at the outset on the convoluted nexus between globalization and global governance. As a system of homogenization and unification, globalization is said to have an important influence on global governance. Globalization needs global governance, but global governance has to work through national and local governments. Globalization may impose a limit on the ability of the national government to impose rules and regulations as these are mostly conflicting with those of the global governance. In a globalized economy, national government finds it increasingly difficult to implement its own laws and rules. The rules of globalization are implemented through supernational governance by multinational corporations, and other influential international organizations. The MNC-led global governance does not care for national labour laws, environmental regulations, tax regimes, domestic macroeconomic policies, human rights and human freedom. In the wake of globalization, national governments become weaker and less relevant, and omnipotent markets make impotent politicians. Thus, it is not surprising to find that some seventy governments went bankrupt in the 1980s and the early 1990, the hey-days of globalization.

Global governance has become imperative in the wake of globalization. The concept of globalization admits of many interpretations. It may mean universalization of market economy and relations, globalized accumulation, global dependency and the growth of a world system. Globalization constitutes the cross-national flows of investment, capital, goods and resources on wider scale and rather freely without any constraint. The concept of globalization implicitly presumes the notion of win-win situation of mutuality of interdependence and gains. Globalization is measured by (Import + Export)/GDP, or FDI/GDP. The higher the values of these ratios, higher the degree of globalization.

Globalization has many **commonalities with imperialism** in the earlier centuries. In this sense, globalism is not a new phenomenon. Some scholars look upon globalism as an extension and continuation of imperialism. For instance, British imperialism in the nineteenth century was based on the accumulation of capital, goods and resources from the colonies. One-third of British capital formation in the seventeenth century was based on the international slave trade. The Mercantilist globalization was the exploitation and accumulation of resources through trade and commerce.

The modern system of globalization is different from the old system of globalization in many important respects. In the past, the resource flows were mainly unidirectional, erratic and crude; in contradistinction to the earlier system, the recent system of globalization is highly planned, systematic, subtle and more overwhelming, covering almost all aspects of economic life of the Third World countries. In such a system, as a matter of fact, there is an increasing amount of dependence on the external flows of resources.

Whereas in the past imperialism, which was based on capitalist ideology, made an attempt to spread it in the sphere of production in the dependent colonies, modern globalism is an attempt to globalize capitalism not only in the mode of production but also in other areas such as distribution. It is an attempt to randomly integrate the less developed countries into the framework of world capitalism to make them more dependent and to subject them to unequal competition. Because it is through this process that these countries can be exploited and substantial amount of surplus can be extracted from them.

However, whatever may be the sources of possible conflicts between modernism and nationalism of a country; it is essential that all groups, communities and classes of people live peacefully in a cordial atmosphere. It should be possible in the 21st century to ensure secure places for all people no matter where they live. The first step is to consider the universality of the human condition, the reality of life, rather than the universality of the globalized economy. Western capitalism, based on "the mystique of an idealized Western worldview" was founded on a belief in the capacity of free markets to bring order and prosperity. Far from creating either, the freedom allowing global expansion of financial markets based on Western, Eurocentric economic development theories proved lethal to many national economies, increased global poverty, and contributed to social conflicts. Compromise between state and the market and between labour and capital was denied. The separation of human beings into categories (Third World, migrant, economic migrant, refugee, illegal, skilled, non-skilled, citizens, non-citizens) denies the integration of the human condition. There has long been a tension between theory and practice of globalization as spread by Western capitalism and the implications of this on reality of life for large numbers of marginalized people who are on the move seeking a better life. This is true for Asia, Africa and Latin America.

More than a decade has passed since the WTO was established and during this short period, it has become obvious that the WTO's principal objective of creating a fair and market oriented global trading system, free from restrictions and distortions, is in reality a threat to the livelihood security of resource poor farmers and agricultural economy of developing countries. India's joining of WTO as a founder member has put Indian agriculture into the framework of global competition and the rule of the global market. Majority of the Indian population being dependent on agriculture, the issue has become really important. Within India, the state of Kerala stands apart (the same is true of many other states) in respect of its sensitivity to changes in the national and international trade environment. With the economic reforms and commitments to the WTO and the consequent opening up of the Indian economy, Kerala has been hit hard. Kerala's exports are now subjected to the wide volatility of global markets. Imposition by rich countries of import control, sanitary and phyto-sanitary standards (SPS), environmental and labour standards, safe guard measures, antidumping measures, reduction in tariffs and quantitative restrictions in strict adherence to WTO commitments are weakening most of the developing economies exports and production base. Following the initiation of trade liberalization in farm products, concurrent with the implementation of AoA (agreement on agriculture) from 1995, India's agricultural products have encountered unprecedented price crash. The brunt of this crisis has been borne by farmers having small and marginal farm holdings, who constitute a major segment of rural workforce. Their subsistence depends upon favourable market prices. The crisis which arose as a result of the reform measures has directly affected the livelihood of the farmer households of the state and the stock of wealth in Kerala agriculture has significantly diminished (for many more instances of how WTO rules are adversely affecting developing countries, see Ghosh and Guven, 2006).

Salient Features of Globalization

Several salient features of modern globalization become quite apparent. First, it is a programme of binding all individuals, institutions and nations into a common set of market relations. These relations, needless to say have their own laws of motion. Second, it is a calculated economic strategy of the capitalist economies and institutions to reinforce capitalist process of growth for these countries. Lastly, it is a means to extract surplus through the exploitation of cheap labour, HOM and resources of the Third World.

It is clear from the classical economic system that a capitalist system of growth ultimately leads to a **stationary state** and that the rate of profit is ultimately to fall, some counteractive mechanism was needed by the modern capitalist countries to oppose these tendencies. The mechanism that is discovered is globalism which makes dependency more pronounced between the West and the rest for capital, technology, investment and goods, and thus, creating an atmosphere more conductive for the sustaining growth of developed countries (DCs). It should be noted here that the present-day DCs in general have a very low rate of economic growth, large-scale fiscal imbalances, and growing unemployment and recession. Globalism is a device to solve these macro problems all at once. Hence, for the speculators, financiers, investors and MNCs of DCs, globalization is an inevitable phenomenon. It is the last stage of and the last attempt to ensure capitalism to survive.

Why is Globalization Ethically Bad?

But why is globalization regarded so obnoxious? Modern globalization is **not based on any** normative or moral culture. It is neo-liberal and not democratic. The clash of cultures is embedded in the growing economic disparities, marginalization exclusion of cultural groups in the process of globalization. Some major points of criticism against globalization are:

- Globalization of capitalism is sure to intensify economic inequalities not only between the developed countries (DCs) and less developed countries (LDCs), but also between the capitalist and labouring classes in a state. Capitalism is based on the philosophy of production efficiency but neglects distributional equity. Under globalization, capital will get more and labour will get less, much less than the value of its marginal productivity. So, there may be the perpetuation of relative poverty and inequality. The point is substantiated by many studies (see, among others, Deininger and Squire, 1996).
- In spite of the tremendous increase in production, unprecedented and rapid technological change and a great increase in the average life expectancy, the world is still characterized by dramatic inequalities and development failures or even disasters. Income and wealth, far from converging, remain highly concentrated in few countries and in small, elite groups in most other countries.
- Unequal competition between DCs and LDCs in various fields of economic activities, e.g. banking in LDCs, would lead to more harm to LDCs in the form of unemployment, contraction, recession, and so on. In the face of better technology and capital-intensive methods of operation of DCs, the LDCs would not be able to compete effectively, and their income, output and employment will fall. On the other hand, the multinational corporations (MNCs) will gain substantially. Thus, there would not only be more dependency but also more poverty and backwardness in LDCs. The unequal competition generated and perpetuated by globalism is the most detrimental dimension of this phenomenon for LDCs.
- There would be more exploitation of labour, for the DCs will relocate their production centres to LDCs for minimization of labour cost, and in the face of the introduction of high-tech production, labour demand is likely to go down. Thus, there may be **proletariani**zation and immiserization of labour. On the other extreme, due to monopoly-monopsony relation in the market, surplus value from labour is likely to increase. The MNCs will have higher degrees of concentration and centralization of capital, and these will virtually capture the market for capital and consumption goods in LDCs. The free movement of global capital creates, on the one hand, instability and shocks, while, on the other, discrimination, and unfair employment practices (often in a race to the bottom). Globalization has had a huge impact on the deregulation of labour market which is witnessing removal of workers' protection, lowering of social protection and weakening of labour unions. The labour market is becoming more and more informalized. There has also been impoverization of workers as MNCs squeeze them in both the home and host countries. Globalization has escalated the labour market conflicts and clashes of interest. The unethical practices in the labour market have rampantly exacerbated.

In fact, since the introduction of the idea of globalization in the late eighties of the last century, the pauperization of workers in the USA and England has intensified, and the living standards of Eastern Europe have fallen between 30 and 80 per cent. The calorie intake in many LDCs has also substantially fallen between 1979–80 and 1995–97 (FAO Stat. 1999, as quoted in Ghosh and Guven, 2006).

- The neo-liberal ideology like privatization and deregulation unleashed by globalism has been creating many dislocations. **Privatization has converted public monopoly into private** monopoly. It has led to excessive price escalations without corresponding quality improvements in many countries; but it has not led to new product development or development of new productive forces. It has brought about massive transfers of wealth from the public sector to the rich private capitalists. It has unnecessarily **absolved the public sector of its responsibility towards social reproduction**. It is no wonder, therefore, that the World Bank has declared public health not as a *public good* but as a *private good*.
- Capitalist free market principle propagated through globalization is not able to eradicate crisis. As a matter of fact, a capitalist economy is prone to **have periodic recessions and crisis.** Evidently, the inflow of capital in the absence of well-regulated and well-disciplined capital markets may create havoc in LDCs. The Asian crisis in the nineties of the last century is a case in point. Nevertheless, under such a situation, the global players can bring home their capital safe or even with some speculative profit but the domestic economies of the affected countries are in peril.
- Globalization reduces the power of the state to borrow from international organizations, reduces the revenues from tariffs and has made the state more indebted. Therefore, the power of the state has considerably declined during the period of globalization, and it had to set aside many welfare-oriented programmes meant for the poor people in the domestic country.
- The weak states in LDCs cannot pay subsidies to poor farmers to make their competitive in the world market. Globalization of agricultural markets has raised new food security dilemmas for developing countries where dumping and cheaper export by food MNCs has jeopardized the growth of domestic agriculture and thus pauperizing a large number of farmers, many of whom have committed suicides in India. On the other hand, LDCs are losing their own food securities at a very fast rate.

Globalization is likely to give rise to **unequal competition** between DCs and LDCs where the latter would be adversely affected. Thus, it would be better for the LDCs not to be carried by the Western slogan of globalization. It would be necessary to slowly open their economies for deregulation and liberalization. Behind the philosophy of globalization are the immense possibilities of exploitation of cheap and innocuous resources of LDCs: high quality manpower, skilled and semiskilled labour, natural resources and the environment of LDCs which are priced much lower than the average world market price in such countries. The **race to the bottom goes hand in hand with globalization**. Globalization, after all, is a neo-colonialist strategy devised to extract surplus by the West from the rest.

Globalization may not experience any bloody clashes anywhere but there will be a deep and sustained undercurrent of popular dissatisfaction among the common people of LDCs, who are alienated and defeated. The superimposition of global reality in the context of traditional or

conservative actuality in many LDCs immediately creates clashes of interests that give rise to different forms of protests including Islamic resurgence and many other types of regional insurrections.

Multinational Capitalism

There is a great controversy regarding the real role of MNCs. Some are of the opinion that they are boons, while others stress that they are a curse. But all admit that they are realities of the present day international economy, and that they have come to stay on and cannot be wished way.

Admittedly, with the conflicting ideologies, the world has reached at a stage where a few hundred MNCs dominate the world economic scene. Hence, all of us are constrained to nurture an attitude and adopt a policy towards them—either the attitude of reception or that of repulsion. The people and masses of the developed and also of underdeveloped countries have been vastly and deeply affected by the activities and operations of the multinationals. The entire globe has been encompassed and brought within the pale of their operations.

MNCs have established complete domination in industries like rubber, tyres, oil, tobacco, pharmaceuticals and motor vehicles. They are particularly strong in consumer durable and capital goods industries. The total output of the MNCs has been estimated to be growing at the rate of 10 per cent per annum. At this rate, by the end of 2020 A.D., 200–300 of these global giants will account for 50 per cent of the world output. Multinationals are multinationals only in name. They are very much national in outlook and character. According to the U.N.O. Report (1973), there are 650 giant MNCs and they had combined turnover worth 773 billion dollars a year. The LDCs are virtually their debtors.

Developing countries consider industrialization as the means of reallocating resources, improving productivity and achieving rapid economic growth. What the developed countries have and the backward countries lack is modern science and modern technology. The problem of developing the poor countries is, therefore, the problem of establishing modern science and transforming their economies to one based on modern science and technology. Introduction of advanced technology is vital and may require organized innovation to keep it productively employed. It is now universally believed that development requires technical progress, capital accumulation and capital aid to finance. Capital import does not necessarily guarantee technological progress. Possession of superior technology provides the MNCs with one of the strongest incentives to grow larger and spread their operations more widely. This is also one of the important sources of their market **power**. They increase production at a cheaper rate. They provide better and cheaper inputs to other industries, and thereby they play crucial role in the process of economic development.

Unethical Practices of MNCs

As any other individual business concern, the motive of a MNC is the maximization of profit. It will undertake the research expenditure which would make its products more attractive. When the parent firm incurs an expenditure, it intends to obtain maximum profit out of it. Therefore, the evils tend to list up as drain of foreign exchange, tax evasion, technological colonialism, oligopolistic character, and concentration of economic power. There is also a widespread apprehension about the dangerous consequences of power economies of MNCs joining hand with power politics. It tries in many ways to exploit the LDCs.

MNCs are considered unethical because of the following reasons:

- Instead of helping the LDCs with capital, every year, MNCs are engaged in sending out dividends, profits, technical fees, royalties and other income from the host country to their own countries. This creates an unfavourable impact on the balance of payment of the domestic economy.
- In the true sense of the term, the MNCs do not really transfer technology to the host country. They only part with outdated, expensive and inappropriate technologies. Thus, no real technological gain can be obtained by the host country from the MNCs working there.
- Many of the MNCs are engaged in the **separation of rival industries** in the host country. In some cases, these corporations buy these weak and small enterprises and try to build up a business empire. This leads to **concentration of more economic power** and monopolistic behaviour. This is regarded by many as a form of neo-imperialism in modern times.
- With the enormous money power, many multinationals try to interfere with the domestic internal affairs of the host country. In many cases, the MNCs were responsible for political disturbances and regime change.
- The MNCs introduce products which are disturbing in many cases the cultural and traditional value system of the host country. For instance, the food habits of the young generation of many countries are distorted by Coke culture. Many of the French singers and musicians have complained that their traditional music system is disturbed and overpowered by the cheap American Pop songs. Thus MNCs are spreading cultural neo-colonialism in developing countries.
- The MNCs are engaged in **intensifying unfair competition** in the host country. They buy small enterprises, and therefore, many of the small enterprises and businesses are being wiped-out in the poor developing countries. As a result of the competition from the MNCs, the poor business enterprises have to go out of business.
- MNCs are trying to create market leadership and distorting market rules. Once they have gained sufficient market power, they try to control the market by either increasing prices, reducing competition or decreasing the level of output.
- The MNCs do not care about the economic growth and development of the host country. They invest more and more only in those sectors and areas which are profit maximizing. Therefore, in many cases, national priorities are not adhered to by the MNCs.
- In recent years, many researchers have come to observe that MNCs in developing countries are engaged in what is called the practice of race to the bottom. This shows that they are reducing the pay structure of unskilled and manual workers in their own enterprises. Since these workers do not have enough bargaining power and are not properly organized, they cannot protest against such a policy of the MNC.

The impact of MNC is thus a mixed one. There are some good points and there also some bad impacts of multi-national corporations in the host country. The critical issue is how to control the MNCs through the formulation of suitable policies, and the attitude of the government towards MNCs. In some countries as in China, the MNCs are given free hand in hiring and firing of labour. Therefore, the government policy is not in favour of the working class. However, in a democratic country like India, there must be ways and means to control the MNCs.

Technology Transfer

Another story of the MNC-led globalization is the so-called transfer of technology. Technology supplied to LDCs is either too sophisticated to adapt or too obsolete to reduce the cost of production. Thus, most of the technology transferred to the LDCs is not appropriate. LDCs may be more harmed than helped by inappropriate products as well as inappropriate techniques and products are not consistent with the requirements, standards and income levels of these countries. LDCs had better develop their own technology and products suitable for their own circumstances. Imported large-scale capital intensive technology is not necessarily better than indigenous small-scale labour-intensive technology in LDCs for maximizing employment in LDCs, although with low productivity. The imported technology may be not only inappropriate but may also kill the initiative and innovative enterprise. In LDCs, the local conditions may be such that foreign technology may not be productively absorbed. However, some amount of importation of technology at a stage cannot be avoided, for the purchaser may not be able to develop the technology at all, or it may be too costly to develop it. But be that as it may, the bargaining power of the buyer in LDCs being low, the cost of technology acquisition becomes pretty high. The price the LDCs have to pay to the technology supplying DCs is really prohibitive. There are various types of technologies, e.g., technical assistance, license of a patent, know-how embodied in intermediate products and machinery. Each of these technologies has different alternative price and is associated with different degrees of obligations, dependence and implications. The LDCs very often do not know as to what type of technology import would be best for them.

Foreign investment very often produces once-for-all change in technology which after sometime becomes fossilized or frozen. The technology does not also remain flexible. In LDCs, the people are tradition-bound and do not generally favour the introduction of sophisticated technology, which is not only costly but also requires skilled and technical personnel for its application. LDCs are proverbially capital-shy and the level of human capital formation is also low in such countries. However, Western juggernaut technology may not be useful everywhere. Technology transfer is very likely to being in its wake, technological domination by and dependence on the foreign countries. The MNCs not only ask for high price for the transfer of technology but also want to keep control over the technology so that the competitors cannot get to it. Sometimes the governments of the LDCs are under the false impression that only imported technology furthers the cause of national development. It is not often realized that the development of the strategic sectors or industries by imported technology may be dangerous in the long run.

There are two basic divergences creating friction between exporters and importers of technology. MNCs consider technology as an expensive commodity having shorter life. So they must sell it at a high price. The LDCs, on the other hand, contend that research and development of technology conducted by MNCs is amortized in their home countries. Hence, the technology that is to be transferred should be modestly priced. Another area of conflict is the desire of MNCs to extend control over the transferred technology. This is not wanted by the LDCs. The MNCs portray themselves as the vectors of technological salvation. But one can question whether the imported technology is best suited to abolish mass poverty. Evidently, technology transfer has increased inequalities in LDCs and is not efficient. In case technology is imported by LDCs, it needs to be regulated and assimilated to suit the local needs.

Summary

There are many areas of interactions among governance, bureaucracy and law. There are both natural laws and positive laws. Natural laws are in congruence with ethical principles. Some laws are based on natural laws, and politics and go together for quite a distance. Almost all civil and criminal laws follow the principles of ethics. However, some laws are Draconian and inhuman. Laws are obeyed because they are supposed to maximize social welfare an order in a society. One of the best example is traffic laws and rules. There is a nexus between law and morality in most of the cases. However, it must be understood that all moral issues cannot be codified. All types of ethical actions may not be governed by laws. Laws prescribe the critical minimum human behaviour, but ethical behaviour goes beyond that limited human action. In many cases, laws are silent about the normative behaviour of a person but ethics may enjoin on him some necessary social obligations. Ethics is relativist in character and same type of laws cannot be followed in the case of different communities. The basic purpose of governance is to encourage the spirit of diversity and mutual tolerance. If the law is ethically unjust, it is morally right to violate laws.

Governance is not the same thing as management. Governance is effected through certain rules and regulations. Good governance is based on transparency and accountability. It must ensure justice, fairness and equality. However, people get the type of government that they deserve. Democracy, though regarded as the best type of government, has many types of ethical issues including, delays, minority problems, implementation failures, and so on.

Bureaucracy has a special role to play both in formulating and implementing policies. Bureaucracy leads to inefficiency, delay, rent-seeking practices and regulatory failures. The opening up of the Indian economy in the early 1990s did not fully free the private sector from the clutches of bureaucracy. However, the MNCs have been found to be indulging in many types of unethical practices including.

The process of globalization introduced since the early 1980s needs global governance. Globalization has many commonalities with imperialism. It is ethically questionable because it intensifies economic inequalities, unequal competition, exploitation of ordinary labour, weakens the power of nation states and the like. Neo-colonial globalization is based on the market philosophy and it is dominated by MNCs. However, they indulge in various types of unethical practices including concentration of more and more economic power, creating political disturbances, intensifying unfair competition, distorting market rules, creating cultural neo-colonialism, and so on. MNCs claim that they transfer technology to developing economies. To some extent this true, but the technology is very obsolete, expensive and they still retain some controls. MNCs never transfer new and novel technology. In some cases, the technology is not suitable to these developing countries. The technological domination and dependence still continue in these days of globalization.

Key Terms

Globalization Regulatory Failure **MNCs** Relativist Ethics Democracy Rent-seeking Rule of Law Corruption Index **Technology Transfer**

Regulatory Capture Political Business Cycles

Test Your Knowledge

1. State whether the following statements are True or False

- (i) All laws are based on ethics.
- (ii) Governance and management are not the same things.
- (iii) Pork-barrel politics is not ethically justified.
- (iv) In the case of bureaucratic control, there is a chance of regulatory failure.
- (v) Rent-seeking behaviour involves misuse of official power.
- (vi) Globalization has many commonalities with imperialism.
- (vii) MNCs are trying to create market leadership and distorting market rules.
- (viii) MNCs are not so powerful in nature and can never achieve complete domination in any industry.
 - (ix) Globalization increases the revenue from tariffs.
 - (x) Globalization is neo-liberal and not democratic.

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(i)	In other words, vote trading may be called					
(ii)	In a situation where bureaucracy is functioning without much control, there is a chance of					
(iii)	The ensure that everybody in the country is subject to the rules and					
(111)	regulations of the land, irrespective of caste, colour and creed, religion, profession, soc					
	position, and so on.					
(iv)	The basic purpose of governance is to encourage and sustain					
(v)	The basic legal obligations are based on					
(vi)	Law represents a of a society at a particular juncture of history.					
	Bureaucracy also leads to social inefficiency by increasing the of negoti-					
	ations through and bribery.					
(viii)	The separation of human beings into categories (Third World, migrant, economic migrant,					
	refugee, illegal, skilled, non-skilled, citizens, non-citizens) the					
	of the human condition.					
(ix)	has converted public monopoly into private monopoly.					
` ′	With globalization, the labour market is becoming more and more					

3. Choose the correct option

(i) "It is better for a city to be governed by a good man than by good laws", so said

(a) Plato

(b) Socrates

(c) Aristotle

(d) None of these

(ii) Natural laws are believed to be based on

(a) Human commands(c) Both (a) and (b)

(b) Divine commands

(d) None of these

(iii) Basic legal obligations are based on

(a) Ethical principles

(b) Judicial principles

(c) Legislative principles

(d) None of these

(iv) The principle of natural law supports the theory of

(a) Relativism in ethics

(b) Objectivism in ethics

(c) Subjectivism in ethics

(d) None of these

(v) Good governance is based on

(a) Transparency and Accountability

(b) Powerful political strategies

(c) Both (a) and (b)

(d) None of these

(vi) The theory suggests that all systems of governance have both good and bad points is

(a) Ontological theory

(b) Contestability theory

(c) Epistemological theory

(d) Spiritual theory

(vii) Who has shown that it is impossible to have a consistent social choice in democracy?

(a) Adam Smith

(b) Winston Churchill

(c) Kenneth Arrow

(d) None of them

(viii) Corruption Index is the highest for

(a) India (ranking 1 among 700 countries)

(b) India (ranking 70 among 163 countries)

(c) India (ranking 10 among 163 countries)

(d) USA (ranking 100 among 700 countries)

(ix) A measure of inequality is

(a) Gini coefficients

(b) Correlation coefficient

(c) Smith coefficients

(d) None of these

(x) Which model of bureaucracy has pointed out that the bureaucrats generally try to maximize the total budget for their bureaus?

(a) PZB model

(b) Nicosia model

(c) Howard Sheth model

(d) Niskanen model

Review Questions

- 1. Clearly bring out the relationship between law and ethics by suitable examples.
- 2. Why is democracy ethically bad?
- 3. Explain the ethical issues involved in globalization and global governance.
- 4. Explain with examples some unethical practices of MNCs in less developed countries.
- 5. Why is globalization considered as ethically undesirable? Explain fully.

Web Links

1. http://www.cvc.nic.in/vcrktalk.pdf

- [Ethics and Governance]
- 2. http://www.moller.ca/subsite2/Writings/Documents/ETHICS.pdf

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3. http://www.vicnapier.com/MyArticles/OrgDevPapers/ethics of bureaucracy.htm

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CHAPTER 6

Ethics of Care and Compassion

LEARNING OBJECTIVES

This chapter will help the reader understand

- The meaning of care
- Principles of care ethics
- The Feminist theory of care ethics
- Conflict between care and justice
- Care, cost and conflict
- Organizations for ethical care in India

Introduction

In Victor Hugo's celebrated novel *Les Miserables*, the bishop liberates the convict Jean Valjean and gifts him two candlesticks besides the silverware that the convict had stolen. The bishop also lies to the police in order to save the convict. Such is the nature of compassion and care. To some, whilst this compassion is a temporary effusion of a kind soul, care is a more permanent mental attitude and involves preoccupation with the near and dear ones. Although human beings are essentially selfish in nature, qualities like altruism and doing good to others usually belong to their second order disposition. Care for others, particularly to one's own people, parents and members of the family grow out of an instinct implanted in man by the nature. Care, compassion and love are

interconnected categories and all these qualities are determined by and arise out of natural love. Love is the most important and decisive factor involved in the generation and sustenance of care.

CARE AND RELATIONSHIP

All religions in the world including Jainism, Christianity, Hinduism, Islam and Buddhism depend on care-based ethics. Care-based ethics teach the golden rule: "Do unto others as you would have them do to you". The ethics of care is based on the **philosophical theory of reversibility.** It is simply the case of a role reversal where we are to put ourselves in the positions of others and ask ourselves regarding what we feel about a particular type of treatment (Kidder, 1995, p.5). It gives us the realization that how will we feel if we are the victims and others is the caretakers.

Care has been the implicit basis of all types of ethical behaviour. It is very clearly mentioned in Christianity and Islam. The Bible says: "love thy neighbour as thyself". Islam advises you not to take your food if your neighbour is starving and share the food with him. Care is primarily based on love and includes respecting the dignity of other individuals.

Care depends on the nature of a relationship. The deeper the relationship, the more intense is the care. When a person is born in a family, he is first and foremost given care by his parents. He grows through the assistance of care and love. Gradually, he learns the importance of care from his family in order to survive and grow. This process of learning is followed by a reciprocal love, affection and care from his side for the rest of his life. Care primarily depends on the understanding of the relationship between the person who is caring and the person who is cared. Care can be done with attachment or detachment. While a mother's care involves attachment, a hired nurse's care is often without this emotion.

Care is a particular type of enduring love and affection that is reciprocated by an individual to those people in his family whom he loves. The same is true of friends and near and dear ones. Care is an expression of regard coming from esteem. Care for somebody depends primarily on the nature of the relationship. If the relationship is very intimate, the care becomes deep. On the contrary, if the relationship gets sour, the care for the person gradually diminishes. When the relationship becomes very strained, the care degenerates into hate and can no longer be sustained.

Ethics of care is a study of all the factors concerning care, care-based relations, sources and motivation for care, costs and conflicts of care, care and justice, and many other related issues. In the present chapter, we will analyse all these aspects of ethics of care. Basically, there are two broad domains of care:

Esoteric Care and Exoteric Care

The conventional analysis that care is only related to one's near and dear ones, family and friends is indeed a narrow view. This can be called the esoteric concept of care. According to this concept, care is shown only to a person's own family and to some intimate friends. These people are shown care by sacrifice in terms of physical or mental efforts or monetary expenditure whenever needed. Thus, when a child in a family is critically sick, the parents remain awake the whole night, if necessary, to look after the sick child. This is an example of **Esoteric Care** which is shown to a selected group of friends and the nearest kith and kin.

Care can also be exoteric in nature and, in some cases, temporary or for a limited period of time. Thus, one may take an unknown victim of a road accident to a hospital and spend time and money to look after him until he is discharged. This type of care can be called **Exoteric Care** and is shown to people outside the domain of family and friends. Exoteric care can also be about a community or a tribe. In this case, a person takes pride in or takes care of his own community. This care is called **Communitarian Care**. It arises out of compassion and kindness and serves the people at large irrespective of caste, colour, creed or religion. It is a manifestation of a kind of love in the mind of the person who takes care. It transcends all the narrow boundaries of family, country and friends. When a person's mind is very broad and considerate, he is encouraged by the divine quality of love, care and compassion and to such a man the whole world is his relative. It is rightly said:

"Udar Charitanamtu Vasudhaivo Kutumbokam" (To a broad minded person, the whole world is kith and kin.)

As said earlier, care arises out of love and love transcends every boundary or limit. Thus, when a stranger is loved, he no longer remains a stranger; he becomes an object of love and, therefore, deserves care and compassion. Thus, there is no fine line of demarcation between the esoteric and exoteric care. Over the course of time, the exoteric domain mingles into the esoteric domain if the relationship is sustained and nurtured. In the similar way, with the changing matrix of personal relations, the esoteric relations may degenerate into an exoteric category revealing less affection, love, care and compassion.

CARE AND THE PRINCIPLES OF ETHICS

In Chapter 1, we have briefly discussed the four main principles of ethics namely rule-based ethics, ego or self-interest-based ethics, end or consequence-based ethics and care-based ethics.

In a sense, out of all these theories of ethics, the care-based ethics seems to be the best. Let us elaborate our point of view. Rule-based ethics sometimes give ridiculous consequences. A constable posted at the border which divides India and Pakistan is asked by the DSP to arrest anybody who is smuggling rice. Once he saw a smuggler approaching the India-Pakistan border with a small bag. The constable asked, "What is there in your bag?" The smuggler quipped, "Sir, a few gold biscuits". The constable said, "That's okay, you may go. I would have arrested you had there been any rice in your bag. This is my DSP's order". Thus, in many situations, rule-based ethics do not deliver the desired result. Rule-based ethics is too mechanical and as such cannot take care of the relativity of many ethical issues in terms of time, circumstances and situations. Some rules may prove to be irrelevant with changing time and circumstances. Thus, it is not always proper to blindly follow the rule-based ethics. The duty-based ethics may follow mere routine duties. It consists of a job that somebody has asked you to do.

Similar is the case with consequence-based utilitarian ethics. Utilitarian ethics is basically concerned with the social well-being or the welfare of the majority of population, but it neglects the welfare of the minorities. The utilitarian principles may be in conflict with many of our core moral standards. Consider a situation where the UN Mission has come to you as the Director of

National Health services for a negotiation to deliver HIV vaccines for the HIV patients in India. The vaccines can save the lives of thousands of HIV patients. The mission is on its way to Somalia and the delivery of the vaccines has to be effected exactly at 10 am which is the appointed time. Your mother has been ailing for quite some time and she is hospitalized now. You have received a call from your relative a few minutes before 10 am, asking you to come to the hospital immediately to see your mother who is in a serious condition and may die any moment. The utilitarian ethics will advise you not to attend your mother but to take the delivery of the HIV vaccines which can save thousands of lives. This will bring the greatest good of the greatest number in lieu of the death of only one person. In a situation like this, no theory of ethics can serve the best purpose except the ethics of care. In fact, it is rightly pointed out by Velasquez that utilitarianism is a perverse and mistaken theory (Velasquez, 2009, p.103).

Apart from this, the utilitarian ethics calculates the consequences with reference to a finite horizon. Such a calculation is often incorrect, particularly so if one takes into account the perspective of "other life" as enshrined in the Hindu philosophy. The point will be elaborated a little later (see the section on Why Do We Care?).

Care ethics is above and beyond any cognitive theory of justice and ethics. Since care comes out of love, it conquers everything, transgression and inequity. The Bible rightly says:

"For God will not show mercy when he judges the person who has not been merciful; but mercy triumphs over judgment."

(James 2: 13)

This is the true nature of the ethics of care; mercy comes out of compassion, care and love. When you care for the poor people, the Bible promises that you will be blessed by the God.

"When you give a lunch or a dinner, do not invite your friends or your brothers or your relatives or your rich neighbours—for they will Invite you back, and in this way, you will be paid for what you did. When you give a feast, invite the poor the rippled, the lame and the blind; and you will be blessed, because they are not able to pay you back. God will repay you on the day the good people rise from death."

(Luke 14: 12–14)

If one has made a habit of caring about others, he may even forget the relationship he has with the person he is caring for. The victim may be a friend or a stranger or even an enemy. The inspiration can be taken from scriptures and the advice of Jesus may be followed. Jesus said:

"Love your enemies, do good to others who hate you, bless those who curse you, and pray for those who ill-treat you......Give to everyone who asks you something, and when someone takes what is yours, do not ask for it back. Do for others just what you want them to do for you."

(Luke 6: 27–31)

The Bible here illustrates the ethical duty of an ideal God-fearing person. This is indeed an uncanny duty, not even thought of by any consequentialist. The last sentence of the above quotation from the Bible of course smacks the consequentialist philosophy, but not the first part. Many theories of justice do not really bring the practice of care ethics inside their analytic umbrella. Nozick's libertarian theory of justice considers any redistribution of income from the rich to the poor as an unwanted and unjust one, if such transfer of income is not voluntary.

However, the satisfaction of the needs of the poor is an important part of the ethics of care. **Though not all the theories,** the socialist theory of justice comes a long way towards the ethics of care. Under socialism the payment is based not on contribution but on needs. To supply the needs of people is equivalent to taking care of them. The Rawlsian theory of justice with its special emphasis on the **difference principle** makes a provision to give something extra to the poor people so that they can take care of themselves.

In the capitalist principle of justice, payment to the labour is based on the contributions of labour. If the contribution is low, he gets low wages. There is no scope for care in such a situation, even if the need for more is genuine. The equity principle of justice is also silent about the special needs of people to take care of their families and loved ones. Most of the theories of justice are thus inadequate and cannot supersede the ethics of care and compassion.

GENESIS OF CARE: THE FEMINIST THEORY

Ethical issues or principles of morality arise, according to Lawrence Kohlberg, out of the need for justice and rights. This view is rejected by Carol Gilligan. Gilligan observes that care, love and morality all arise out of special relations and affections which are more in accord with female psychology (Gilligan, 1982). In the discussion that follows, we will present views of some celebrated contemporary authors.

Mary Midgley's View

All care theorists believe that human happiness which is the goal of life can be maximized by maintaining a very close and intimate relationship with families. In this context, the observation of a British philosopher is very relevant. Mary Midgley (1991) through the analysis of Darwin's theory comes to the conclusion that morality begins and grows with our natural affections for the family and friends. As we grow older, we develop reasoning strategies to understand more about our emotions in relation to our family and friends. As family as a social unit, came into existence, practice of group relations like obedience to parents, respect to elders and the strategy of maximizing happiness became gradually entrenched in the family. This practice is then passed on to future generations. One of the important practices in maximization of happiness is developing the habit of sharing and caring. In a joint family system, which still exists in India, this practice is very common.

From the perspective of Midgley's analysis, morality can be considered as a set of conflict resolution strategies that preserves and perpetuates the family or group relationships. This type of relationship is the basis of survival of the species. This observation about family ethics and morality

development is very close to that of Kohlberg and Gilligan (Dienhart, 2000, p. 104). Midgley assures us that natural affection for family and friends plays a major role in the development of care and compassion. The centrality of this theory is, however, denied by philosophers like Epicurus and Rand, it remains unchallenged that care comes from the fact we value some people in the whole mosaic of our myriad relations in this world. The imputation of values to some special people is not because of our material benefits or gains, but because of our instinct and voluntary choice and preference for whatever the underlying reason may be.

Nel Noddings' View

Nel Noddings (1984) lays more emphasis on the most intimate relationship for care and compassion. But giving care to anybody, according to her, does not mean the negation of his liberty or personal wishes. One should not impose one's own rules while taking care of others. However, it is imperative to understand that care should not make the receiver too much dependent on us.

It is also necessary sometimes to first take care of ourselves and then give care to others. This point is borne out by a set of instructions about the use of oxygen mask in the airlines flight. These instructions say that a person travelling with children should put the oxygen mask on him/her first and then put them on the children, if any such situation arises. There does not seem to be any kind of contradiction in the instructions issued by airlines even if some parents think that they should put the masks on the children first. For many people, particularly for parents, it is a difficult choice to make first to take care of themselves than that of their small children.

Our caring response may not always be forthcoming immediately for the people who are not intimately related to us. In many cases, we are to arouse our response. Care for the others is a psychological behaviour that needs to be cultivated in a regular manner. In taking care, many times, one is confronted with the choices that may be conflicting in nature. This can be settled with some trade-offs and compromise.

Many ethicists of care will advise us that the interest of the family must be given priority over many other interests such as taking an employment at a distant place, staying away from home for a long time, and so on. However, in many situations, economic considerations become the decisive factor, but the important point is that the final decision is to be based on the aggregate and acceptable opinion of the family. Indeed, a family is an organization of conflicting cooperation where the contribution of each member remains essentially unequal, yet it may enjoy maximum happiness and reciprocal care.

Marilyn Friedman's Views

Marilyn Friedman (1987) is of the view that the ethical principles of care must be integrated with those of justice. But that does not mean that care and justice are the same notions. They are not. Friedman makes it clear that men and women use care and rights more or less in the same way. She quotes many studies to show that it is the general belief that most men use justice-based reasoning and most women use care-based reasoning. She makes a reconciliatory approach by saying that it will be best to integrate the two views (male and female). According to her, morality cannot be

separated in the form of a gender division of labour. Very often, men are entrusted with the activities concerning public affairs, government assignments and running of business. On the other hand, women are mostly entrusted with softer jobs at home and to look after family welfare, take care of relationships with family and friends, and so on. This assigns different roles to the males and the females in a society.

However, a society cannot assign the care based reasoning alone to women and justice based reasoning exclusively to men. Friedman argues that the spheres of pure justice and pure care are too limited and undefined to be finely compartmentalized to solve many of our day-to-day practical problems. We need care in many situations where justice is a major concern, and care can become an important issue in a case involved with justice. Thus, Friedman advises us to integrate justice with care for the best possible result.

Friedman in this context speaks about the following three types of Justice:

- 1. Distributive Justice
- 2. Corrective Justice
- 3. Institutional Justice

Distributive Justice

According to her, distributional equality in the matter of distribution of property, assets and wealth among the members of a family is unjust, if one of the members is doing most of the work than others to maintain the family relationship and contributing maximum to the growth of the family. As a matter of fact, many studies in India and abroad show that women suffer most from this type of **distributive injustice**. It is a common sight in an Indian joint family system that after the distribution of food to the adults and children, women eat whatever is left.

Corrective or Retributive Justice

Very often, a personal relationship stands in the way of corrective injustice in a family. A person in the family may constantly impose harm to another or cause injury to others but he goes scot-free. In an ideal situation, the wrong-doer should regret and change his behaviour so that this type of transgression may not happen in future. However, this does not happen in most of the cases, and women remain the most vulnerable.

Institutional Justice

Institutional justice is based on an integration of care, corrective justice and distributive justice. For a family, institutional justice is necessary to properly groom the young children in a just way so that a healthy family relationship and a regime of caring and sharing can be established. A family is living in a just way with the necessary care and compassion only if both, the most vulnerable and the most independent (physically or financially strong) members live the best possible life through affection, care and sacrifice.

In this context, Friedman makes the following observation:

"Personal relationships may also regarded in the context of their various institutional settings, such as marriage and the family. Here justice emerges again as a relevant ideal, its role being to define appropriate institutions to structure interactions among family members, other household co-habitants, and inmates in general. The family, for example, is a miniature society, exhibiting all the major facets of large-scale social life: decision-making affecting the whole unit; executive action; judgments of guilt and innocence; reward and punishment; allocation of responsibilities and privileges, of burdens and benefits."

—Friedman, 1987, p. 102

Friedman believes that it is a very dangerous idea to relegate the role of justice in the personal relationships in a family to the background. It may lead to violence, injury and many types of aberrations in the family life. Justice is also necessary for a better and more meaningful group life as it promotes a congenial relationship among the members and creates a suitable environment for the full development of their potentials. In such a situation, many types of conflicts can be resolved without compromising with group values and ethos.

In the public life and reform measures, there is an utmost need for integrating care with justice; otherwise, there may be negligence and distributive and corrective injustice.

Conflicts between Care and Justice

Justice focuses more on values, principles and abstract rules, but care specifically focuses on persons and personal relations and does not depend on codified rules. Thus, if my child is crossing the road at a time when the green signal is on, I may not care for the traffic rules but will run to save my child first because I care for him more than I care for the road rules. Justice or rules do not care about relationships; it is impartial. In many cases, the two perspectives are diametrically opposite. But this should not prevent us from getting the information about the rules and their relevance in maintaining a caring and sharing society. There is no denying the fact that an integration of justice and care in the institutional framework of a country may make the society more meaningful and family life more happy and enjoyable. At an individual level, many persons nowadays accept the hedonic theory of wage, which is somewhat lower than the competitive wage just to get posted near home and family.

WHY DO WE CARE?

We care for a person or a group of persons for many intrinsic reasons, some of which are discussed below:

- 1. To love others and care for others, in particular our loved ones is a **natural human instinct**. Care comes out of affection and love, and love means sacrifice without any expectation.
- 2. Natural religion (deism) or justice demands that one should take care of those who are **dependent on you**, because they are helpless and have no other person to care for them.
- 3. Since compassionate behaviour requires a relationship with the others, a compassionate person will develop new and noble relationships with many persons and their families and

friends which will guide his noble behaviour throughout his life. In this way, his faith and commitment to compassion and care will be deep-rooted.

- 4. Sometimes, care is **based on security**. Parents give security to their children in their young days, so children are naturally indebted to them, and they try to pay that off to some extent by caring for them in their needs. In the same way, parents may care for children and rear them up with the hope that they will give them security when they become old and helpless. Care gives reciprocal security and love, although it can exist even without the need for security.
- 5. Care gives us a rare **sense of happiness**, mental peace and satisfaction. If we do not care about others, we do not get the taste of that unusual sense of happiness.
- 6. In the Buddhist philosophy, desire is the source of all unhappiness, and compassion is the natural antidote to desire. Compassion is followed by care. Compassion can also be an antidote to suffering. For instance, if a person is suffering from financial loss, he may find that his suffering and the pain due to that will be significantly reduced when he observes the plight of war victims who have lost everything including their families, property, possessions and communities (Gruzalski, 2000, p.68).

Once a mother came to Buddha with her only child who had died. She was crying bitterly and asked Buddha why God has taken away the life of her only child. Buddha said to her "I will give you the answer, first do what I say. Go to every family far and near and get me some mustard seeds only from that family which has not so far experienced any grief due to death". The mother visited many families but could not find a family untouched by death. She told this to Buddha and came to know from him that death is natural and everybody must die. Then she consoled herself thinking that she is not the only sufferer but one of the victims. This helped her to trivialize her agony and pain. In the Buddhist literature it is acknowledged that:

"Whatever joy there is in this world All comes from desiring others to be happy. And whatever suffering there is in the world All comes from desiring myself to be happy"

(Bdh: viii, p.129 as quoted in Gruzalski, 2000, p.71)

- 7. Care gives us an **opportunity to pay off our debts** to our near and dear ones who might have helped us or cared for us in many situations of our lives in the past. It may also set an example of how care is necessary to lead a life of sharing our joys and sorrows so that our burden may be lessened. The idea is—if you give care, you will receive care. This is the divine dispensation. All religions including Hinduism, Islam and Christianity advise us to care for your neighbours, parents, teachers, brothers, sisters, and so on.
- 8. For many religious-minded people, care for others is a means to get the blessings of God. In this context, Swami Vivekananda has observed:

"Where do you try to find God by overlooking before you
His myriad manifestations in different forms?

People who love His creatures, do really love Him"

(Jiv Seva is Shiv seva)

Jesus Christ says in the Bible:

"Blessed is he who is concerned for the poor; The Lord delivers him in times of trouble: The Lord will protect him and preserve his life; He will bless him in the land and will not surrender him to the desire of his foes. The Lord will sustain him on his sick-bed and restore him from his bed of illness

(Psalm, 41:1-3)

In the Bhagvad Gita, Lord Krishna says:

".....those who have conquered themselves and those who have engaged themselves in working for the good of others become one with Brahma" (Bhagvad Gita, 5: 25) [Here the Gita is alluding to the exoteric care for the people]

The Bhagvad Gita has described the attributes of a person of a godly nature in the following words:

"Fearlessness, purity of nature, steadfastness in the yoga of knowledge, charity, self-control, sacrifice, study of scriptures, and straightforwardness, harmlessness, truthfulness, absence of wrath, renunciation, peace, aversion to fault-finding, compassion for all beings, gentleness, modesty and steadiness, vigour, forgiveness, patience, purity, absence of envy and pride. These O Bharata, are endowments of him who is born with *Daivik* (divine) nature"

(Gita 16: 1, 2 & 3).

Many of the qualities of those persons who practice ethics of care are common with those of divine nature (see the italicized words).

However, according to the utilitarian ethics, care is justified when benefits from care exceed the cost of caring. Apparently, caring involves only costs which are monetary, physical and in terms of time. Thus, as we have explained earlier, the utilitarian theory cannot justify care ethics as the cost is higher than the benefits. However, it needs to be mentioned that the cost-benefit calculus (CBA) used in the utilitarian theory is to be appreciated in terms of real cost and real benefit.

Human rationality implies that an individual usually undertakes a venture where the benefit is greater than the cost. In ethics, the cost-benefit calculus is to be appreciated intrinsically in terms of the real cost and the real benefit. Real benefit means moral benefit or progress, and real cost involves moral degradation. Thus, individual rationality will involve an action where moral cost (or for that matter any cost-psychic or monetary) is offset by moral benefits. This makes sense when it is understood that every individual has its own subjective basis for calculation. The expected benefits are explained in terms of rewards from the God either in this or in the next life. A good work consistent with the ethico-moral categorical imperatives is always rational in the metaphysical sense as the benefits are several times more than the cost.

The unknown future value of benefit is generally greater than the present benefit. Similarly, future cost (punishment by God) may be greater than the present cost. This is so because cost and benefit are cumulative in nature. For instance, the metaphysical cost of say *astea* (stealing) will be very high when considered in terms of punishment in this world along with the added punishment by the God in the next world. Metaphysical rationality demands that the cost-benefit approach (CBA) must be interpreted in terms of futurity. For actions that are not morally justified, the future value of cost (FVC) will be greater than the present cost; and for a morally just work, the future value of benefits (FVB) will also be higher than the present benefit. Thus, what is more relevant in the CBA analysis in the case of ethics is not the calculation of the present values of benefits and cost but their future values. Such a calculation is based on individual valuation and also on the punishment prescribed in the scriptures in some cases. Cost and benefit will have to be measured in the ethical scale of reward and punishment; therefore, the expected value of benefit and cost is more important than current cost and benefit.

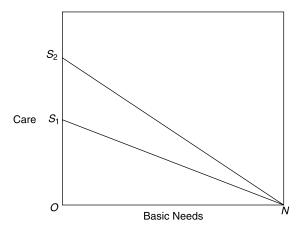


Figure 6.1 Basic needs and care

All the ethical axioms such as love, care and compassion are like public goods which have a very high degree of **positive externality**, but since these involve some cost in terms of sacrifice, the individual rationality of imperfect humankind at a particular time may not find the immediate proximate benefit justified to follow these categorical imperatives. However, since human beings are mostly imperfect and are guided by bounded rationality, they do make mistakes, even if they are otherwise rational. It is important to understand that the worldly rational behaviour may be different from the metaphysical and ethical rational behaviour, and it is not surprising that much of the overt human bahaviour is irrational in the perspective of the ethico-moral rationality. Rational behaviour does not preclude altruism or service to others for the welfare of all (exoteric care). For a philanthropic person, when the fixed basic needs are satisfied, it would be perfectly rational to spend the extra resources or income, if any, for the welfare of all; and when the command over resources increases, it is possible to devote more resources for exoteric care (Figure 6.1).

Ethics speaks more about normative rational behaviour than actual worldly rationality. The calculus of the present value of cost and benefit to take rational decision may not guide an ethically rational person as a moral person, but rationality ultimately depends on the values and norms of life. A person who is ethically rational may not be rational in the material sense.

One important point to note in this connection is that the rational behaviour is always supposed to be manifested in the actual behaviour of human beings in all their overt and covert actions. A.K. Sen has, however, argued that the implicit assumption that the actual behaviour is the same as the rational behaviour is not necessarily correct (Sen, 1987, p.11). As a matter of fact, it is very essential to explicate the content of rational behaviour, particularly because rationality may be expressed in many alternate behavioural ways. For instance, for a person guided by morality and ethics, serving a sick person or caring for an ailing mother is more rational than a life of pleasure and enjoyment. It needs to be emphasized that the conceptualization of rationality and its related cognates in an objective way is really very difficult.

CARE, COST AND CONFLICTS

As a part of the programme for the social responsibility of business now becoming popular, many organized and established companies have been undertaking activities for providing various types of care to the sick, disabled, mentally retarded, orphans and helpless people. The philanthropic activities have been found to be negatively associated with cost. The cost reduction is perhaps because of the spread of goodwill of the company which attracts more and more customers. However, the social care programmes are not undertaken by these companies primarily for the purpose of reduction in cost. It is indeed surprising to some as to how the cost reduction takes place. As a matter of fact, caring programmes do involve costs, and some well-established companies in India like The Tata group of companies, Birla, Reliance, and so on regularly spend on ethical care programmes.

On the basis of empirical observations of Indian business houses with respect to the ethical care, one can classify them into three broad groups:

- 1. Some companies do not undertake any ethical care programmes on a regular basis.
- 2. Some companies carry on ethical care programmes on a regular basis irrespective of the volume of realized profits.
- 3. Some companies spend on ethical care programmes only when the profit level is high. When the profit goes down, the programme is discontinued or substantially slashed.

Care is a function of mind, which does not depend so much on the level of profit or assets but on values, attitude and the tradition of care culture. All these are not only individual characteristics favouring ethical care but are also critical for the companies in many ways. Some companies that are making huge amount of profit may not be motivated by the philosophy of ethical care because they lack in the culture of care, sympathy and compassion. The real test of the motivation for ethical care and compassion is whether in the event of adverse economic and financial conditions, the company is still interested in maintaining the caring and sharing activities.

Conflicts and Trade-Offs

There is often a conflict between the personal care (PC) and impersonal care (IC) expenditures. The total amount of resources being given, an increase in the personal care expenditure leads to a decrease in the impersonal care expenditure. The situation becomes difficult to settle when personal care expenditure includes care for one's own parents or dependent children. In such a case what is appropriate is to make a trade-off. There may be many points of trade-offs between PC and IC, and out of these, depending on the urgency, need and circumstances, one can choose a particular point of trade-off. Such a trade-off may not be a permanent one; when resource position improves, another point of trade off may be chosen.

In a quite different way, personal and impersonal interest may lead to a clash. Let us exemplify. Suppose you are working as a doctor in one Anti-HIV hospital. It is to be noted that this type of a hospital is very limited in any Third World country. In such a hospital, the patients are first required to get registered and then they are called on first-come-first-serve basis. The seats are awfully limited. A patient, Ms. Mary, is called today to take admission for which she is ready. In the mean time, a close relative of yours, Mr. Brown, arrives in the same hospital for admission as his condition is equally critical. He hopes that he will be admitted immediately as you are his close relative. You are now in an ethical dilemma and it is a situation of conflict between personal care and impersonal care. If you admit him on the basis of his being your relative, you are violating the hospital rules. However, if you abide by the hospital rules and admit Ms. Mary, you are not caring for your relative, Mr. Brown. What will you do in this case? If you put more importance to the personal care, you will admit Mr. Brown, and if you are very particular about the hospital rules, you will sacrifice personal care for impersonal care.

ETHICS OF CARE: A CRITICAL APPRAISAL

The following points of criticism are levelled against the ethics of care:

- 1. Care, particularly too much of it, makes the person to whom the care is shown, dependent. This creates a **moral hazard problem** in the sense that the dependent person becomes indifferent or less concerned about his own health and well-being. He is prone to forget the importance of self-help. So once the care is given, there is the need for continuous care, and the situation continues on and on *ad nauseam*.
- 2. While giving real care, the caretaker forgets his own need, rest and limits, and beyond a point, the person's condition may itself be pathological. He may become physically and mentally exhausted. There may also be the chance of his capability failure. In an extreme situation, he may not be able to perform his duties as a caretaker any longer. Then who will take care of the caretaker?
- 3. Care ethics has its own limitations. If for no other reason, financial constraint, time constraint and physical constraint can make the application of care ethics practically very difficult.
- 4. The application of care ethics is likely to give rise to discrimination, inequality and even injustice. In the same family, some may receive more care and others less without any apparent cause. For instance, in a family, a person's mother and mother-in-law may be the victims of

Parkinson's disease. The person is more likely to show more favour to his own mother than his mother-in-law in the matter of distribution of care in spite of the fact the stage of the disease in the case of the mother-in-law is more advanced.

5. The urge for care taking is a function of mind. For instance, two sons may not be equally prepared to care about their parents at an old age. Care ethics has no legal standing in the same sense in which utilitarianism and deontology seem to have. Care ethics cannot and is not yet made operational through enactments, policy and legal codes. It is entirely voluntary.

It is to be noted that the ethics of care is of a special genre that goes beyond the cognitive theories and principles of ethics. It is embedded in the principle of renunciation and love, and even in a poor country like India, one can witness an overwhelming number of organizations of ethical care, and the number is increasing every year. Some of the renowned ethical care organizations in India are listed below.

- Ramkrishna Mission (Throughout India)
- Bharat Sevak Samaj (Throughout India)
- Red Cross Society (Throughout India)
- Nariniketan (Throughout India)
- Old Age Homes (Throughout India)
- Society for the Prevention of Cruelty to Animals (Throughout India)
- Orphanages (Throughout India)
- Centre of Concern for Child labour (Mayur Vihar, Delhi)
- Adarsh Charitable Trust (Ernakulam, Kerala)
- Divine Children's Home (Chalakudy, Kerala)
- Association of Mentally handicapped Adults (Thrissur, Kerala)
- All India Animal Welfare Association (Mumbai)
- Annapurna Mahila Mandal (Dadar, Mumbai)
- Anti-Dowry Guidance Cell (Churchgate, Mumbai)
- Anti-HIV Care for Children (Tamil Nadu)
- Community Outreach Programs (YMCA Road, Mumbai)
- Dignity Foundation (Grant Road, Mumbai)
- Federation of Slum Dwellers of India (Byculla (W), Mumbai)
- HelpAge India (Mumbai)
- Fellowship of the Physically Handicapped (Haji Ali, Mumbai)
- Indian Council for Mental Health (Girgaum, Mumbai)
- People for the Ethical Treatment of Animals (Juhu, Mumbai)
- Seva Dham (Andheri, Mumbai)
- The Family Welfare Agency (Lower Parel, Mumbai)
- The MNB Industrial Home for the Blind [Jogeswari (W), Mumbai]
- The Spastics Society of India (Bandra, Mumbai)
- The Welfare of Stray Dogs (Apollo Pier Road, Mumbai)
- Toybank (Andheri, Mumbai)
- Welfare of handicapped People (Chandigarh)
- Welfare of SC, ST and backward classes of people

- Juvenile Homes
- Association for the Care of the Aged (Kerala)
- Animal Welfare Organization (Baroda)
- National Thalassemia Welfare
- Share and Care Children's Welfare Society
- Affus Women's Welfare Association
- Astitwa Welfare Society
- Prayas Social Welfare Society
- Ladies Welfare Society Hospital
- St. Paul's Educational and Welfare Associations: Orphanages
- Faith Welfare Society
- Indian Tiger Welfare Society
- Plant and Animal Welfare Society
- AIDS Control Society (Tamil Nadu)
- Family Welfare Schemes
- Senior Citizens Welfare Society
- Child and Women Care Society
- Human Care Foundation (Delhi)
- Circles of Animals Lovers (Mumbai)
- Senior Housing in India (Delhi)
- Spastic Society of Tamil Nadu
- Saaral Social Service Society
- Tamil Nadu Corporation for the Development of Women

Summary

Love is the most important and decisive factor in the generation and sustenance of care. Care is the second-order human disposition. Care ethics is based on the philosophy of reversibility, i.e. if you care for others, you can expect that others will care for you. "Do unto others as you would have them do to you" is a religious dictum. Care primarily depends on the nature of a relationship. The deeper the relationship, the more intense is the care. Care may be esoteric (for one's own people) and exoteric (for others). There may be care for one's own community (communitarian care). This care grows out of compassion and kindness. There is no fine line demarcation between esoteric and exoteric care; in the course of time, both may mingle together. In fact, for a very broad-minded person, the whole world is kith and kin.

Of all the theories of ethics, care ethics seems to be the best. This is so because all other principles of ethics have their circumstantial limitations but care ethics has no such limitations. Care ethics is above and beyond any cognitive theory of justice and ethics. Care conquers everything, every transgression, and inequity. The Bible says that in spite of all sins of human beings, Jesus loved people around him, forgave them, and did miracles to heal them up. He took all the sins and curses of all and died for them just because he loved and cared for them.

Some theories of justice, like the socialist theory and the Rawlsian theory, do propagate the virtue of care and compassion. Carol Gilligan believes that care, love and morality all arise out of special relations affections which are more in accord with female psychology. In the same way, Mary Midgley also observed that morality begins and grows with our natural affections for family and friends. Net Noddings gives more emphasis to the intimate relationship for care and compassion. Marilyn Friedman is of the view that ethical principles of care must be integrated with those of justice. It must be conceded that justice focuses more on values, principles and abstract rules, but care specifically focuses on personal relations and does not care much about codified rule.

Our care may be based on love, a sense of happiness, natural human instinct, natural religion or even a sense of gratitude and security. It gives us an opportunity to pay off our debts (especially to our parents). According to the logic of the utilitarian theory, care is justified when the cost of care is lower than the benefits from care. This is a very narrow interpretation of the ethics of care. In such a case, care becomes a sort of business and goes beyond the realm of ethics.

Many business companies are involved in the ethics of care irrespective of the volume of profit. Care does involve some costs, and there may be a conflict between personal care and impersonal care. Care very often does not break any rules or regulations. However, it needs to be borne in mind that too much care for a person creates the problem of moral hazards and he becomes more and more dependent on others. Care may also give rise to the problem of inequality, discrimination and injustice. If you are a doctor in a hospital, you may care more for your relatives and friends but may neglect others. Care is voluntary and is based on love, sacrifice and compassion. There are many organizations for care and compassion even in a poor country like India, and the good news is that the number of such organizations is gradually increasing every year.

Key Terms

Theory of Reversibility Mary Midgley's Theory of Care

Nel Noddings' View of Care Marilyn Friedman's Interpretation of Care

Positive Externality Moral Hazards Problem

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Care ethics is based on the philosophical theory of reversibility.
- (ii) Care ethics may lead to decisions which may be contrary to those of utilitarianism.
- (iii) Too much care sometimes creates a moral hazard problem.
- (iv) Care ethics comes under the cognitive theory of justice.
- (v) The application of care ethics may lead to discrimination, inequality and injustice.
- (vi) Care is the first order human disposition.
- (vii) Rational behaviour does not preclude altruism or service to others for the welfare of all (exoteric care).
- (viii) The cost-benefit calculus (CBA) that is used in the utilitarian theory is to be appreciated in terms of real cost and real benefit and helps in measuring love and care.

- (ix) To love others and care for others is a natural human instinct.

(X)	Institutional justice is based on the concept of	t C	orporate governance.					
2. Fill in	the blanks							
(i)	The ethics of care is based on							
(ii)	Basically there are two broad domains of care	e n	amely and					
	Utilitarian ethics is basically concerned with		or the welfare of					
	majority of population, but it	_ tł	ne welfare of the minorities.					
(iv)	gives more emphasis on	t]	he intimate relationship for care and					
	compassion.							
(v)	A family is an organization of		where the contribution of each member					
	remains essentially unequal.							
(vi)	i) justice is based on an integration of care, corrective justice and distr							
	utive justice.							
(vii)	The <i>Bhagvad Gita</i> alludes to the							
	"those who have conquered themselves and those who have engaged themselves							
	working for the good of others become one with Brahma".							
	There is often a conflict between							
(ix)	(ix) All ethical axioms such as love, care and compassion are like public goods having							
	high degree of							
(x)	Care gives us an to pay off ou							
	who might have helped us or cared for us in n	na	ny situations of our lives in the past.					
3. Choos	se the correct option							
(i)	A family is an organization of							
	(a) Conflicting cooperation (b))	Distributive cooperation					
	(c) Both (a) and (b) (d)	.)	None of these					
(ii)	ii) The justice which is based on an integration of care, corrective justice and distributi							
	justice is							
	(a) Distributive justice (b))	Institutional justice					
	(c) Retributive justice (d))	None of these					
(iii)	(iii) Who gave more emphasis on the most intimate relationship for care and com-							
			Marilyn Friedman					
	. ,	-	None of these					
(iv)	(iv) Who is of the view that the ethical principles of care must be integrated							
	justice?							
		_	Marilyn Friedman					
		/	None of these					
(v)	From whose analysis can it be analysed that morality can be considered as a set of conflict							
	resolution strategies that preserve and perpetu							
			Nel Noddings					
	(c) Mary Midgley (d))	A.K. Sen					

(vi) Who has argued that the implicit assumption that the actual behaviour is the same as the rational behaviour is not necessarily correct?

(a) Mary Midgley

(b) A.K. Sen

(c) Marilyn Friedman

(d) None of these

(vii) By CBA, we mean

(a) Cost–Benefit Approach

(b) Care–Benefit Approach

(c) Care–Behaviour Approach

(d) None of these

(viii) FVB is otherwise known as

(a) Fixed Value of By-products

(b) Future Value of Benefits

(c) Both (a) and (b)

(d) None of these

(ix) Cost and benefit will have to be measured in the

(a) Ethical scale of reward and punishment

(b) Measurement scale of cost and production

(c) Likert scale

(d) None of these

(x) When exoteric care is about a community or tribe, then it can be called

(a) Marginal Care

(b) Communitarian Care

(c) Peripheral Care

(d) None of these

Review Questions

- 1. Critically examine the feminist theory of care.
- 2. Why is it necessary to integrate care and justice?
- 3. Why do we care for others?
- 4. Distinguish between esoteric care and exoteric care and bring out their important character-
- 5. Is there any nexus between care and relationship? Explain.
- 6. Why is the theory of care called the best principle of ethics?

Web Links

1. http://assets.cambridge.org/97805218/56867/excerpt/9780521856867 excerpt.pdf

[Feminist Theory]

2. http://en.wikipedia.org/wiki/Feminism

5. http://ftp.iza.org/dp5076.pdf

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3. http://en.wikipedia.org/wiki/Ethics of care

[Ethics of Care]

4. http://www.utilitarian.net/singer/by/199812--.pdf

[Reconciling Impartial Morality and a Feminist Ethic of Care]

[Hedonic Wage Equilibrium: Theory, Evidence and Policy]

6. http://www.sagepub.com/upm-data/10977 Chapter 6.pdf

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CHAPTER 7

Environmental Ethics

LEARNING OBJECTIVES

This chapter will help the reader understand

- Poverty, resources and environment
- Economic growth and environment
- Global environment
- Impact of environmental pollution on human health
- Social cost of pollution
- Ethical issues in environmental pollution
- Management of environmental pollution
- Sustainable development
- Resolution of the conflict between growth and environment

Introduction

Like Oliver, in Charles Dickens' novel *Oliver Twist*, who always wanted more and more, all the industrializing countries, now, want more and more out of the environmental resources and natural capital although they are prevented from using them to an unsustainable degree. In recent years, analysts and policy-makers have become concerned about the appropriate use of our environmental resources. The environment is under constant attack and is being assaulted by those factors and

forces which accompany a rapid rate of industrialization and the escalating rate of human poverty. Both poverty and growth do have convoluted interactions with environmental resources and, to some extent they are the primary causes behind environmental damage and degradation. Whilst a moderate rate of growth is desirable and often harmless, too much of it at too fast a rate impinges on the eco-system and environmental tranquillity. Innumerable **ethical issues** are involved in the management of human environment. The present chapter aims at analysing some of these issues and many other related problems including the policy of sustainable development and proper management of environmental resources.

POVERTY, RESOURCES AND ENVIRONMENT

It should be appreciated that poverty arises because of lack of basic resources. Many of the resources that can alleviate poverty are natural that one can gather from forests, water, mountains, land, mines and the nearby environmental endowment. There seems to be a vicious circle of the relationship working here. In order to reduce poverty, more natural resources will be depleted which, in future, will aggravate poverty. Thus, one starts from a situation of poverty and again lands into it, and the *poverty cycle* continues. One of the reasons for the growth and sustenance of poverty is degrading of natural resources or the environment. Too much of use of natural resources due to excessive growth of population, or due to lack of proper policy to regenerate or renew the natural resources leads to environmental fall out. Natural resources have the power to regenerate themselves, but it takes time and if they are constantly assaulted without giving the necessary time to regenerate, the depletion becomes inevitable. Over-use and wrong usage of resources are the contributory factors for the damage and depletion of our natural resources.

Can a payment for the environment lead to sustainable resource use and poverty alleviation? This is a complex question which does not have a straight-forward answer. If the user is a rich person or a multinational agency, some payment will be made for the use of resources. In the process of exploitation of environmental resources, the user may derive some values (benefits) which remain unknown to the owner, and the actual value may be several times higher than the amount paid for the use of those resources. This is particularly the case of many plants which have medicinal value. In such a case, there will be a tendency on the part of the user to over-exploit the natural resources. More often than not, the exploiter is receiving enormous benefits and he will go the whole hog to maximize his gains. In such a case, even if payment is made, it will bring more harm than good to the environment.

If the owner is an individual person, his poverty may be alleviated but at the cost of the country's natural resources. There may be private benefit but the public loss may be enormous. Moreover, some of the benefits of our natural resources cannot be evaluated by the market price. The indirect benefits of natural resources are in particular not amenable to market valuation.

The fact that overuse of natural resources can lead to poverty is substantiated by the case of many developing countries. In Laos PDR, more than 50% of the GDP is derived from agriculture and 80% of the people rely on natural resources to eke out a living. This practice has been going on since long, and as a consequence, agriculture and other natural resources have become overburdened and less productive. The situation has been aggravated by deforestation, illegal logging, and

conversion of cultivable land into industrial areas, decline in non-timber forest products, loss of biodiversity and water resources, depleting fish stock, and so forth. Clearly, poverty is again raising its ugly head. So, the government of Laos PDR has to take a number of practical steps to not only reduce poverty but at the same time ensure a sustainable development. Sustainable development is that development which does not harm the environment or distorts the ecological balance of the society. It needs to be noted that both poverty reduction and sustainable development are simultaneously possible with rational implementation of some good policies. In most of the developing countries, there is an urgent need to minimize the impact of environmental changes.

The case of Philippines is getting more publicity now under the tag of a country, where profitable agricultural production is destroying the eco-balance. In Philippines, for increasing palm oil production, the plant and animal diversity has been seriously damaged, and carbon emissions, however, have not been reduced. All this is done for the benefit of a handful of business people and their commercial firms. The period of globalization has witnessed a structural change in the agrarian development of many countries. Agricultural land is becoming more and more an ordinary commodity. The commodification of land in many countries including India, Pakistan and some African countries, have been contributing substantially to the degradation of environment. It is high time for the less developed countries to find out some viable alternatives to land degradation and soil erosion problems. This may make the land more fertile once again and alleviate the poverty of the cultivators. It is not impossible to enhance the resource use efficiency and transform traditional agriculture, and at the same time, keep intact the ecological balance.

Population growth and poverty are responsible for both land and forest degradation. The poor people depend on the nearby forest in order to collect fuel-wood, fodder and, thus, get some extra income for their extended family. All these are important causes of deforestation. However, legal and illegal logging and exploitation of forest resources with connivance of forest officers is also equally responsible for this state of affairs in many developing countries. The programmes for afforestation and regeneration have never been a howling success in these countries due to various reasons.

Be that as it may, the poor people suffer disproportionately from the resource imbalance created by various factors. Pollution of all types affects the poor most in terms of loss of income, sickness and loss of amenities that are generated from a nearby forest. Population growth and poverty often go hand in hand.

As suggested earlier, poverty and environmental deterioration are mutually reinforcing, and so is the population growth. Poverty is correctly blamed for both, excessive population growth and environmental pollution. It is rightly said that "poverty is the worst pollutant". Poverty induces parents to have more children so that the total family income can be maximized as each child in a poor family becomes an earning member at an early age, and the marginal cost of rearing children in such a scenario is also very low. Thus, since the benefit of a marginal child is higher than the cost of having an extra child, the rate of the growth of population, particularly in poor families and rural areas, is very high. The poor people are rational in calculating the economic benefits and the cost factors involved in rearing extra children.

But the relevant issue is—if poverty is reduced, from where the resources will be coming? Are those natural resources being replenished? In many cases, one of the contributory causes of environmental degradation is the pressure of population which is again the cause of poverty. In the mainstream thinking, particularly stemming from the western countries, however, the basic advice is that for the sake of development, the concern for environment must be relegated to the background. This type of wrong advice is not called for. The world institutions, in general, are concerned more with quantitative economic growth and do not care for the quality of human life. Since cost of living is cheaper in developing countries, the developed capitalist countries often transfer their dirty industries to the former. Many of the world institutions do recommend the entry of such bad industries to less-developed countries in the name of globalization and liberalization. In fact, one of the basic purposes of liberalization in the LDCs is to open their gates to all the polluting industries of the developed capitalist countries. While permitting these industries, the LDCs do not strictly adhere to the international environmental norms.

Is Economic Growth Conducive to the Environment?

There is no inherent contradiction between growth and environment if the rate of growth is moderate and not competitive. A growth rate based on the domestic saving (investment) and the existing capital-output ratio is supposed to be moderate in nature as it is based on the carrying capacity of the economy. Technological improvement can also raise and sustain this moderate rate of growth. Such a rate of growth is not necessarily harmful for the environment. However, the craze for a high rate of quantitative growth by hook or by crook can endanger the environmental equilibrium. The problem is that this craze very often dominates the policy makers and planners. A high rate of growth is looked on as an evidence of a high level of achievement by the political authorities. So, eventually, growth becomes a competitive game. The greatness of a country is measured in terms of its quantitative growth rate.

When important national problems are discussed in a forum, economic growth comes at the top, and environment does not capture the mind of the people or planners. It is believed by politicians that public vote is based on per capita income growth and not on the clear sky or clean air. When questions were asked in a recent survey in America, people showed more concern for economic growth and its sustainability rather than environment. Moderate growth is a necessary but not a sufficient condition for clean environment. Economic development is definitely more conducive to environmental balance. This is substantiated by the fact that a sustainable type of economic development is quite compatible and consistent with environmental development. In fact, economic development includes environmental development.

Economic growth entails many types of activities that may endanger the environment. In a bid to achieve a high rate of growth, different types of polluting industries may be set up in areas that were earlier devoted to agricultural works and forestry. In such a case, growth disturbs the environment and the ecological balance. A high rate of economic growth is often found to be positively correlated with environmental pollution. It is believed that much of the current urban environmental degradation has been underpinned by a long-lasting trend of uncontrolled quantitative growth which has resulted in general ill-health and pollution. Economic growth, of course, brings many new opportunities but it creates many problems at the same time in the process of growth which is detrimental to the environment. Perhaps, it is not so much the growth itself, but the composition or the content

of growth that is more decisive for the environment. A growth in a clean way does not have to necessarily jeopardize the environment. A growth exercise that is based only on the establishment of dirty industries and the exploitation of our *natural capital* is detrimental to the environment. Promiscuous and rampant growth can put pressure on the ecological balance.

It is touted by western capitalist economists that economic growth can correct many environmentretarding factors such as population and poverty by increasing the growth of per capita income. There is no doubt that these two problems are the worst enemies of environmental and sustainable development. Indeed, higher income level can reduce the level of poverty and in that case, the exploitation of forest resources and pollution of environment by the poor classes of population will be substantially reduced. The poor will, then, not pollute the environment. For instance, they will not defecate near road side, nor will they cut the forest for fodder and firewood. They will innovate more decent ways of performing their daily chores. Moreover, at a higher level of per capita income, the parents will not have to depend so much on the additional income from children. In other words, when the parental income level is higher, the dependence on the children will automatically reduce.

In the early stages of development, or in the traditional sector, the cost of rearing a child is very low, while the expected benefit out of him is too high. However, at an advanced stage of industrialization, the situation is quite opposite. As a result of increased per capita income, birth rate tends to fall. At a higher level of income, the standard of living becomes a more dominant consideration. At this stage, many parents will like to have a car rather than a baby. Urbanization has also helped in reducing the birth rate. In an urban area, a big family is a liability. Lack of accommodation, higher rents and higher cost of rearing children helps to reduce the tendency towards higher birth rate. Moreover, birth gets reduced by late marriage, which is a trend in many urbanized societies. Birth rate can also be reduced if the death rate is low. In fact, with the rise in the level of income, it is possible to have better medical care and public health services, and all these combinations reduce the death rate. Since death rate is lower now, the birth rate has also reduced. In the same way, since poverty is a negative function of income, a rise in the level of income will help to reduce poverty. But the level of income that is needed to reduce the rate of growth of population will have to be critical minimum. If the rise in income is very low and slow, population and poverty both will rather increase than decrease. Thus, people say that a good rate of growth is the best contraceptive.

However, there is a note of caveat. It is often found from experience in less-developed countries that it is during the period of fairly good growth rate that an economy experiences environmental hazards and pollution. The point is made by the South against the limitless growth philosophy of the North. The North maintains that in LDCs, the pollution is not created by economic growth as such but by the teeming millions of people. The North goes so far as to say that the LDCs are suffering not from high growth rate but from low growth rate syndrome. Some researchers cite results of cross-national regressions showing that there is an inverted U-shaped relationship between per capita income and the correlates of environmental degradation in a country like India (see Rao, in Chary and Vayasulu, 200). This implies that at a lower per capita income growth, the environmental pollution is showing an upward trend and, at a still higher level of income, the level of pollution is going to be lower. If this is true, one should specify the exact level of income that is expected to show such a declining trend of national pollution.

But in spite of the fact that a very high level of income growth is a method to bring down the pollution level, a number of cogent points can be made here. First, a higher level of per capita income growth is often associated with a higher level of inequality in income distribution. This is true for many LDCs including both India and China (Ghosh, 2009, p.28). In both India and China, the levels of income inequality were lower in 1986 when these countries had a lower rate of economic growth. However, with a higher level of economic growth, the income inequalities were exacerbated in both these countries.

It should be pointed out that growth and environment are not necessarily competitive issues. The one is interacting with the other. So the choice cannot be an absolute one for the time to come. There are in fact many points of trade-off—there can be a higher growth rate with a tolerable rate of environmental damage, or a lower level of growth rate with maximum possible level of environmental resources and natural capital. The pertinent question is—what does the society want at the present stage of development? It is a choice between the present and the future. If society puts more premiums on the present, then higher level of growth is the answer, but if the society discounts the present and puts a premium on the future, then lower rate of economic growth will have to be associated with a higher level of environmental growth and protection.

GLOBAL ENVIRONMENT: SOME BASIC ISSUES

The issues involved in the study of global environment (GE) will be analysed in three parts. First, a list of major global environmental problems will be provided. The second part of the discussion will be devoted to the global inequalities in handling GE problems and the last part will analyse a few serious problems of less developed countries including India. The impact of different types of pollution on human health is discussed in the next section of this chapter.

Major Global Environmental Issues

The major global environmental problems include:

Global climate change
Ozone layer depletion
Acid rains
Noise pollution
Pollution of international waters
Desertification of land
Deforestation
Soil erosion, radioactive pollution
Loss of valuable species
Loss of biodiversity

In the year 1991, the World Bank, UNDP and UNEP identified the following four major global environmental issues. These issues are—biodiversity, climate change, depletion of the ozone layer

and the problems of international waters. Various environmental treaties have been trying to take the following actions:

- 1. To conserve the biological diversity and to fairly and equitably share the benefits of genetic resources
- 2. To control and reduce the harmful effects of desertification and deforestation
- 3. To protect and enhance wetlands
- 4. To conserve and rationally use the marine living resources
- 5. To protect the endangered species of flora and fauna from over-exploitation
- 6. To conserve and effectively manage migratory species.
- 7. To protect the ozone layer, and phase out the ozone depleting substances
- 8. To stabilize the emission of greenhouse gases
- 9. To prevent the dumping of hazardous waste
- 10. To regulate the quantity/quality aspects of international waters.

Global Inequalities in the Management of Environmental Problems

Some developed countries (DCs) are unnecessarily internationalizing the global environmental problems to gain some advantages and to put the LDCs into trouble. The following discussion will make the point clear. The DCs are interested only in those problems the solution of which will give them some advantages and will lead to an effective control over the LDCs. In Africa, for a long time, desertification was a global problem but no attention was paid to it by the DCs until recently. While LDCs are trying to phase out the harmful CFCs, the DCs under the Montreal protocol have been given the power to increase the production of CFCs. The LDCs, however, are not getting any special financial assistance for such an attempt, although the production of CFCs may reduce the tempo of industrialization in these countries. CFCs are often necessary for industrialization and growth. DCs are mostly the polluters in developing countries which are accommodating more and more multinational corporations. The principle that "polluters must pay" was adopted in the Rio Declaration; but the MNCs do not bother to pay any heed to such a treaty.

The DCs dump hazardous wastes in the LDCs so as to reduce cost and evade laws. Sometimes, the Northern companies make deals with Southern companies, or villagers in the coastal areas for dumping of hazardous waste. In 1996, more than 289 ships came to India for the disposal of such harmful waste from America [Gupta, J., 2000 in Cary and Vayasulu (Eds.), book, p. 259].

Western researchers, very often, use genetic resources from developing countries without paying any compensation. The patent system, especially in the field of biotechnology, exploits the LDCs. Since the products of biotechnology industries earn a huge amount of profit, the North is interested in patent protection, although the basic inputs are obtained from developing countries.

The international agencies are interested in making an international treaty on forestry. This is objected by the LDCs on the basis of the fact that forests are national resources and no international treaty is needed for their protection. The above points will show that the DCs are trying to internationalize every environmental issue in their favour for imposing control and gaining international supremacy.

Problems before Developing Countries: International Inequalities

In the area of environmental management, the LDCs are confronted with many serious problems. Some of the major problems are listed below.

First, in the long-run, it is believed that reduction in emission will reduce the tempo of economic growth in such countries.

Second, the western polluters in such countries cannot be compelled to pay for the pollution created by them. The paradigm 'polluters must pay' has been changed to leadership paradigm. The western polluters are accorded the role of leaders who try to control pollution in all the countries. The principle of 'grandfathering' is getting the upper-hand.

Third, while the DCs have got the *de facto* property rights to pollute more, the LDCs are punished for that. The international agencies are following a double standard, and the interests of LDCs are consistently overlooked.

Fourth, the technology transfer agreements are increasingly using the provision of certain environmental criteria. In that case, it will be difficult for the LDCs to absorb western technologies.

Fifth, global power politics is being used in the case of global environment management. The western investors are asking for a complete control over their own investment and its consequences in the developing, host countries. This will intensify the problems of environment in LDCs.

Sixth, current international trade from the South involves a form of invisible subsidy to the North as the raw materials exported by the South are not priced on the basis of ecological value. The eco-labelling and packaging rules imposed by the importing DCs may reduce the trade from the South.

Seventh, international debt problems make the LDCs economically and environmentally vulnerable as many of these countries have to exploit their forest resources to a level which is unsustainable.

The aforesaid problems are common to many of the developing countries, and unless the international economic and power structure is based on equity principle and the Southern countries develop a strong countervailing power, such a deplorable situation is likely to continue forever.

Causes of Envirionmental Pollution: Some Ethical Issues

Mahatma Gandhi used to say:

"The earth provides enough to satisfy every man's need but not every man's greed."

The **basic causes** of environmental degradation are:

- Human greed and rapacity (egoism and selfishness)
- Large and growing population and capitalist industrialization (profit/exploitation).

As the following diagram shows, if ethical rooting and profit motive are strong, depending on their relative strength, two alternatives are possible. If the rooting is strong but profit motive is normal, environmental degradation can be reduced. In the case of poor ethical rooting of the mind in the context of a strong profit motive, there will be more of environmental degradation. But if there is normal profit motive and also poor ethical concern (rooting), the situation may be indeterminate (or amoral) with respect to environment.

ETHICAL ROOTING

	STRONG		POOR	
Profit Motive	STRONG	ER > P = Env. Care PM >ER = Env. Degradation	Env. Degradation	
	NORMAL	Env. Care and Support	Indifference [Amoral]	

IMPACT OF ENVIRONMENTAL POLLUTION ON HUMAN HEALTH

Neo-liberal globalization that spreads the message of an increased tempo of industrialization through capital and technology intensive methods of production has exacerbated the environmental pollution (EP) several times in recent years. The EP is the common name given to a syndrome of different types of pollution including air pollution, water pollution, dust pollution, soil pollution, radioactive pollution, noise pollution and thermal pollution. The modern world has been witnessing various types of environmental pollution. Population growth and environmental pollution go hand in hand. Population growth directly or indirectly affects the environmental tranquillity and ecological balance. Run-away world population figures continue to exacerbate environmental problems. In the year 1999, the world had 6 billion human beings, by the year 2110 it will have 10 billion people. These additional people need food, fuel and other necessities that the earth is already straining to provide. The world already has 500 million undernourished people, and this number will increase by 10 per cent in the next decade. Along with population growth, different types of environmental degradations will be triggered. Environmental pollution has been affecting the people of both the developed and underdeveloped countries. However, the nature of environmental pollution is different in these two types of countries. In the developing countries, urban slums and pollution are the outcome of excessive population growth and uncontrolled migration of people. The threat to human life has become so imminent that concerns have been expressed by experts and even by the world bodies to control the environmental problems at the earliest opportunity.

Linked with globalization is the ecological system of the world. Globalization may not be the casual factor but it is associated with the declining state of our eco-system. The ecological development of the world has a definite impact on human health and well-being. The UN Report on the

State of the World's Cities (2008/9) puts the current ecological footprint of humanity as 2.2 hectares per person, while the earth's biological capacity remains at 1.8 hectares. The two Asian superpowers, China and India have ecological footprints that are twice their bio-capacity. This implies that what the population consumes in a year, their area of earth will take two years to produce. This seems to be consistent with the Malthusian legacy—the growth of population is going to outstrip the growth of food supply. If this is true, it is sure to impinge on human health and happiness. There are, of course, other challenges on which the report has been elaborated. These challenges relate to mobility, waste management and environment. Some of the natural catastrophes like climate change, triggered partly by irresponsible human actions during the period of globalization, will not be amenable to proper management and control. The magnitude of the climate change in the years to come will be simply incredible. There could be long spells of heavy rains, prolonged dry weather, powerful cyclones or tsunamis. The glaciers of the Himalayas may start melting and the sea levels may rise. But the rub is that, it will be difficult to reverse the trend, even if the whole world starts taking measures to protect the environment now (*The Hindu*, December 3, 2008). The impact of the climate change will not be confined to one or two countries, but will be felt across the world. The disaster will have direct deleterious impact on human and animal health.

Climate Change and Other Agents of Pollution

The indirect impact of climate change on human health will be through its damaging effect on the production of food and fibre. In a report by the Food and Agricultural Organization (FAO, 2008), it is said that ocean warming, frequent tropical cyclones, flash floods and droughts are very likely to bring a devastating impact on food production system in the Pacific Island countries. Climate change related disasters have already constrained the development of these islands in a serious manner. The climate change is also going to reduce the food security (especially for the households). Moreover, increasing coastal inundation, salinization and erosion as a consequence of the rise of the sea level, and human actions may indeed contaminate and reduce the area of agricultural lands for the purpose of food production. This is sure to impinge on the problem of household and national food security. The FAO has advised the world countries to build a resilience of the food systems in order to avoid enormous future economic losses in food, agriculture, fisheries and forestry. In order to fight the menace of climate-change-related disasters, the countries will need to assess the degree of vulnerability of their food security systems, and accordingly, they can make viable plans for agriculture, forestry and fisheries. It becomes clear from the report of the FAO that the indirect effect of climate change on human health will be serious and unpredictable.

Because of excessive concentration of population and industrial activities, enormous amount of domestic and industrial waste is discharged into rivers, which creates water pollution. The deposit of chemicals may also pollute the air. Water may also be polluted by cadmium, which causes impairment of the central nervous system. Nitrate pollution of water supplies, which causes methaemoglobinaemia, particularly among infants, is reported in North American countries. Water pollution may also cause hepatic disorders, typhoid and intestinal diseases. Water pollution may be biological, radioactive or chemical. The constant use of synthetic detergents leads to considerable river pollution. The presence of detergents renders life impossible for some micro-organisms

which assist in the natural biological purification of water. Detergents also affect the re-oxygenation capacity of river water. Excessive fluoride in water may cause dental fluorosis or hearing deficiencies in children. Chemical contamination of water is enough to produce toxic effects. The biological contamination of water is responsible for many types of endemic infectious diseases like typhoid, cholera and dysentery. Epidemiological studies carried out in many countries have established that soft water may produce cardiovascular and cerebrovascular diseases.

Only 10 per cent of the world's fresh water is polluted in terms of diminished oxygen content. However, while most rivers are fairly clear of organic pollution, some contain high concentration of pesticides or polychlorinated biphenyls. These are dangerous carcinogens. A more serious problem regarding fresh water is its uneven distribution. Less than 50 per cent of the world's rural population and nearly 75 per cent of its urban population have access to clean water. Adequate sanitation is available only to 15 per cent of the rural population and 59 per cent of the urban population. The UN hoped that by the year 2000, everyone could have clean water and adequate sanitation. But that hope has not been a reality. A high rate of population growth prevents adequate investment for the availability of pure water and adequate sanitation in developing countries. Salt water pollution remains a concern especially after the outbreak of algae blooms along the southern Scandinavian and the US east coasts. The North Sea seal and dolphin deaths and the appearance of medical rubbish have polluted the salt water. One hopeful sign was the fact that in 1987, eight North Sea countries agreed to reduce the waste incineration at sea by at least 65 per cent by the end of 1990, and phase it out completely by 1994. However, it has not been possible to do so.

Noise is capable of producing damage to human beings. Noises produce congestion, visual distraction and so on. Noise at a high pitch (over 80 decibels) may cause temporary decrease in the size of the blood vessels and produce a high pulse rate, hearing damage, cardiovascular problems and the constriction of muscles. The blaring of loudspeakers and radios in the urban areas may create noise over 70 decibels which, in many cases, can cause a nervous breakdown and disturbance of sleep.

It is necessary to dispose of hazardous wastes. Most developed countries send their waste to the less developed countries of Africa and elsewhere. The OECD countries generate between 300 and 800 million tonnes of hazardous waste per year. The US alone contributes 88 per cent of this amount. The developing countries like India, Brazil, South Korea and China also contribute substantial hazardous wastes. A large proportion of this waste is produced by the chemical and mineral industries. The cost of the disposal of hazardous waste is pretty high and several countries flush their wastes into oceans, even though there are international and regional conventions to control such dumping. Land disposal is the most popular method of waste disposal. The Kommenekimi method of Denmark destroys more than 90 per cent of the country's hazardous waste and at the same time supplies 35 per cent of the heating needs. However, because of many difficulties, the developed nations continue to transport their hazardous waste across borders for someone else to deal with. Some of the third world countries accept the waste in exchange for hard cash. But this has triggered widespread concern recently in the African countries. In 1988, the Organization of African Unity adopted a resolution condemning the use of Africa as a garbage heap.

Another important issue in the environmental balance is the fact that the earth is gradually burning due to those human activities that artificially increase the amount of carbon dioxide and other greenhouse gases in the atmosphere. The burning of fossil fuels releases an extra 5000 million tonnes of carbon every year and the destruction of forests and other vegetation creates another 1600 million tonnes of carbon annually. The other gases that are harmful for the environment are nitrous oxide, methane, chlorofluorocarbons and ozone, which, when trapped below about 12 km, are damaging to the human body. According to one estimate, within a century, there will be a warming of the earth by between 1.5°C and 4.5°C. This will have far-reaching environmental and socioeconomic implications. The wind pattern and rainfall will change, making some regions wetter and some drier. In some regions, there may be tropical storms. In the event of the greenhouse effect, food production will fall marginally, because some areas may not be able to adjust to the climatic changes.

Air pollution

In the present section of the book, I will concentrate on the ill-effects of only air pollution. Of all the agents of environmental pollution, air pollution is the most serious that affects our health. There are, of course, ozone depletion, global warming and climate change. Air pollution refers to the presence of many types of obnoxious substances and chemicals in solid, liquid or gaseous forms in the air. Air becomes polluted when the concentration of sulphur and nitrogen based compounds and other harmful particles like dust, smoke, ash and gas, and suspended particulate matter accumulate in the air beyond the acceptable standards. The World Health Organization estimates that more than a billion people in Asia are exposed to air pollution levels that exceed their guidelines. This is considered to be a reason for the premature death of half a million people every year. Researchers at Brigham University and Harvard School of Public Health have recently found that the average life expectancy had increased by three years between 1980 and 2000 in those cities in America where pollution had been kept at bay. Reducing pollution produces measurable gains in terms of human health and life expectancy. Cleaner air has lengthened life expectancy by five months in 51 US cities, as a news report revealed in January 2009.

Air pollution may be caused by the combustion of fuels, incineration and the fumes from different types of transportation. Nearly 70 per cent of air pollution is caused by the exhausts from automobiles which have become a part of modern life. The clean air is contaminated by carbon dioxide, sulphur compounds, carbon monoxide, nitrogen compounds, hydrocarbons and particulate matters. Different types of compounds become highly toxic when they are mixed in the air. Air pollution largely affects the industrial sector of both the developed and the developing countries. A high concentration of carbon monoxide in the blood obstructs the supply of oxygen necessary to maintain the vitality of the body's cells. Tetraethyl mixed with automobile fumes and lead poisoning become very harmful for the human body. All these may cause anaemia, nervous disorders and muscular problems. Air pollution is responsible for various types of respiratory diseases. Air pollution in some countries has, of course, decreased since the 1970s, particularly in some western countries. The Protocol of the 1979 Convention on Long-Range Trans Boundary Air pollution which came into force in 1987 is further expected to reduce it. However, according to the data supplied by the NEP (1984), out of the 54 major cities, 27 were found to have unacceptable or just marginal air according to the standard of the World Health Organization. Extrapolated worldwide, this means

that some 990 million people (almost 50 per cent of world's urban people) breathe marginal or unacceptable air. The cities surveyed which had this marginal or unacceptable air included Delhi, Dublin, Hong Kong, Shanghai, New York, London, Milan, Tehran, Seoul, Rio de Janeiro, Sao Paulo, Paris, Beijing, Madrid and Manila.

The World Development Report (2007) has studied the seriousness of the air pollution problem in different countries of the world and finds that the most polluted city in the world in terms of particulate matter (PM) is Cairo (Egypt) followed by Delhi (India), and the least polluted is the Shenyang City in China (see Table 7.1).

Table 7.1 Most Polluted Cities by Particulate Matter (PM)

Particulate Matter μg/m³ (2004)	City
169	Cairo (Egypt)
150	Delhi (India)
128	Kolkata (India)
125	Tianjin (China)
123	Chongqing (China)
109	Kanpur (India)
109	Lucknow (India)
104	Jakarta (Indonesia)
101	Shenyang (China)

Source: World Development Report, 2007

A large number of epidemiological studies have provided quite authentic evidence that air pollution is associated with increased morbidity and mortality (WHO 2002). Air pollution mostly affects the cardiovascular and respiratory systems. A study by Gregory A. Wellenius et al. (2007) finds a small but statistically significant inverse association between ambient particles and blood oxygen saturation, but no association between short-term fluctuations in the ambient pollution levels and functional status as assessed by the circulating levels of BNP have been found. However, in this case, the sample size was too small to give the correct result.

The reports of the WHO disclose that each year, more than 2.5 million people die of air-borne diseases. EP can be an indoor or an outdoor phenomenon, or both. Tobacco pollution can lead to both indoor and outdoor pollution. The problem of air pollution is more or less affecting all the countries in the world, which has a deleterious effect on human health. The National Resources Defence Council of America reported a few years ago that every year due to air pollution, nearly 64,000 people die of cardiopulmonary diseases in the US, and nearly 30,000 people die prematurely every year due to the coal-fired power plants. It is estimated that for every one per cent loss of ozone, the risk of skin cancer in human beings will increase by about six per cent (GEO Year Book, 1997). The increasing demand for energy in the modern world leads to a burning of fossil fuels, which is a contributory factor to the aggravation of air pollution.

A study by Beatrix Groneberg-Kloft et al. (2006) has established that air pollution remains a leading cause of many respiratory diseases, including chronic cough. The authors observe that a long-term exposure of children to nitrogen oxide is associated with an increased incidence of chronic cough and decreased lung function parameters, and there is some evidence that chronic inhalation of diesel can also lead to the development of the cough. Sulphur dioxide is also known as a major respiratory irritant. Another powerful oxidant is ozone that affects the functionality of the respiratory tract. An exposure to a slightly elevated ozone concentration produces many unwanted respiratory syndromes. A correlation is found between the indoor air pollution and chronic cough; arsenic contaminated well water in Bangladesh has been responsible for chronic respiratory diseases too. Depleted uranium, a radioactive heavy metal, is also associated with chronic cough.

Air pollution consists of particulate matter, sulphur dioxide, nitrogen oxide, carbon monoxide, hydrocarbons, volatile organic compounds and ozone. Except ozone, all other chemicals, having the value of the air quality index exceeding 150, can affect human health. Lead and arsenic, very common chemicals found in water, soil, air, paints and children's toys, can cause serious damage to health. Arsenic is associated with diseases of the skin and nervous system. It also triggers the risk of certain types of cancer including kidney, lungs and bladder. Lead poisoning, which is a common type of poisoning in less developed countries, is associated with brain damage, mental retardation, stunted growth and reduced I.Q. Very often, indoor air pollution is many times more serious than outdoor air pollution in terms of health risk. Indoor air pollution in India causes nearly half a million of deaths of women and children every year (Mukherjee and Hazra, 2008, p.14). Apart from these, there are hazardous chemicals all around us that have deleterious effects on human and animal health. The International Environmental Organization has identified more than 180 air pollutants and some of them are so poisonous that they can have a devastating effect on human health including skin, brain, nervous system, reproductive system, and respiratory and circulating channels.

Continued exposure of workers in the asbestos factories to silica dust in various parts of the world, particularly in the LDCs, leads to different types of serious diseases. Asbestosis causes pleural and parenchymal changes and may also cause broncogenic carcinoma and malignant mesothelioma among the workers. Silicosis is caused by exposure to silica dust and it primarily involves diseases of the lungs. It is accompanied by cyanosis and inflammation of lungs, shortness of breath and fever. In the Western countries, the incidence of silicosis has substantially reduced over the years due to the use of many protective gadgets and respirators. However, in the LDCs, the multinational factories and local producers do not often provide the workers with these protective devices. Hence, the death rate due to silicosis cannot be reduced. This Grinder's disease is taking a large toll of human lives. Occupational hazards become more pronounced in the LDCs because of poor working environments and an absence of necessary safety nets. Globalization has indeed increased the risk of lives of poor factory workers. The bad news is that the green house gas emission has increased in transitional economies by 7.4 per cent, while it was reduced by 5 per cent in the industrialized countries during the period 1990–2006 (UN Framework: Convention on Climate Change).

Motivated by the philosophy of maximization of profits, neo-liberal globalization has witnessed an expansion of the polluting industries in different parts of the world, particularly in the Third World countries. Table 7.2 reveals the global trend of carbon concentration, ozone depletion and global temperature over a period of four decades. The table clearly shows that while the carbon concentration in the air has been increasing with the rising temperature, the concentration of ozone is gradually declining which is harmful for life on earth. This may, in the long run, jeopardize human well-being resulting in a declining stock of the ecological capital and an inferior quality of human life. A study by Phillip O'Hara (2006) finds that there is a contradiction between environmental protection and the expansion of business/profit in our times. The temptation for profit in the days of globalization is so great that the world's most polluting country, the United States, refuses to sign the Kyoto protocol to minimize the level of pollution. What has become clear by now is that there is a positive trade off between business profits and environmental pollution in the world today; but the problem is that the capitalist countries do not appear to understand this empirical truth.

Table 7.2 Global Environment (1960–2000)

	1960	1970	1980	1990	2000
Air Concentration of CO ₂	317	326	339	354	369
Global Temperature Change (Compared with the 1961-90 average)	0	-0.05	+0.12	+0.26	+0.38
Ozone Concentration (Dobson Units)	293	276	227	172	135

Source: Compiled from various sources, as given in O'Hara (2006)

The level of pollution varies from country to country, and even in the same country, there may be different cities with different degrees of air pollution. Generally speaking, urban areas are more affected by air pollution than rural areas. Urban areas have higher concentration of motorized vehicles and various types of industrial activities. The Central Pollution Board of India measured the air quality in four Indian cities in 2007 and found that in terms of nitrogen dioxide and respirable suspended particulate matter (RSPM), the city of Mumbai was the most polluted one, followed by Delhi. The level of air pollution in these two cities was beyond the nationally acceptable average (vide the following Table 7.3). However, due to heavy rains, no comparable data could be collected for another city (Vadodara).

Table 7.3 Air Quality in Major Indian Cities (13–14 February, 2007)

City	Sulphur Dioxide	Nitrogen Dioxide	RSPM
National Standard	80	80	100
Chennai (Adyar)	7	12	94
Delhi (BSZ Marg)	7	70	133
Mumbai (Sion)	35	103	293
Vadodara	NA	NA	NA

Source: Govt. of India, Central Pollution Control Board (www.cpcb.nic.in)

In all the cities in the world, due to a large number of vehicles and burning of fossil fuels, the air pollution is on the rise on a daily basis. Whereas in the developed countries old vehicles are discarded or destroyed after a specified number of years, in the LDCs, they are repaired and used on the road, and this increases the concentration of pollutants in the air. Of course, there are official provisions to check pollutants from vehicles and punish/suggest to the owners to remedy the situation. However, due to corruption and regulatory capture, the system of checks and balances does not work well in LDCs.

The damage caused by air pollution in many countries is well-known. Who is not aware of the Chernobyl nuclear power plant disaster of 1986? This has left behind a horrible impression on the minds of the people of Ukraine. In Kolkata, the winter season experiences deaths of many old people and children every year due to chronic obstructive pulmonary diseases and respiratory distress syndrome. The city of Kolkata has over 12,000 small and big registered factories, and there are over 60,000 registered vehicles operating daily (Mukherjee and Hazra, 2008, p. 45). The damage to health in Kolkata is caused by high concentration of the respirable suspended particulate matter and nitrogen dioxide in both industrial and residential areas. However, the Central Pollution Control Board of New Delhi (India) finds that the level of concentration of sulphur dioxide is not that alarming in Kolkata. Air pollution is very high in thermal power stations in India. Sulphur dioxide emitted from these plants is a major source of air pollution. A report by the WHO discloses that about 10 to 15 per cent of the population in India is suffering from asthma, bronchitis, hay fever and common cold, all air-borne diseases.

The BBC report in the year 2002 disclosed that in the United Kingdom, the Great Smog of 1952 which spread over London for six days was the main cause of death of 12,000 people. In the history of India, the worst type of air pollution was the Bhopal Gas Tragedy (1984). The leakage of a hazardous gas called methyl isocyanate from the Union Carbide factory, a multinational pesticide company, was responsible for the death of about 4,000 people and caused permanent or temporary injury to about 5,00,000. The gas leakage not only disabled the factory workers but also affected the members of their families and the residents who were staying nearby including children and women. In the US, in one of the worst incidents of air pollution, 20 people died and 7000 people were injured in Donara, Pennsylvania in 1948. The leakage of a poisonous gas, anthrax spores, from a biological warfare laboratory in former USSR led to the death of hundreds of civilians including women and children in 1979. There are numerous examples to prove that no place in the world is safe from air pollution. The Environmental Protection Agency reported in 1985 that indoor air pollution was three times more dangerous than outdoor air pollution in American homes, and in such a situation, the members of a family are susceptible to serious health problems including cancer. This shows that ladies who stay at home most of the time are prone to air-borne diseases. The chances for such diseases are far higher for women in less developed countries than those in developed ones, as in the latter countries, most of the female members also work outside homes. In fact, housewives who are constantly exposed to the cooking fuel in the developing countries, have higher possibilities of health damage from the indoor air pollution.

In China, the major cities like Beijing and Shanghai are affected by the over-accumulation of carbon monoxide, nitrogen oxide and photochemical smog. However, China has been trying to reduce the air pollution by following the standard set by the European Union. In an empirical study conducted in Ukraine, it is estimated by Elena Strukova et al. (reported in Mukherjee and Hazra,

2008, Ch. 8) that air pollution related mortality represents about six per cent of the total mortality in the country; in Russia, it is about four per cent. But morbidity represents about thirty per cent of total air pollution health load.

The monetary cost of mortality and morbidity due to air pollution is around 2.6 billion USD per year. This cost of air pollution in Ukraine is too high and in the near future, as the authors maintain, it will offset the economic growth rate.

It needs to be borne in mind that the actual effects of air pollution on human health are not properly Air pollution preciated in the LDCs because most of the minor ailments produced during the short period or due to a short-term exposure are neither medically consulted nor registered on medical records. However, the acute effects of air pollution are produced rather dramatically and can be easily identified. Short-term elevations in atmospheric particulate matter have been often associated with the triggering of acute cardiovascular syndromes which include myocardial infarction, ventricular arrhythmias and ischemic strokes. Studies have found a positive association between short-term increases in these ambient particles and the risk of heart ailments. The long-term effect of air pollution is also ignored as it cannot be separated when mixed with the basic syndrome of another acute or chronic disease. Moreover, the effect of air pollution on plants and animals is neglected in such studies. Thus, the actual impact of air pollution remains underestimated. The authorities very often forget about human health and are excited about the progress of urbanization, rapid rate of industrialization and a high rate of quantitative economic growth. Quantity of material gains often overshadows the quality of human life. This is indeed the travesty of modern age and civilization.

Some Facts About Environmental Pollution in India

- 1. The Bhopal Gas Tragedy of 1984 is still vivid in the minds of Indians.
- 2. Every year, India generates USD 1.5 billion worth of e-waste and out of this, 30% is contributed alone by the IT industries (Toxics Link, 2006). In the IT industry in Bangalore alone, some 30,000 computers are discarded every year. If we add the figures from the rest of the country, it will be an alarming statistics. India does not have a strong E-waste Disposal Policy
- 3. Most of the rivers in Gujarat near the chemical corridor are polluted, and 74 out of total 184 Talukas are polluted by the industries (see State Environment Action Plan Report).
- 4. The mercury spill by the Hindustan Lever in 2001 has been causing potential threats to the lives of about 30,000 people in Kodaikanal, Tamil Nadu (Chokhani, 2005). The project was subsequently discontinued.
- 5. The 700 dyeing and bleaching units of textile industry at Tirupur in Coimbatore (Tamil Nadu) have been discharging 100 million litres of effluent every day to Noyyal, a tributary of the river Cauvery. This has contaminated the water and made it unsafe for human usage and it has also rendered about 20,000 acres of land in the nearby area uncultivable (Kapadia, 2006).
- 6. The adverse effects of endosulphan on the cashew nut plantation workers in the villages in the Kasargod district of Kerala has now become very clear from many empirical studies on the subject (see at the end of this book, case studies). The aerial spraying of endosulphan for fifteen years has brought about hundreds of death, disabilities and disorders in Kasargod.

7. Human food chains are also consistently affected by environmental pollution. So, the vegetables, fruits, fish, etc., that we eat everyday are all contaminated.

SOCIAL COST OF POLLUTION

Some authorities favour the idea of calculating costs and benefits for the purpose of proper management of the environment. However, it is indeed very difficult to calculate the cost and benefits of environmental control. In this section, we will explain the meaning and impact of the externalities (external factors or influences).

What is an Externality?

Externality is an influence that does not come from the institution of market but affects the welfare of a person either adversely or favourably. Externalities adversely affect the economic efficiency.

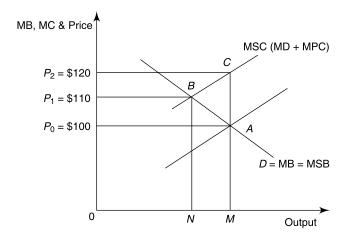
Externalities can be positive or negative. Air pollution is an example of negative externality. A negative externality is a cost which is not reflected in the market place. A positive externality is a benefit accruing to a person without his own effort and it is not generated from market transaction. Education is a good example of a positive externality. An educated person is likely to produce many benefits to the society as a better citizen, as a source of information, advice, and so on.

Positive and negative externalities can be found both in the case of consumption and production. An example of positive externality in consumption is vaccination. By vaccination, not only is the individual vaccinated and protected from certain diseases, but the whole society is protected. An example of negative externality in consumption is the noisy motorbike which creates disturbances to the others. An example of positive externality in production is the beehive which not only produces honey for the owner but also help in the pollination of plants. Another example of negative externality in production is the riverside chemical factory which dumps its chemical wastes in the river and pollutes its water.

As it has already been pointed out, a positive externality is a benefit and not a social problem because it simultaneously improves the economic welfare of everybody (e.g. provides a good climate). Since a negative externality creates real problems, the subsequent discussion would be devoted to the same.

Negative Externality and Market Failure

In the case of negative externality, the social cost is higher than the private cost. To be more precise, the marginal social cost is higher than the marginal private cost, and the actual output produced by the negative externality creating industry (or film) does not take into account the social cost that it creates. Thus, the competitive equilibrium will result in, (i) more than the efficient output and (ii) less than the efficient price. The market price falls short of the actual marginal social cost of the product. Under such a situation, an excessive amount of resources is allocated to produce the output which involves externality (see Fig. 7.1). The market fails to achieve allocative efficiency.



Externality and market failure Figure 7.1

Figure 7.1 assumes that the demand curve for the product (D) reflects the marginal benefits (MB). When the social cost (equivalent to MD) is neglected and the production consideration is based on the marginal cost (MPC) alone, then the output would be OM and the price \$ 100 per unit of the output. However, if social cost is added to the marginal private cost, then one can get the actual marginal social cost (MSC). Thus, the correct equilibrium point is not A but B, and the correct output is not OM but ON. The actual output OM is not the correct output and the actual price (OP_o) is not the correct price because at this level of output and price, the marginal serial cost (MSC) is higher than MSB. The efficient output corresponds to point B where MSC = MSB. Thus, in the case of negative externality, actual output is higher than efficient output and actual price is lower than the efficient price $(P_1 = \$ 110)$.

Why is Negative Externality a Problem?

The problem of the negative externality in production, though discussed earlier, can be summarized as follows:

- (i) Price mechanism fails to allocate resources.
- (ii) Actual competitive output is more than the efficient output.
- (iii) The actual competitive price is lower than the efficient price.
- (iv) The society is at a loss because the competitive productions relations and conditions to the losers.
- (v) Since externality is not transmitted through the market and there is no market for the negative externalities, the market solution does not seem to be possible.

Ethical Issues in Environmental Pollution/Damage

Environment pollution is associated with many types of ethical problems, some of which are briefly discussed below.

- 1. As pointed out in the foregoing analysis, negative environmental externalities (external influence) impose extra cost on the poor people who are affected by the pollution. This leads to lower benefits and loss of utility. Very often, the social cost is not paid by the polluter but has to be borne by the sufferer. This is ethically unjust and wrong. Negative externalities thus lead to market failure because the market mechanism cannot account for them, and as a result, the market price does not show the real worth of a commodity. In such a situation, there are misallocations of resources.
- 2. As most of the poor people depend on forests for the environmental resources for their livelihood, it is morally unjust to destroy or damage these resources. As discussed earlier, poverty is also responsible for environmental degradation. However, once the level of poverty is reduced through economic development, there is a possibility of less environmental damage.
- 3. It is the basic human right to enjoy a clean and healthy environment. Environment pollution deprives human beings of such natural rights and hence it is unethical.
- 4. Environment pollution endangers the health of poor people who reside in vulnerable areas. EP imposes a higher burden on the poor people because sickness leads to a loss of income and productivity and man days.
- 5. Pollution increases the cost of production (if the social cost is included) and reduces the output. Both are socially undesirable, particularly for the poor people.
- 6. Justice says that polluters must be punished and they should pay for the damage. But very often, they go scot free because of the legal loopholes and regulatory culture.
- 7. More often than not, environmental pollution occurs due to the over-use of natural resource, which is made possible by an increasing domination over nature. Too much domination over nature is unjust and unethical in the sense that it is exploited for personal or selfish ends.
- 8. Damage to environment is unethical and unjust for the future generations who have equal rights to enjoy the benefits and gifts of nature. Human racity is responsible for the degradation of the environmental resources. The depletion of these resources is unjust and unethical for the posterity.
- 9. Environmental pollution leads to the loss of life or extinction of certain species of animals, fish and plants and the loss of ecological balance. Non-human creatures have also the right to live in a natural environment along with human beings. The harm caused to them is unethical and unjust.
- 10. Environmental pollution leads to hedonic **injustice** by distorting the prices of land, houses and other habitats. Prices of houses and lands in the polluted areas go down abnormally and the owners suffer unjustly without any fault of theirs.

Management of Environmental Pollution

Corrective Pigovian Tax

A tax equivalent to the marginal damage created by the polluter can be imposed by the government on the polluter. Such a market-internalising tax is able to secure the position of Pareto optimality.

Government Regulation

Government regulation may be resorted in two cases: (i) to impose the correct dose of taxation on the polluter, and (ii) the merger of firms (the polluting firm and the victimized firm). However, such a merger is not possible due to many reasons. Nevertheless, the imposition of tax is likely to reduce the output of the polluting firm, which would be a gain for the victim because less output means less damage.

Market for Pollution Rights

Some economists feel that it would be better to allow the market to solve the negative externality problem by permitting the polluters to pay fees for the pollution. Such fees can be correlated to the pollution damage. The creation of a market for buying and selling polluting rights will have several advantages (e.g. the right can be given to the highest bidder), identification of the polluters would be possible and the emission standard can be fixed and controlled.

Internalization of Externalities

The internalization of externalities requires that the producers (polluters) are forced to take account of the costs they impose on others. In the case of negative externality, internalization requires that the social cost of negative externality be incorporated into the market price of the product. The increase in the market price of the good (as a result of the marginal social cost incorporating marginal private cost plus the cost of damage) would mean that the equilibrium quantity demanded and supplied of the good would come down, and therefore, negative externality would be internalized.

Creating Property Rights

According to Ronald Coase, well-defined property rights are sufficient to internalize any negative externality when there are small numbers of affected parties and when the transaction cost is very low. Government intervention is essential because it can not only establish rights to use resources but also encourage the trading of those rights, and minimize the transaction costs involved.

SUSTAINABLE DEVELOPMENT

Sustainable development (SD) is now regarded as one of the best policies for the management of environment vis-à-vis human consumption needs.

Ever since the publication of the Brundtland Commission Report in 1987, the concept of sustainable development has been the subject of a new understanding and many misunderstandings.

The United Nations World Summit in 2005 reiterated the views of the Brundtland Commission for the popularization and practice of sustainable development among all the countries in the world for the sake of a meaningful human existence with ecological balance. Sustainable development is a type of development that aims at using natural capital and environment in a way that can meet the present and future human needs. Thus, the use of these resources by the present generation will not deplete the stock of these resources for the posterity. Thus, sustainable development incorporates an element of intergenerational equity. However, sustainable development needs to be distinguished from *Green Development* which basically aims at preserving and promoting the environmental resources. The concept of green development is an overtly protective idea, and has nothing to do with economic and social development.

For understanding the core idea of sustainable development, one needs to know the level of human consumption and the replenishment capacity of the stock of natural capital. In this context, we may come across the following three situations:

Case One: Human consumption exceeds the replenishment capacity. So there is a depletion of natural capital. This, then, does not constitute a sustainable development.

Case Two: Human consumption of natural capital is just equal to the replenishment capital. This is, therefore, the steady state growth.

Case Three: Human consumption of the natural capital is much lower than the replenishment capital. This is precisely the case of sustainable development.

There are basically the following **four connotations of a sustainable development**:

- Human consumption of the natural **capital** is much lower than the replenishment capacity.
- Growth of development does not disturb the natural capital stock.
- Economic growth and natural capital development must be supportive of each other and they should be complementary in character.
- The needs of the present generation do not adversely affect the needs of the future generation.

Ethical issues implicit in the concept of Sustainable Development are:

- Cooperation and not the destructive greed and egoism.
- The virtue of the Aristotelian Golden Mean: Balance everywhere.
- The care for the posterity and recognition of their natural rights.

Sustainable development recognizes the constraints and limits to development, and believes in the inter-linkages that exist among the economy, society and environment. It is based on the recognition of the nexus that exists between socioeconomic development and environmental development. The theory of sustainable development works through inter-linkages, inter-generational equity and operational efficiency. It is a common experience that economic growth in the days of globalization impinges on natural environment and disturbs the ecological balance. The details about the type of nexus between growth and environment and the impact of growth upon environment have been discussed in the last section of the present chapter.

In recent years, the craze for quantitative growth in the developing countries under the influence of globalization does not pay much heed to environmental protection, which slowly destroys the stock

of the natural capital and is detrimental to both the present and the future generations. However, a contrary idea held by many economists is that natural capital, human capital and knowledge capital do not diminish over time. However, although these capitals are not completely destroyed in the long run, their replenishment capacity may not be the same as their levels of wear and tear and destruction due to over-use. But it must be conceded that, by following the policy of sustainable development strategy, the planners are able to make sure that there will not be any natural capability failure in the area of natural resource use. Sustainable development is essentially a policy-oriented strategy of development.

Sustainable environmental development has to take into account the carrying load on the environmental resources. As hinted earlier, if the load is such that it cannot replenish the damage or loss over a period of time, then the environmental development does not qualify for sustainable development. However, if the damage or loss done to the environment can be replenished over time and if the consumption level of the natural stock of the capital is much less than the replenishment power of the environment, then it is a case of sustainable environmental development. The problem with this type of analysis is that it considers environmental development in isolation and does not take into account many types of inter-linkages and feedbacks. It also assumes away the problematics of measuring the extent of real environmental damage or losses.

OPTIMUM POLLUTION

Sustainable development calls for optimum pollution (shown in Fig. 7.2).

A society should control pollution in such a way that the marginal damage cost from pollution (MDCP) becomes equal to the marginal abatement cost of pollution (MACP). The MACP is really the marginal benefit curve, as the abatement of pollution leads to some benefits. The intersection point (M) of these two curves determines the optimum pollution (OP). OP can also be explained

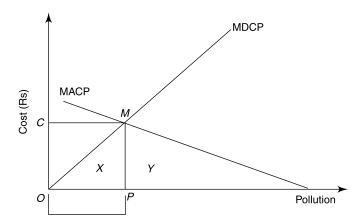


Figure 7.2 Optimum Pollution

in terms of total cost too (marginal cost is the slope of total cost). In the diagram, the total cost is the sum of the areas (X and Y). At the equilibrium, the total cost of pollution is the minimum. However, TACP is not necessarily equal to TDCP. Optimum pollution does not mean zero pollution. Generally, pollution is directly correlated to production of goods and services.

RESOLVING ENVIRONMENT AND GROWTH CONFLICT

While trying to resolve the conflict between environmental balance and economic growth, the following points need to be borne in mind:

- 1. Social cost and social benefits from environmental exploitation should be equal.
- 2. A trade-off is necessary between environmental goals and industrial growth.
- 3. There should be a market for pollution rights
- 4. A Pigou-type tax should be imposed on the polluters.
- 5. Negative externalities must be internalized by the polluting firm.

Summary

Human poverty, economic growth and environment are inextricably interrelated. In many ways, poverty is both the cause and effect of environmental degradation. Over-use and wrong use of resources are contributory factors to the damage and depletion of our natural resources. Both poverty reduction and sustainable development are possible simultaneously with good policies and their rational implementation. It is not impossible to enhance the resource use efficiency and transform traditional agriculture, and at the same time, keep intact the ecological balance.

Population growth and poverty are responsible for land and forest degradation. However, the poor people suffer disproportionally from the resources imbalance created by various factors. Pollution of all types affects the poor most; in terms of sickness, loss of income, loss of amenities that are possible from the nearby forest. Poverty is the worst pollutant. The pressure of population causes environmental degradation, which in turn causes more poverty.

There is no inherent contradiction between economic growth and environment, if the rate of growth is moderate and not competitive. A high rate of capitalist type of growth may jeopardize environment. It is the craze for a high rate of quantitative growth which is dangerous. A growth exercise based on the establishment of dirty industries and the exploitation of natural resources is detrimental to environment. Population growth rate is no doubt very harmful for the environment, but a high growth rate of per capita income may help in reducing the rate of the growth of population. A good rate of growth is the best contraceptive. A moderate growth rate can be achieved without much damage to the environment. It is the component of growth rate which is important.

There are many global environmental problems that include climate change, ozone layer depletion, acid rains, and different types of pollution, and many treaties have been trying to solve these environmental problems. Developing countries are suffering from serious environmental problems. The impact of environmental pollution on human health is well-known. Pollution also creates many social costs through negative externalities leading to market failures. Environmental

pollution is associated with many ethical issues which are more damaging to the poor people. It leads to hedonic injustice, accentuation of poverty, sickness and ecological imbalances.

Analysts have suggested many ways like pollution tax, creation of property rights, government regulations and so forth for the management of pollution. Green development and sustainable development are suggested to ward off the bad impact of pollution. Sustainable development can be made possible if human consumption of natural resources is kept at a much lower level than the replenishment capacity. It is, however, a policy-oriented strategy of development.

Key Terms

Poverty Cycles Polluters Air pollution

Climate Change Market Failure

Negative Externality Sustainable Development

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Externality affects the economic efficiency
- (ii) Poverty is both the cause and effect of environmental degradation.
- (iii) There is no inherent contradiction between the economic growth and the environment.
- (iv) Environmental pollution leads to a hedonic justice.
- (v) In a sustainable development, human consumption of the natural capital is lower than the replenishment capacity.
- (vi) "Polluters must pay" was adopted at the Copenhagen Conclave.
- (vii) SD incorporates an element of the intergenerational equity.
- (viii) Government intervention may not be essential to establish rights to use resources, encourage the trading of those rights, and minimize the transaction costs involved.
- (ix) A market-internalizing tax is able to secure the position of Pareto optimality.
- (x) Human food chains are not at all affected by environmental pollution.

2. Fill in the blanks

(i)	In order to reduce poverty, more of the natural resources will be depleted which, in future,		
	will aggravate poverty – This is called		
(ii)	A growth rate based on the and the existing is supposed		
	to be moderate in nature as it is based on the carrying capacity of the economy.		
iii)	A growth exercise that is based only on the establishment of dirty industries and the		
	exploitation of our is detrimental to environment.		
(iv) Some researchers cite results of the cross-national regressions showing that			
	shed relationship between and the correlates of environ-		
	mental degradation in a country like India		

Business Ethics and Corporate Governance

	the year 1991, the World Bank, UNDP a bal environmental issues, namely,					
(vi) The	e principle that "" was ado	nted i	n the Rio Declaration			
(vii) Pop	pulation growth directly or indirectly a balance.					
(viii)	water pollution remains a					
(ix) No	ises produce and		·			
(x) Env	vironmental pollution leads to		injustice by distorting the prices of land,			
hou	uses and other habitats.					
3. Choos	se the correct option					
(i)	Which organization adopted a resolution	n con	demning the use of Africa as a garbage			
	heap?					
	(a) Organization of African Unity					
	(b) Organization of Somalia					
	(c) Organization for the Protection of Hu	man i	Rights			
	(d) None of these					
(ii)	Which country uses which particular me					
	hazardous waste and at the same time supplies 35 per cent of the heating needs?					
	(a) India, Sublimation method	(b)	Denmark, Kommenekimi method			
	(c) Both (a) and (b)		None of these			
(iii)	What type of pollution can cause methaer	noglo	binaemia in infants?			
	(a) Nitrate pollution	(b)	Hydrogen pollution			
	(c) Water pollution		None of these			
(iv)	Nitrate pollution can cause:					
	(a) Insomnia	(b)	Alzheimer			
	(c) Both (a) and (b)	(d)	Methaemoglobinaemia			
(v)	Which study has established that the air p					
. ,	ratory diseases, including chronic cough?					
	(a) Study by Beatrix Groneberg-Kloft		Study by Engels			
	(c) Study by Zeithmal and Berry		None of these			
(vi)	Arsenic is associated with diseases of the		Trong of these			
	(a) Brain and nails		Skin and nervous system			
	(c) Both (a) and (b)		None of these			
(vii)	Asbestosis causes	(4)	Trone of these			
(111)	(a) Pleural and parenchymal changes	(h)	Inflammation of the oesophagus			
	(c) Distortion of limbs		None of these			
(viii)	The Bhopal Gas Tragedy took place in the	. ,				
(1111)	(a) 2000		1985			
	(a) 2000 (c) 1986	(d)	1984			
	(C) 170U	(u)	1704			

- (ix) According to which author are the well-defined property rights sufficient to internalize any negative externality when there are small numbers of affected parties and when the transaction cost is very low?
 - (a) Ronald Coase

(b) The Indian Government

(c) Adam Smith

- (d) None of these
- (x) A society should control pollution in such a way that the:
 - (a) Marginal Cost equals Marginal Revenue
 - (b) Marginal Damage Cost from Pollution equals the Marginal Abatement Cost of Pollution
 - (c) Average Cost equals Average Revenue
 - (d) None of these

Review Questions

- 1. Write a note on sustainable eevelopment.
- 2. Discuss the major ethical issues involved in environmental pollution.
- 3. Explain the major social cost of pollution.
- 4. How does environmental pollution lead to human health problems?
- 5. Explain how global inequalities are being accentuated by environmental pollution.
- 6. How is human poverty related to environmental pollution?

Web Links

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CHAPTER 8

Indian Ethos and Gandhian Ethics

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Early religious scriptures in India
- Ethics of Jainism
- Ethics of Buddhism
- Charvaka ethics of Hedonism
- Ethics of Vaishnavism
- Patanjali sutra
- Ethics of the Gita
- Moral standards in Indian ethics
- Gandhian ethics

Introduction

One of the greatest problems of philosophy, as Santyana once realized, is to devise the means whereby human beings may be persuaded to embrace *virtue* without any stimulus of supernatural hopes and fears. However, this problem was theoretically resolved by both Socrates and Spinoza who gave the world more or less, a perfect system of natural or rational ethics. If human beings follow either one of these, all will be well. But strictly speaking, rational morality or social regimen has never existed in the real world (Durant, 1961, p. 653).

However, there is a ray of hope simmering through the trajectory of Indian ethics. Indian ethics is an admixture of and an attempt to juxtapose the possibility of the realization of God and the godliness in human souls. Whilst *the Gita* and many other schools of Hindu philosophy aim at the realization of God, Buddhism and Jainism do not believe in the existence of God, but show empirical ways to attain the state of godhood through self-efforts that can liberate the human soul from the eternal cycle of birth and death. An attempt is made in the present chapter to elaborate on all these and many other major theories of Indian ethics. It will also incorporate a detailed analysis of Gandhian ethics.

DHARMA SUTRAS (SHASTRA)

The period of *Dharma Sutras* proceeded the era of Buddhism and Jainism in the sixth century B.C. It accommodated many of the important ethical principles and precepts of the Hindu way of life. *Dharma Sutras* contains many codes of behaviour and rules to be observed by human beings. Different dimensions of Hinduism are recorded in *Dharma Sutras* and various normative ethical behavioural and moral standards to be followed by the citizens are also discussed in this very ancient book. It also elaborates on the fourfold classification of human beings in terms of caste. The instructions contained in *Dharma Sutras* have been used and further clarified by many other religious writings and instructions. One such *Smriti* is known as the *Manu Smriti*.

Manu Smriti

Smirits are remembrances. Manu Smriti was intensely influenced by the Dharma Shastra. Manu Samhita contains discussions on various issues relating to economy, polity, social problems, religion, culture, morality, and so on. Manu Smritis has given further details on the behaviour, duties and responsibilities of various social classes of people as permitted by Hinduism. In this section, we will discuss the Four Stages in the life of human beings.

Four Stages of Life (Ashramas)

While Shakespeare has dwelt on the seven stages of life, Hinduism has compartmentalized life into four distinct stages. These four different stages are:

- Brahmacharya (Celibacy)
- Grihastha (Family life or householder)
- Vanprastha (Retired life)
- *Sanyas* (Life of renunciation or complete detachment from the family) Considering the span of a life to be 100 years, each stage is to be counted as 25 years.

Stage One

In the first stage of life (*Brahmacharya*), a person is to acquire knowledge and about the practical world, religion, *shastras* and ethical behaviour. The person is to, generally stay, in the house of his teacher and serve him constantly, and learn religious ideas. He has to regularly read religious

verses and listen to religious discourses. In this way, he attains maturity and becomes fit for the real world. This period of life is the period of learning and character building by practicing restraints by keeping all the senses under control.

Stage Two

The time span for the second stage of life is approximately between 25 and 50 years of age. During this period, a person marries and creates his own family and friends. His main duty is to maintain the family, look after his parents and accumulate wealth for his own family. He has to engage in mundane affairs. However, his life is supposed to be regulated by those moral and ethical teachings that he has learnt from his religious teacher. He must speak the truth, remain devoted to his family, respect his parents and observe all other duties towards his ancestors, parents and family, and also towards the society where he is living.

Stage Three

In the stage three of life (expanding between 50 and 75 years), a person spends a retired life. He gradually withdraws himself from the ties, burden and responsibilities of the family life. He shifts these burdens to his son or other eligible members of his family. He now takes less interest in family affairs and concentrates more and more on the spiritual aspect of life. He regularly reads scriptures and takes an active part in the religious ceremonies and rituals. However, he may still remain in the family but remains aloof from the materialistic tentacles. He starts practicing sacrifice and renunciation rather than accumulation and possession.

Stage Four

This is the last stage of life that covers the age span between 75 and 100. In this stage, a man prepares himself for the other world and tries to acquire all the qualities that will help him to endear himself to God. In this stage, one is advised to abandon the family life and its pleasure and pains. He must become free from every bondage and retire to a forest and maintain his remaining life all by himself. by becoming a recluse and taking sanyas. It is defined as a life of complete renunciation. The most important duty of a person during this stage is to take the name of God all the time, constantly remember Him and submit to His will.

It is instructive to note that that the timespan specified as 25 years for every stage of life is not to be followed in a strict sense. Some stages may last more than twenty years and some less. The four stages of life as explained by Manu can also be found in many other writings on Hinduism.

Four Objectives of Life

Hinduism ordains a person to remain balanced by attaining the four worldly objectives of life as recognized by the Manu Smriti and Vedas. These objectives of life are:

- Dharma (Religion)
- Artha (Wealth)
- *Kama* (Sensual pleasure)
- *Moksha* (Salvation)

In all the stages of life, the moral duty to pursue religion remains the primary consideration. Scriptures make it clear that wherever there is religion, there is happiness. According to Hinduism, human happiness is impossible without the practice of religion. Religious ideals should be pervasive in all the activities of human beings. These ideals are prescribed in different scriptures like the *Bhagvad Gita*, the *Upanishads*, the *Shrutis*, *Smritis*, *Vedas* and the *Vedanta*.

A person is permitted to acquire wealth for the benefits of his family, relatives, for sacrifices and in order to help poor people. The sacrifices or offerings are necessary for the present generation as well as for the ancestors who are already dead. The earning of money and wealth, however, should be done in a righteous way and not by cheating, corruption or immorality. The religion reminds people that money is the root cause of all troubles (*artham moolam anartham*). Money is needed by a householder but not by a person who is passing through the stage of *vanaprastha* or *sanyas*.

Hinduism permits a person to enjoy life and to have sensual pleasure in a right way. This is especially allowed for a husband and wife. However, the purpose of sex is procreation and not anything else. However, excess in all form is to be avoided at all times. Although the *Kama Sutra* demonstrates different poses and arts of love-making with one's wife; it does not allow perverted sensual pleasures. The ideas enunciated in the *Kama Sutra* are within the framework of religious sanction. Sensual pleasure is denied to students during their stage of learning when celibacy is to be followed. It is also denied to very old people who are passing through the stage of *sanyas* (75 onwards).

Moksha (salvation or liberation from the painful cycle of birth and death) remains the ultimate objective of every person who does not want to be born again. Various ways and means are suggested by Hinduism to attain salvation. The most important ways are: to remain God-fearing and devoted to Him, to perform all activities in a righteous way, to purify one's character, to eliminate all the traces of ignorance by acquiring the right kind of knowledge, to perform yoga (communion with God), to sacrifice for the poor and needy and to perform all the worldly actions without the desire for the consequences.

Vranasharam Dharma (Caste-based Religion)

Just like the four objectives of life, Hinduism advocates a caste-based social system. The evidence and the description of the duties of different castes can be found in *Manu Smriti* and the Gita, among others. Lord Krishna in the Gita clearly states that:

Chatur Varnam Moya Sristam Guna Karma Bibhagasa

The four castes are created by me on the basis of *Guna* (quality) and Karma (actions).

The Four Castes are:

- *Brahmana* (Teachers and priests)
- *Kshatriya* (Administrators and the army)
- Vaishya (Traders and farmers)
- Shudra (Servants and manual labour)

It is said that a *Brahmin* is created from the mouth of Brahma (the creator God), a *Kshatriya* from the shoulder, a *Vaishya* from the thigh and the *Shudra* from the feet. This indicates the social hierarchy inflicted on a person belonging to a particular class. Thus, a *Brahmin* gets the highest

position and status, Kshatriya, the second highest status, Vaishya, the third, and Shudra the last (lowest) status.

Brahmins are endowed with the responsibilities and duties of giving advice, worshipping, indulging in religious performances, teaching and preaching. Kshatriyas should give themselves to fighting and protect the country from foreign invasions and attack. Vaishyas should look after business, trade and farming. Shudras should provide personal services to the other three classes. In ancient India, the Jajmani system provided a social and economic interdependence. The social division of labour demarcated the rights and duties of each and every class. However, this often created social inequalities and exploitation. The Brahmin class took the upper hand and often exploited the other classes in the name of religion. Shudras were looked down upon and they became untouchables and the most hated class.

ETHICS OF JAINISM

Jainism flourished in the sixth century B.C. in India. It is believed that when a person through his own efforts conquers passions, desires and karma (mundane duty), he is emancipated and becomes a Tirthankara (liberated soul). They believe in 24 Tirthankaras who contributed to the development of Jainism, and the last of these Tirthankaras was Mahavira during whose period the religion witnessed some paradigm shift. Jainism is contemporary to Buddhism.

The basic purpose of Jainism is the realization of the true nature of our souls. When the soul becomes pure and free from the duty-bound obligations in a complete manner, it is possible to attain divine consciousness. Any soul that has been able to conquer the inner enemies by constant practice of the recommended basic principles can be called *Jina* (victor). Jainism is intensely spiritual and ethical. All the recommended principles to be followed by a monk in Jainism are very rigorous and strict.

Our grief and sorrows and the cycle of birth-death are all due to our ignorance. This ignorance can be overcome by true knowledge. In order to attain ultimate enlightenment and liberation (moksha), one must practice the following five ethical principles in thought, peace and actions:

Five Ethical Principles of Jainism

- Non-violence and non-injury to any man and animal
- Truthfulness
- Non-stealing (asteya)
- Non-possession (aprigraha)
- Celibacy (Brahmacharya)

Since human beings have different capabilities and environments, their performance with respect to these five principles will not be the same (Jaini, 1979, p.169). Thus, for monks, the rituals and practices should be very rigorous but for the laymen, there will be some relaxation. Celibacy will be strictly observed by monks but for householders, there may be a provision for monogamy.

According to Jainism, every living creature is regarded as potentially divine, and hence, no harm should be done to it. Non-violence is the path to attain self-consciousness. By following this fivefold path, when a person attains self-consciousness, wisdom and enlightenment, he becomes

free from the trouble of cycle of birth and death. This state of mind of a person is called Nirvana or Thirthankara. When a person becomes Thirthankara, he is worshipped by others, and every Jain aspires to be like him.

In Jainism, there is no explicit recognition of the existence of God. Perhaps, it teaches us that good behaviour and character, can help one attain divine quality. To attain this state of mind, one needs spiritual development mainly through real wisdom and self-control. Jainism does of course the godhead, and any liberated soul is considered as God. It is a religion of self-development, and it does not believe in the existence of God for explaining creation. There is no room for devotion to God in Jainism (Sharma, 2009, 67). The fire of asceticism is designed to burn all worldly emotions and desires to ashes. It is a very difficult religion to follow.

There are the following Three ways through which one can achieve liberation from all mundane duties (karma) (Jain, 2004). In fact, our behavioural pattern is immensely important in Jainism. There are consequences of certain physical and mental behaviour, and monks and laymen should behave differently.

Triple Commandments of Jainism

- Right Perception (Faith)
- Right Knowledge
- Right Conduct

Jainism accepts the fact that human passion, which is due to ignorance, attracts the flow of karmic matter (duty-related matter) into the souls. Then follows the system of bondage. But there is a ray of hope. This ignorance which is the real cause of all the troubles can be conquered by the aforesaid triple paths. These factors are all interconnected; none can be effectively practiced without the other.

Jainism is against any kind of imperfection, and in order to attain perfection, it advises the practice of restraints—restraints of the body, speech and mind. These restraints are necessary for the purification of the soul. Every Jain inculcates the cultivation of excellence or virtues like humility, purity, truthfulness, austerities, forgiveness, simplicity, and so on.

There are mainly two sects of Jainism—Swetambara (white-clad) and Digambara (nude or sky-clad). There is no fundamental religious difference between them, but ritualistically, the *Digam*baras are more rigorous and puritanical. They believe that food and clothes are not necessary items for monks. The white-clad Jains are more moderate in their approach to life and religious rituals.

ETHICS OF BUDDHISM

Buddhism developed in India in the sixth century B.C. and was contemporary to Jainism. Buddhism is full of ethical ideas and mysticism. Buddha did not believe in the existence of God. He also did not encourage beliefs in the transcendental or metaphysical dogmas. His teaching is all about what human beings can experience in this empirical world. Basically, Buddha only taught two things human sufferings and the cessation of sufferings (Sharma, 2009, p.70). According to Buddhism, all things are conditioned and impermanent. The teachings of Buddha can be categorically divided into the following three interrelated parts:

Four Noble Truths

- 1. The world is full of sufferings. People are suffering from pain, poverty, diseases, old age, selfishness, greed, anger, conflicts, and exploitation. Pleasure, at the end, generates sufferings. Birth, lamentation, dejection, separation from loved ones, frustration, and the like are all sufferings. Sufferings lead us to sorrow and sadness (*Dukkha*).
- 2. Since everything has a cause, there is also a cause for sufferings. Sufferings also depend on some conditions. The presence of cause leads to some effect. The causal law is **Dependent** Origination.
- 3. There is the possibility of the cessation of sufferings. Suffering is the effect of some cause or a number of causes. If we can identify the cause and remove it, a suffering can be ended. Everything being conditional and relative is obviously transitory, and whatever is transitory, is perishable. If something is born, it must die sooner or later.
- 4. There are ways that can lead to the cessation of sufferings (dukkha nirodha). The ethical path and the spiritual way of life will put an end to all sufferings and miseries, and at the same time will lead to liberation from the vicious cycle of birth and death.

In this context, Buddha spoke about the Noble eightfold path.

Noble Eightfold Path

- Right faith
- Right resolve
- Right speech
- Right action
- Right living
- Right efforts
- Right thought
- Right concentration

These paths can be followed by all classes of people. While analysing the causes of sufferings, Buddha found that desire is the root cause of suffering. Thus, he advised us to abandon all our desires. The possibility of liberation lies mainly in the **Desire for Desirelessness**. Buddha, however, is not the originator of these eight paths but he only discovered them.

The Middle Path

Lord Buddha advised us not to go to extreme while treading these eight paths. One should follow the middle-path. This reminds us of the Aristotelian theory of Golden Mean. Buddha himself practiced a very hard life full of rituals for a period of six years in order to attain **Nirvana**. However, he became emaciated and too weak to practically do anything meaningful. He came to realize that an extreme retribution does not do any good to the monk or the householders. Self-indulgence and

self-mortification are to be equally avoided. Thus, he favoured the **Middle-path**. The middle-path is the most suitable way to get both enlightenment and Nirvana. In his analytical discourses with his followers, Buddha came to the observation that in the teleological sense, **ignorance is the root** cause of all our sufferings.

When all ignorance is banished by the right kind of spiritual knowledge, and all worldly miseries are eliminated, a person attains Nirvana (the state of perfect bliss or enlightenment) as Buddha experienced. At this stage, there is no desire for anything. It is the dissolution of all the positive and negative wishes, all activities stop here, and the mind achieves a complete equilibrium. It is instructive to note that Nirvana is not a momentary stage; it is that highest stage of attainment which may be called a stage of liberation and enlightenment that is beyond all desires and the cycle of birth and death. It is called **Nirvana** because at this stage, all desires and sufferings are extinguished.

Buddha discovered the following Twelve Causal links of Dependent Origination (Sharma, 2009, p.74).

- 1. Ignorance (Avidya)
- 2. Impression of Karmic forces (Samskara)
- 3. Initial consciousness of the embryo (*Vijnana*)
- 4. Psycho-physical organism (*Nama and Rupa*)
- 5. Six sense organs including mind (Sadayatana)
- 6. Sense-object contact (Sparsha)
- 7. Sense experience (Vedana)
- 8. Thirst for sensual enjoyment (*Thrishna*)
- 9. Clinging to sensual enjoyment (*Upadana*)
- 10. Desire to be born (*Bhava*)
- 11. Birth or rebirth (*Jati*)
- 12. Old age and death (*Jara-marana*)

These twelve causes are related to human beings in various ways. For instance, the first two are related to past life and the last two to future and the all the other items are related to the present life. These twelve causes are always with us and are not destroyed even after death. They create a vicious cycle of birth-death and birth again which accompanies all types of sufferings. The cycle is basically due to ignorance and it can be broken by the right type of knowledge. The Principle of **Dependency** is the backbone of the cardinal teachings of Lord Buddha. The central idea of these teachings is that our present station and status of life is the offshoot of our past karmas (actions) and is also responsible for the future shape of the things to come.

A number of **inferences can be drawn** from the theory of **Dependent Origination**:

- All things are transitory in character (impermanence).
- Individual ego is ultimately false.
- Matter is unreal in nature.
- An effect is produced by a cause or many causes.

Standard of Morality in Buddhism

Lord Buddha advised people to be non-violent (ahimsa), full of love and compassion, kind to the poor, patient, contended, considerate, altruistic, and free from anger, lust, malice and ill-will. He

put much emphasis on inner-purification, sacrifice and desirelessness. Mahayana Buddhism lays more emphasis on compassion. Thus, it is said:

"Whatever Joy there is in this world
All come from desiring others to be happy,
And whatever suffering there is in this world
All comes from desiring myself to be happy"

(Bdh.viii, p.129, as quoted in Gruzalski, 2000, p.71)

THE CHARVAKA ETHICS OF GROSS HEDONISM

The Charvaka system of philosophy is a system of speculative metaphysics and is called the heterodox (nastik) system. It does not believe in any kind of God. Probably it arose in the sixth century and died out in the sixteenth century. The word charvak has **two meanings**, the root word, charv or charvan means 'to eat' (or eating) and the second meaning of the word is 'skilled or clever in the art of speaking' (charuvak). It is a common name given to a system of the philosophy of atheism. The Charvaka School of philosophy was founded by Charvaka who was the author of the Brahaspatya Sutra. The ethics of Charvaka is co-eval with Buddhism (Hopkins, 1924). The Charvaka school is also known as the Lokayata school. This philosophy is meant for the common people.

A few **important inferences** (**presumptions**) of the Charvak school are:

- There is no life after death.
- There is no God.
- The world is not created by God; it is an outcome of a natural evolution.
- Religion is invented by men; it is not a divine authority.
- The soul is nothing but a part of the conscious body.
- Consciousness arises out of matter.
- Enjoyment is the only aim of life.
- Death alone is liberation.
- All ceremonies advised by the Brahmins are a means of their livelihood.

Essentials of Charvaka Ethics

Based on the above presumptions, the Charvakas suggest that the only aim of human life is happiness, and the only means to be happy is sensual pleasure and self-gratification. The Charvakas identify the soul with human body. The gross hedonist philosophy of Charvaka advocates the dictum of "eat, drink and be merry". Maximization of pleasure is the be-all and end-all of life. It is like the Epicurean system in its essence. To the Charvakas, perception is the only means of a valid knowledge. Charvaka realizes that the attainment of pleasure may be accompanied by pains. But his advice is that, one should try to maximize pleasure and minimize pain, so that the net pleasure will be worth pursuing.

Charvaka advises us to live a life of complete happiness and sensual pleasure till the time of death, and if necessary, borrow money to drink ghee (clarified butter). Thus, goes his advice:

Yabat Jivet Sukham jibet Rinam kritwa ghreetam pibet

Charvaks assure us that there is no heaven, no final liberation, no soul, and no other world. He does not believe in the cycle of birth and death. The life on this earth is the beginning and the end of everything. He criticizes the caste system and the supremacy of the Brahmin class. The ethics of sensual pleasure advised by Charvaka has been vehemently criticized by many scholars and authors of Indian philosophy.

Criticisms against Charvaka Ethics

- It is not proper to say that sensual pleasures should be the only aim of human life. This means that there is no fundamental difference between men and animals. Charvaka gives a very narrow view of human life.
- Life has a number of important duties like to build up a good character, acquiring knowledge and human virtues and making the life of others comfortable through care and compassion, and so on. The Charvaka ethics do not give any importance to all these noble virtues.
- It is a very selfish, egoistic and hedonist ethics that does not care for the family, society and the nation. Happiness can be the purpose of ethics but not the standard. There is no moral code for the Charvakas.
- The Charvakas consider soul as a separate entity from body. If the soul is in a separate domain, how is the physical pleasure transmitted to the mind/soul to produce the sense of satisfaction? The Charvakas do not have any answer to this question.
- Direct sense perception, according to the Charvakas, is the only source of knowledge.
 Knowledge may come from many other sources like information, thoughts, meditation, intuition, and so on.

However, it is instructive to note that there are some Charvakas who are **enlightened hedonists** (like Vatsyana) and they advocate that the aim of life is happiness (pleasure) but it must be punctuated by virtues. A life of refined hedonism is worth living and should be pursued by rational human beings.

Advaita Vedanta (Shankara)

Vedanta is a very influential school of the Indian philosophy, developed in the eighth century. Shankara's teaching is based on the ideas enunciated in the *Upanishads* and *Vedanta*. He is of the opinion that knowledge comes from the *Upanishads*. Vedas contain Upanishads which are also *Vedantas*.

To Shankara, human life is bondage and has to be liberated from the unending cycle of birth and death.

The **core ideas of Shankara's philosophy** are the following:

- Brahma is the only reality (satyam) or truth.
- The whole world is false and unreal (*jagat mithya*).
- Individual soul (atman) is apparently different from the Brahman because of ignorance (avidya).

- But when *maya* (illusion) is eliminated, the *atman* (soul) and the Brahman become the same. There is no difference between them any longer. Sometimes the world appears to be real because of hallucination, just as we consider a mere rope as a snake.
- After the elimination of *avidya* and maya, a person becomes *jivanmukta* (completely liberated).
- *Vidya* (knowledge) can liberate us from this mundane world and position. Our station in life is because of our karma (action). The *karmic* (action-related) situations can be broken by following the right path.
- The right path is based on *bhakti* (devotion) and *jnana* (knowledge).
- Shankara makes us believe that selflessness and love are very essential for liberation (moksha).

Pravitti and Nivritti

Pravritti is the tendency to pursue a life of pleasure and enjoyment, and nivritti is the proclivity of the mind to refrain from such empirical pleasure and enjoyment. According to Shankara, the former is the lower path of empirical morality and the latter is the higher path of transcendental morality. The performance of one's own duty without any attachment, as suggested by the Vedas and the Smritis is beneficial for getting an integrated knowledge of the pure self. This is a desirable moral standard. Nivritti is the renunciation and cessation of all actions and desires. This gives the highest good and frees a person from bondage and ignorance.

Shankara believes that the attainment of Brahma (the Absolute) will give us the highest bliss, a state of complete happiness. However, to attain this stage, it is necessary to abandon all types of sensual pleasure. One should give up all types of desires and actions, and practice renunciation. The practice of virtue and the abandonment of vices is extremely necessary. Virtue leads to happiness and vices lead to misery. Shankara advises people to lead a life of asceticism. His advice to follow non-action has been criticized by other schools of Indian philosophy. They point out that karma (action) is not necessarily bad if it is 'nishkam karma' (virtuous action without any desire for the fruit). Similarly, Shankara's advice for the eradication of all desires and the pursuit of knowledge has been criticized by many. Desire for something good involving God or godliness, and the desire for getting liberated are not are not to be despised.

Shankara's theory is based on the concept of non-dualism. That is to say, the atman (soul) and the Brahma are basically one and there is no duality. This view has been created by many philosophers but his view has remained very powerful in shaping the course of the Hindu religion. Although Shankara has remained critical about Buddhism, some of his ideas are similar to those of Buddhism.

Visishtadvaita Philosophy (Ramanuja)

Ramanuja's philosophy was developed in the eleventh century AD. Ramanuja was critical about the *Advaita Vedanta* philosophy of Shankara. He modified it and renamed it as the *Visishtadvaita* philosophy. It is a qualified system of *Advaita Vedanta*. Ramanuja believes in the oneness (monism)

of God but with certain attributes. God is one but all visible things in the world are his manifestations or attributes. He criticizes many of the basic tenets of Shankara's philosophy. Thus, while Shankara says that all man-made rituals and duties are evil, Ramanuja observes that some religious duties are necessary for human beings. However, Ramanuja explains why the Gita wants us to abandon dharma. Ramanuja has given two reasons why the Gita says so. First, Lord Krishna wants us to give up the agencies to rich God but wants our direct dependence on God. Second, we should give up the expiatory rituals which are also called dharma. Ramanuja advises us to perform the prescribed obligations (duties).

Ramanuja gives special importance to devotion or bhakti. He argues for the soteriological importance of bhakti. He also admits of the reality of the plurality of individual human beings, objects, attributes and values, and yet affirms the substantial unity in diversity and plurality. Ramanuja advises wholehearted devotion to God. He worshipped Vishnu and Narayana. According to him, there are many obstacles for the realization of God and for human liberation (moksha). Devotion has an enormous power that can eliminate the bad effects of the past actions (karma). Moreover, through devotion one can fully submit himself to God and His will. All these help in realizing moksha. Service to God is in itself is a rewarding experience.

Liberation is not possible because of our ignorance which can be washed away by true knowledge. How to acquire proper knowledge? Ramanuja points out that a scripture is an important source of knowledge—knowledge about our moral duties and responsibilities, and it also educates us about the paths through which we can gather celestial knowledge. Veda is an important source of knowledge. A study of the Gita will enable us to acquire certain types of values and deontological attitude. Our unflinching devotion will also give us some knowledge about the Brahman. Upasana (worship) is also essential for the realization of God. But there is one pre-condition. One must have strong faith. While explaining the ethical principles, Ramanuja made it clear that morality is intrinsically valuable and it has also instrumental values as it prepares one to be perfect in the eyes of God to receive our rewards.

ETHICS OF VAISHNAVISM

Vaishnavism is a part of Hinduism and is very old in terms of its historicity. It has the influence of the Vedas, Vedanta, Puranas and the Upanishads. The basic concept of the religion is based on the need to worship Lord Vishnu, the God of maintenance and sustenance. Vaishnavas believe that God (Vishnu) is within everybody, and they feel an eternal *anand* (esctacy) in serving God. Vaishnavite Hindus worship the incarnation of Vishnu (like Rama and Krishna). There are two basic pillars of Vaishnavism. These are—*Prapatti* (submission or sharanam) and *Bhakti* (devotion).

Vaishnavism is based on a fivefold samskara (sacrament). These are:

- Regular morning prayer
- Collection of materials for worship
- Formal worship of God
- Study of scriptures
- Yoga (contemplation of God)

The ethical principles of Vaishnavism incorporate a number of values and virtues. The major principles are:

- Living a life based on *ahimsa* (non-violence and non-injury to others).
- Living a simple, humble and a pious life.
- Living a truthful life with magnanimity.
- Building up a pure and noble character.
- Showing mercy to all men and animals, especially the poor.
- Living a life of contentment and peace.
- Controlling lust, anger and greed, and not getting inebriated.
- Performance of welfare to others and serving all people and guests.
- Earning by right means, and no desire for material possession.
- Chanting *mantras* (hymns) consisting of God's name.

A true Vaishnav lives a life of detachment, helps others in distress and is tormented by the suffering of others; he is a man of equanimity and sees equality in everything (Gandhi, 1909, 25 December).

PATANJALI SUTRA: EIGHTFOLD PATH OF YOGA

Patanjali Sutra was compiled during 800 BC. The sutras consist of concise aphorisms that are the guiding principles for living a moral and an ethical human life. Patanjali feels that regular yoga exercise is essential for having a trained body and mind. Yoga purifies both the mind and the body, and purity is necessary for a union with God. The basic purpose of yoga is to discipline the self. Patanjali introduced the system of astanga yoga. The eightfold path of yoga consists of the following:

Yama, Niyama, Asana, Pranayama, Pratyhara, Dharna, Dhyana and Samadhi

Yama and Niyama

Yama includes those fivefold actions (Jainism also recommends the same) that regulate the behaviour with others. These are non-violence (ahimsa), truth and honesty, non-stealing, non-lust (celibacy), and non-possessiveness (aprigraha). Niyama is meant for self-purification and discipline. Niyama includes purity in thoughts and deeds, contentment, austerity (tapas), a regular study of the sacred scriptures and a constant awareness and remembrance of the divine power.

Asana means a comfortable posture of the body. Pranayam is a system of controlling breath through proper inhalation and exhalation. *Pratyahara* is controlling the senses. *Dharana* is the fixing of the mind on a particular object (like the tip of nose). **Dhyana** is meditation on a certain object (may be God), and *Samadhi* is the final stage of the yoga where the mind is completely absorbed in the thoughts of the object.

Nyaya Viasheshika

Nyaya Viasheshika is the combination of two different schools of Indian philosophy. However,

because of many similarities in their teachings, they were later merged into one. The Nyaya Viasheshika school uses logical reasoning and deductions to prove the existence of God/supernatural power. Nyaya considers the fact that all our actions spring from ignorance, aversion and delusion. Viasheshika thinkers recognize that the individual self and God are two different ontological entities. However, in order to unite these two entities, it is necessary to perform some universal and specific duties. The universal duties are like the Kantian categorical imperatives and include virtues like truth, purity of mind, devotion to God, ahimsa, and so on. **Specific duties** are those that are prescribed as Varnasharam Dharma and also for the Four Stages of life (discussed earlier in this chapter). It is also necessary to lead a balanced life based on dharma, artha, kama and moksha.

ETHICS OF THE BHAGAVAD GITA

It is said that the value of a philosophy needs to be judged by its ethical principles or contents. If we follow this rule, then the *Bhagavad Gita* should qualify as a very successful philosophical work. It is the most popular book of Hindu philosophy and consists of 700 verses and 18 chapters. It is presumed that it was written in 3102 B.C. As a Vedic text, the Gita is an excellent summary of the Upanishads. It is a superb integration of several yogas (such as karma yoja, *jnana* yoja and bhakti yoga). Yogas are paths for attaining liberation or salvation. The Gita is an intrinsic part of the Mahabharata, an important Hindu epic.

The philosophy of pantheism is pervasive in the Gita. According to the *Bhagvad Gita*, there are three basic paths to get liberation. These are bhakti yoga (the path of devotion), karma yoga (the path of action) and *jnana* yoga (the path of knowledge). These paths assist in establishing a direct relationship with God. A person can follow one path or a combination of all the three to achieve liberation. Lord Krishna advises a single-minded devotion towards Him. It is said that even if a person worships lesser goods, his worship, nevertheless, will reach Him. The Lord says to completely surrender to Him is an easy path. Here no dharma or any man-made rituals are necessary. The Lord says:

> Sarvo dharman paritajyo mum ekam saranam brajo Aham tam sarvo papevyo rakshoisamy (Bhagvad Gita, XVIII: 66)

[By sacrificing all the dharmas, just come to me; I will save you from every type of sin]

In the karma yoga, the Lord asks us to sincerely perform our duties as given by Him without any desire for the results of such duties. The duties also include the caste-based duties. The Lord advises thus:

Karmanye vadhikaraste, Maa faleshu kadachana (Bhagvad Gita, II: 47)

[Your duty is to work and not to be desirous of its result or outcome]

It is necessary to remain unperturbed by the result of the action whether failure or success. The Lord says:

> Considering alike pleasure and pain, gain and loss, victory and defeat, fight thou this battle. In such a case, no sin will touch you.

> > (Bhagvad Gita, II:38)

The duty is to be done; its fruits should be offered to the Lord. All specific duties should be performed for the sake of human welfare (*Gita*, III:20 & XII:4). The *Gita* emphasizes a **duty-based morality.** This message is a radical departure from the ritualistic overtones of the Vedic cults (Srinivasan 2006, p.20).

The duty-based ethics of the Gita reminds one of the **Kantian theory of deonticism**. However, there are the following differences (see Sinha, 2006, p. 364).

Differences between the Kantian Deonticism and the Karma Yoga of the Gita

- 1. The duty-based morality as advised by the Gita is teleological in essence, but in Kant, it is pure deontological. The Gita is teleological and consequentialist but not utilitarian.
- 2. The Kantian morality is more individualistic, but the main aim of the Gita's theory is more universalistic.
- 3. The Gita is spiritual in essence, but Kant's philosophy is not essentially spiritual.

The Gita condemns ritualism and ceremonialism. The karma yoga is the cardinal message of the Gita. The karma yoga and *bhakti* yoga are the preparatory steps for spiritual liberalization after attaining the purity of mind. These steps also lead us to become a *jnana yogi*. This means that liberation is now possible through the path of knowledge. Yoga also implies efficiency in any right type of work: *Yoga karmasu kauslam*. In the practice of yoga, the **equanimity of mind** is very essential (Gita, XII:17 &II: 56, 57).

A person who is not perturbed by unhappiness and does not desire anything when happy, and has freed himself from attachment, fear and anger, he is indeed a sage of true wisdom.

(Gita, II:58)

Jnana yoga is all about an enquiry related to the Self or the *Atman*. The Self (soul) is unborn, neither created nor could it be destroyed. It is eternal. There is no difference between the individual self (soul) and the Brahman (*Paramatman*). They are not different. The Lord has a lower form in terms of the five senses, and the mind, the ego, and so on. The lower form is constantly changing but not the higher form. When proper knowledge is gained about the Self through a master (guru), the ignorance is dispelled, and the person merges with the Brahman. Our mind (like a mirror) is covered with the dust of ignorance, it can be made clean only by controlling our five senses, and intellect.

Three Specific Vices

The Gita states that lust, anger and greed are the **three gates** (vices) to hell and one should avoid them. Similarly, rudeness, pride, harshness and ignorance are the signs of demonic temperament (Gita, XVI:4). The Gita advises us to eschew all these traits of selfishness and egoism.

At the end of performing all the prescribed yogas, the devotee comes to realize that the best way is to completely surrender to God who will wash away all our sins and the deleterious effects of karma (actions). Human beings are given **free will** to choose any action they like with their own intelligence. However, the Gita advises us to reduce the bad karma; otherwise the effect will be

carried with us in the next cycle of birth. The Bhagvad Gita does not ask for the renunciation of action but for renunciation in the karma of interest, attachment and desires.

The acts of sacrifice, gift and austerity are not be relinquished, but should be performed, for these are purifying to the discriminating person. (Bhagvad Gita, XVIII: 5).

Moral Virtues

Just like the Buddhist and Aristotle's theory of the golden mean, Gita also lays emphasis on moderation. It says that moderation or temperance in everything is indispensable for establishing mental discipline (*Gita*, VI:16-17 & IV:30).

He who is moderate in eating and recreation, moderate in work, sleep and waking state, practices yoga...the destroyer of all misery. (Bhagvad Gita, VI: 17)

Five cardinal virtues are emphasized in the *Gita*. These are—purity, self-control, detachment, truth and non-violence. Self-control is the foundation of a virtuous life. The Gita wants us to show love and compassion to all living creatures. The Gita teaches us virtues like humility, non-injury to anyone, forgiveness, charity, and so on (BG, XVI: 13 & 5). The highest good is the non-empirical transcendental condition of the self beyond virtues and vices. One who delights in the self, is contented with the self and always satisfied with the self, has no more duty to perform (Gita, III: 17 & 18).

The mediator having mastered the senses, mind and intellect, having attained freedom from lust, anger and fear, regarding freedom as his goal, is liberated forever. (Bhagvad Gita, V:26)

Once the mind attains piety and becomes *sattvic* (pure), then the desire for God develops in him, and the individual self can meet the eternal self. It is said that those who read, ponder and practice the teaching of the *Gita* will attain *moksha* or *nirvana*. The *Gita* proclaims that:

Wisdom is born of Sattawa; greed of Rajas and false perceptions and ignorance arise from Tamas. (Bhagvad Gita, IV:17).

[As a quality of mind, sattawa comes out of purity and knowledge, and begets peace and righteousness; Rajas comes out of pride, and begets passion, power and action; and Tamas comes from ignorance, and begets laziness and indifference].

Cardinal Ethics of the Gita

The cardinal ethical principle of the Gita can be summarized in the words of Annie Besant.

The Gita is meant to lift the aspirant from the lower levels of renunciation, where objects are renounced, to the loftier height, where all desires are dead, and the yogi dwells in calm and ceaseless contemplation while his body and mind are actively engaged in discharging the duties that he needs to perform in the particular station of his life. The Gita emphasizes on the philosophy of karma (action) based on *jnana* (knowledge) and supported by *bhakti* (devotion). What is immensely

necessary for an aspirant of liberation is to develop a strong faith in God. The Lord declares that He is everything (the way, the supporter, the Lord, the witness, the resting place, the storehouse, the abode, the refuge, the origin and the dissolution); therefore, it is wise to follow Him unconditionally and surrender to Him. This is often compared with the Biblical verse where Jesus says:

"I am the way, the truth, and the life; no one goes to the Father except by me."

(Bible, John XIV: 6)

MORAL STANDARDS IN INDIAN ETHICS

Moral standards are certain ethical codes and rules which serve as the criterion for judging right and wrong actions or behaviour. Indian ethical scenario consists of a large number of scriptures and religious rules. Although most of these moral rules are more or less consistent and well-comparable with others, there are some contradictions and aberrations. Moreover, when one takes into account the meticulous details of each religious school and its ritualistic programmes, one notes that they are at variance. Be that as it may, in the explanation of the basic moral standards of Indian ethics, we have considered ten broad schools and religious writings. For the sake of analytical simplicity, in a few cases, we have put together a couple of schools and scriptures. Thus, the *Dharma Sutras* and the *Manu Smriti* are clubbed together because of their similar religious ethos and affinities.

The moral standards of Indian ethics are presented in a concise way in the following chart which is self-explanatory. Most of the points shown in the chart are explained at some length earlier in this chapter; thus in some cases, only a brief reference is indicated. For instance, the eightfold path of Patanjali Yoga, the Triple Gems of Jainism and others are to be read in detail from the respective schools/scriptures from elsewhere in this chapter.

It is instructive to note that Indian ethics is not based on any single moral standard. Different schools/nomological scriptures have codified different standards to judge morality or otherwise. In every case, a few virtues and behaviour traits have been specified for the followers. All of these need to be followed as one package of moral behaviour; observance of one or two isolated aspects will not entitle the person to qualify for the benefit of moral standard.

Table 8.1 Moral Standards in Indian Ethics

Religious School/ Scripture	Moral Standard
Advaita Vedanta (Shankara)	Divine knowledge, Asceticism, Nivritti, Devotion, Selflessness and Love.
Vedanta (Gita, Upanishads and Brahmasutra)	Nishakam karma, Equanimity, Non-attachment, Performance of Castebased duties, Renunciation, Acquiring sattva quality, Social welfare, self-control, temperance and altruism.
Dharma Sutras and Manu Smriti	Performance of Caste-based duties, duties based on the stages of life and the achievement of four objectives of life (dharama, artha, kama and <i>moksha</i>) and observance of social laws.

(Contd.)

(Contd.)

Religious School/ Scripture	Moral Standard
Nyaya-Vaisheshika, Vedas, Ramayana and Mahabharata	Divine laws and the instructions in scriptures regarding a good life.
Patanjali Sutra	Eightfold Path of Yoga, Yama and Niyam
Charvaka's Gross Hedonism	Maximization of sensual pleasures and enjoyment: Eat, drink and be merry.
Buddhism	<i>Ahimsa</i> , Desirelessness, Eight right paths, altruism and purity of life, middle path.
Jainism	Ahimsa, Five Vows and Rigorous Rituals, Restraint of body, speech and mind.
Vaishnavism	Ahimsa, Five Samaskara and constant remembrance of Lord Vishnu
Ramanuja	Performance of the prescribed duties, knowledge, devotion and complete surrender to God and worshipping Vishnu

GANDHIAN ETHICS

Mahatma Gandhi's life and works, and speeches are saturated with his ethical idiosyncrasies. Every single issue that he has examined and got involved with exudes morality and ethics. This is found to be true in his analysis of the social system, exploitation and inequalities, conflict and conflict resolution, state, power and policy, development and underdevelopment and his economic analysis. In what follows, we will concentrate on a few important ethical issues which are critical in the understanding of Gandhian philosophy.

Truth, Non-violence and Religion: The Basic Axioms

Mohandas Karamchand Gandhi (1869–1948) was born in a Hindu *Bania* (merchant) family. It needs to be mentioned here that although Hinduism accepts a four-fold functional division of social classes according to qualifications, heritage and actions (guna and karma), it does not support exploitation of one caste by the other. However, Gandhi saw many types of caste-based exploitation in India. While his father was a *Vaishnavite* Hindu, his mother was from the *Pranami* sect that believed both in Hinduism and in Islam.

Among the various duties of an ideal *vaishanava*, the following are very critical. A true *vaishanava* is tormented by others' sufferings. He does not speak anything that is untrue. He has no craving for wealth and lives a life of detachment. He is without anger and desire, and he sees equality in everything. He helps others in distress (**Gandhi, December 5, 1920**). Gandhi was a Vaishnav in a true sense. In his childhood, Gandhi was also exposed to Christianity, and during his later years, he borrowed many ideas from the teachings of Jesus Christ. He grew up in an eclectic religious atmosphere in his family which helped him to have an eclectic view of religion, morality and ethics. For Gandhi, Hinduism is the manifestation of a continuous progress of evolution and

adaptability to circumstances. According to him, Hinduism represents a progressive realization of the unity of life.

In the childhood of Gandhi, Kathiawar was an important place for the culture of *Jainism* in which his mother had complete faith and devotion. Needless to say, his mother's influence shaped his esoteric inner-world and his father's influence configured his exoteric outer-world. The basic principle of *Jainism* is the practice of *ahimsa* (non-violence), which is also the principle of *Vaishnavism* that was followed by his family. Jainism is based on the doctrine of *syadvada* (many sidedness of reality). Gandhi's adherence to the ethics of non-violence, non-possession and community welfare throughout his life can directly be attributed to the basic teachings of Jainism. The spell of different religions including Jainism and related nomological practices created a kind of a hallow effect in the mind of Gandhi to generate an unflinching faith in the truth-value of these inter-generational ethical traditions and cultures of devotional practices.

I have known from early youth that non-violence is not a cloistered virtue to be practiced by an individual for his peace and final salvation, but it is a rule of conduct for a society if it is to live consistently with human dignity and make progress towards the attainment of peace for which it has been yearning for ages past. (Gandhi, 1958–84, Vol.8, p.369)

Non-violence is the weapon of the strong; it is impossible to be non-violent without being utterly fearless. In this context, Gandhi made a seminal statement that:

"Where there is only a choice between cowardice and violence, I would advise violence." (Gandhi, 1920, 11 August)

Islam taught him the importance of brotherhood, care for others and also the unity of God. Hinduism taught him the significance of sacrifice and love. Thus, the basic ethical ideas of Gandhi were influenced by the eclectic Indian religious tradition of his time. Hinduism and Buddhism influenced his ethical beliefs in many ways. Buddhism taught him the importance of *Nirvana* (the supreme inner knowledge for salvation) and sacrifice. He learned from Hinduism the various manifestations of God and the principle of unity in diversity. He also learned about the value and importance of truth from the teachings of the *Upanishads* and other religious scriptures. Truth or ultimate reality remains the fundamental basis of every religion. Gandhi learned that truth is the ultimate aim of all metaphysical speculations and theories. In the case of Gandhi, religion governs all departments of life; it is pervasive and omnipresent, and God is nothing but truth, or more importantly truth is God (Gandhi 1925). For Gandhi, morality is the basis of everything and truth is the substance of morality (Gandhi, 1927, p. 29).

It needs to be mentioned in the analysis of the Gandhian ethics that, according to Gandhi, truth and non-violence are interrelated categories. Gandhian ethics is mainly based on four nomological axioms. These are truth, non-violence, *anasakti* (non-attachment to worldly wealth), and *sarvodaya* (welfare of all). Gandhi considered some crucial institutional parameters which included families, communities, and traditional socio-religious institutions like *varnashram* (social division of labour) as ordained by religious tradition. The social division of labour suggests social interdependence through the traditional *jajmani system*. He wanted to introduce many institutional changes to achieve the goal of an ideal society. These institutional changes included the introduction of breadlabour, trusteeship, spiritualization of politics and so forth.

Bread labour was a term popularized by Gandhi, such labour needs to be done by everybody irrespective of one's position or status in life. It gives an opportunity to participate in the fulfilment of the universal law of karma (action) and recognize the significance of the dignity of labour.

Trusteeship is a system of reforming the capitalist organizations. The Gandhian system of trusteeship is based on the idea that the rich people and the capitalists should consider that, a part of their wealth should be distributed to the society for the maximization of social welfare. Trusteeship is an attempt to socialize wealth and to allow social control over poverty and economic inequalities in a country like India where the distribution of income and wealth is highly skewed. The principle of trusteeship is to reinforce the spirit of the philosophy of renunciation and sacrifice.

The two most important **categorical imperatives** in the Gandhian ethics are non-violence and truth. Satyagraha (adherence to truth), like non-violence, remains both a means and an end in itself. Gandhi observed that individual welfare and social welfare are interdependent in nature, and the former is contained in the latter. To Gandhi, the basic desideratum of all social action and policy is the maximization of social welfare. The welfare is not predicated upon the material sense of the term but is more of a spiritual nature. For him, wealth does not mean welfare. Gandhi thought that it is necessary to voluntarily reduce wants, particularly when a majority of the people are not really living but somehow exist below the poverty line. All economic activities should, according to Gandhi, be based on ethical and moral considerations. Gandhi's economics is pragmatic yet moral. He writes:

"Economics that hurts the moral well-being of an individual or nation is immoral and... therefore, sinful... True economics never militates against the higher ethical standard; just all true ethics to be worth its name must at the same time be also good economics". (Gandhi, 1968, Vol. 6:321-322)

In the context of interdependence, Gandhi analyses the issue of human rationality. According to him, human rationality has no meaning if it is not based on ethical considerations. To explicate this, Gandhi laid more emphasis on the **Ends-Means consistency** based on natural religion or morality. His concept of man with a particular type of rationality is different from the so-called materialistically successful man. He wanted an all round capability expansion of human beings based on morality and ethics in order to make them more contestable and competent in the real world.

Human development being the principal goal, Gandhi devised various plans to empower and entitle the citizens with freedom, dignity, equity and justice. In the field of politics, Gandhi advised a decentralization of power so as to equip human beings with greater power in the matter of decision-making in a true participatory democracy. Gandhian ethics is a virtual study of the interrelation between society, institution and organization done to maximize a win-win co-operation and social interdependence for the human development and welfare. Gandhi experienced many types of exploitation in the British India. This included the exploitation by the States, exploitation of the poor by the rich, exploitation of labour by the capitalist, caste-based exploitation and the exploitation resulting from the dependency on the foreign government.

Exploitation, Inequalities and Injustice

According to Gandhi, all exploitation is based on co-operation, willing or forced, of the exploited.

The fact remains that there will be no exploitation if the people refuse to obey the perpetrator. One type of social exploitation in Gandhi's India was untouchability which was essentially caste based. He also observed labour market discrimination of women, gender division of labour, and an unequal power relation in all the walks of life. Another category of the social-economic exploitation was the exploitation of the Indian people by the British administration. There was also class-based exploitation between landlord and tenants and between capitalists and labourers.

Gandhi observed that it is possible to remove all types of exploitation through the development of a strong will power. Exploitation and inequalities are interrelated in the Gandhian ethics. Gandhi believes that "our ignorance or negligence of the Divine Law, which gives to man from day to day his daily bread and no more, has given rise to inequalities with all the miseries attendant upon them" (Gandhi, 1930, 26 August). To minimize the degree of inequalities in society, Gandhi advocated a twofold affirmative action programme; first, to reduce the range of inequalities though various actions and policies; to eliminate the chance of the growth of inequalities in future. Gandhi was sufficiently pragmatic to realize that in a modern society with a predominantly materialistic culture, economic inequality will stay on. It is also true that some inequalities are natural. For the removal of some economic inequalities under capitalism, a non-violent action is preferable to the violent enforcement of egalitarian principles because such actions will only kill the goose that lays the golden egg. Gandhi also favoured a distributive justice for reducing inequalities and exploitation.

Exploitation generates inequalities, as inequalities give rise to exploitation. Gandhi had doubts about the so-called beneficial nature of the trickle-down effects of the capitalist method of industrialization. According to him, capitalist industrialization is not necessary for any country because it leads to more and more inequalities. In the process of development, the rural-urban inequalities can be a serious problem. The urban sector, in many ways, leads to the exploitation of the rural sector, and this was one of the primary reasons for the growing rural poverty in India. It is in this context that Gandhi proposed the theory of equality, which was not absolute **equality but equity.** He advocated the fulfillment of basic needs for everybody and a higher income for the more competent and capable persons.

However, like the **Rawlsian difference principle**, Gandhi advocated some special concessions and considerations for the poor and downtrodden sections of the population. He wanted to ensure distributive justice to all. In this context, it is necessary to explain the Gandhian concept of justice at some length (for a more detailed discussion, see Chapter 3, *The Theories of Justice*).

The Gandhian concept of justice involves the following six main constituents:

- 1. Pure justice
- 2. Satanic justice
- 3. Claims to natural rights
- 4. Social justice
- 5. Absence of duress
- 6. No harm to the opponent party

According to Gandhi, pure justice comes from kindness, compassion, care and love. But Satanic justice is wicked in nature and is motivated by a selfish personal gain. Personal gain, selfishness and inequalities are responsible for social conflicts. In Gandhian literature, one can find various types

of conflict, such as those between landlords and peasants, between capital and labour, between the rich and the poor, between the village and the city and between various social classes. Apart from these, there are also conflicts between rationality and morality, between ends and means, between the temporal order and the inter-temporal order and the like.

Conflict and Conflict Resolution

The genesis of conflict in the Gandhian philosophy can be traced back to human nature, which may be egocentric, greedy, materialistic, selfish and competitive. Unequal power relations and rent-seeking behaviour may also contribute to the genesis of conflict. In the case of conflict, Gandhian ethics suggests the resolution of conflict through non-violence in an amicable way. According to Gandhi, violence begets violence. So it cannot be a real solution for conflict resolution. The two most important and interrelated methods of conflict resolution are satyagraha (protest for the sake of truth) and non-violence. In the matter of conflict resolution, truth is always equated with justice. In the Gandhian ethics, the means justifies the end, and not the other way round. This is something novel in the praxeology of conflict resolution. Gandhi regarded non-violence as a powerful and a comprehensive means that must be the first condition for any conflict resolution. Socio-economic justice is interrelated with the creed of non-violence. The relationship between justice and conflict resolution is a two-way relationship justice can contribute as much towards conflict resolution as conflict resolution can contribute to justice.

Gandhi's theory of conflict resolution is an attempt to ensure justice in the deal; and to establish the reign of justice. The retreat to justice is both the means and the end in his theory of conflict management. Through the operation of the principle of justice in the matter of conflict resolution, he wished to achieve at least three proximate objectives—to put an end to the conflict arising out of horizontal and vertical inequalities, to assign appropriate rights and freedom to the repressed weaker section of the community, and to weed out the constraints in the way of human development and capability expansion of all classes of people. This was necessary for sarvodaya—the highest stage of Gandhian socialism. Gandhi suggested four basic methods for conflict resolution—negotiations and persuasion, satyagraha, education and organizational-institutional reforms.

For conflict resolution, Gandhi suggested a mutual co-operation between the parties. If the co-operative conflict is the aim, as in the case of the Gandhian theory of conflict resolution, then both the workers and the capitalist will work hard to maximize the profit of the company. Gandhi put more emphasis on the benefits from co-operation. Negotiations may not always guarantee the maximum pay-off but can be an important alternative to a deadlock. He is sure that both the parties can have a maximum benefit if they have co-operation between them rather than confrontation. These can be briefly explained with the **prisoner's dilemma model.**

Suppose that there are two suspects (Tom and Dick) in a crime. They have been temporarily put in two prison cells, and they cannot have any communication between them. If they confess, they get a four-year sentence each. However, if one confesses (through the persuasive pressure of the investigating officer), but the other person does not confess, the person confessing gets a one-year sentence and the person not confessing gets six years of punishment. If both the prisoners do not confess, they get zero years of punishment. Since there is no co-operation between them, their individual act of confession gives them a maximum punishment of four years. However, had there been communication and co-operation between them, the punishment could have been reduced to zero years.

Table 8.2	Prisoners'	Dilemma l	Model
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T	OM		
Confess	Not Confess		
		4	6
	Confess		
DICK			
		4	_
			1
		1	0
	Not Confess		
	Not Colless	6	0

Notes: (i) Numerical figures are punishment in years.

(ii) Dick's sentences are recorded in the lower-left corner of each box.

State, Power and Policy

To Gandhi, a state represents violence in a concentrated and organized form. A state is an institution of conflict between organized interests, manipulated and controlled by the more powerful groups in the ruling class (Parekh, 1997, P. 70) In the Marxist literature, the state is also looked upon as an instrument of the capitalist class for the attainment of certain policy variables. In the Gandhian concept, the modern state does have the power of coercion and exploitation. However, Gandhi wanted to empower the masses with a dictatorial power within a state. Gandhi preferred to make an enlightened anarchy juxtaposed with a democratic state. According to him, many of the western democracies were not democracies at all. These democracies were engaged in violence and exploitation. The basic function of a state is to maintain law and order, but the British state in India was busy more with order than with laws, and in doing so, it had to be violent and coercive. Gandhi thought that absolute freedom is necessary to protest and fight against the coercive state. From his experience of the British Government and politics in India, when Gandhi was writing, he became convinced that a state is an engine of coercion and oppression. To him, modern state represents centralization of power, which cannot be sustained and defended without the application of an adequate force. Gandhi was totally opposed to the application of the coercive power of the state upon the masses for two reasons:

First, obeying the wrong commandments of the state is immoral and unjust; and second, it stifles the growth of individualism, principles and personality. Thus, if absolute sovereignty and the coercive power of the state go unchallenged, these will weaken the moral rights of citizens and the moral basis of political culture. Therefore, he vehemently opposed the absolutist notion of state

sovereignty. His objection to the absolute state sovereignty was based on a number of presumptions (Parekh, 1989, pp.126–127). First, it is necessary to oppose state orders, laws, statues, decrees or ordinance when they are apparently unjust, immoral or wrong. In such a case, the last form of protest against the political authority would be to launch a satyagraha (protest for adherence to truth).

Gandhi's concept of democracy was based on morality, justice, truth and individual freedom. In a perfect democracy, as Gandhi observed, everyone's welfare is maximum and it should be an ideal situation. There is no manipulation of power relations to exploit others. Such a type of democracy operating with non-violence is an ideal polity (Ram rajya) and anarchy of the first **order**. In this context, it is necessary to understand Gandhi's interpretation of the term "anarchy". He is of the opinion that in a perfect democracy, everybody can follow his course of action, express his own views and do whatever he likes. But since everybody's action is responsible, non-violent, and harmless and not clashing with anybody else's, the law and order problem is not violated at all. Gandhi recommended several measures for reforming the state. The basic purpose of state reform would be to spiritualize politics and endow the state with a moral basis. Gandhi advised policy makers to ask themselves before making any policy whether such a policy will benefit the poor or not. Gandhi's view was different from that of the **utilitarian ethics**. Whereas the utilitarian ethics recommends a policy that brings greatest benefit to the largest number of people, Gandhi will recommend a policy which will bring a gain to all the people of the society, particularly to the poorer section of the community. Gandhi makes the message clear to policy makers in the following passage:

I will give you a talisman. Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man whom you may have seen, and ask yourself if the step you contemplate is going to be of any use to him. Will he gain anything by it? In other words, will it lead to swaraj for the hungry and spiritually starving millions?...Then you will find your doubts and yourself melting away. (Gandhi, 1947, August, vol. 8)

Rights and Duties

Gandhi found a positive correlation between the rights and duties of the citizens in a state. The performance of one's own duties entitles a person to enjoy his rights. Hence, duties should be placed prior to rights and should involve social responsibilities. Gandhi's view seems to be similar to Kant's philosophy of deonticism. Rights are justified only when such rights maximize the common social welfare. Drawing on the Hindu philosophy of *Karma* (action), Gandhi laid down the principle that any obligatory action is duty and this is the basic source of all rights. As Gandhi observes,

Every man has an equal right to the necessities of life even as birds and beasts have. And since every right carries with it a corresponding duty and the corresponding remedy for resisting any attack upon it, it is merely a matter of finding out the corresponding duties and remedies to vindicate the elementary fundamental equality. (Gandhi, 1931, 26 March)

Gandhi's balanced view on rights, duties and equalities is a contemporary reminder to those proponents of human rights and egalitarianism who propose these rights unconditionally without any corresponding human duties. However, in the absence of human duties, human rights do not remain in a workable proposition in the long run. One such duty is the duty of constant pre-occupation with one's own work (deontic duty). In this context, Gandhi supported the **Kantian theory** of deontology. Gandhi was profoundly influenced by John Ruskin's book *Unto this Last* (1862), which considered all works to be of equal dignity. However, Gandhi advised that if any order or work suggested by the superior officer is unethical or immoral, one should not carry out such a duty.

Seven Human Vices and Sins

Gandhi pointed out that there are the following seven unethical practices and sins that people often commit:

1. Politics without principle

Many of the politicians have no ethical principles and, these days, politics has become the last resort of scoundrels. These people enter into politics through money power, buy votes and get elected. These people do not care about morality and ethics in the administration and policy making.

2. Pleasure without conscience

Gandhi here refers to sensual pleasure and body love without any moral purpose. A life of pleasure without the consideration of the consequences leads to destruction not only of the person but also of the society. According to Gandhi, this type of irresponsible and immoral pleasure needs to be avoided for both the individual and social welfare in the context of moral development.

3. Wealth without work

Many of the wealthy people become necessarily idle and do not perform bread labour. Since they do not perform any labour, they do not take part in the divine act of creation which manual labour imparts. Work is also a means of achieving personal self-realization. Therefore, absenteeism from work is not only physically harmful but also morally injurious.

4. Knowledge without character

According to the Gandhian ethics, character-building is an essential part of education. If knowledge is not accompanied by character building, the knowledge remains imperfect and makes the person socially useless and harmful. He uses his knowledge in a wrong way and misleads the society. Therefore, the knowledge becomes devoid of social welfare.

5. Business without morality

Businessmen are very often engaged in maximising the profit without paying any attention to the social development and welfare. Recently, however, it is realized that every business has a social responsibility because it is a part of the society. If a business is not based on morality, it can ultimately affect social welfare. In such a case, the welfare of the consumers, suppliers and stake holders is adversely affected. Business based on ethics and morality becomes more profitable in the long run as its reputation and goodwill go on expanding.

6. Science without bumanity

Science and technology can be used for the purpose of human welfare and progress. However, if science is not humanized, it may lead to destruction of the human society. The case of atom bomb can serve as an example. Therefore, Gandhi suggested that science must be used in such a way that it leads to human development and social progress.

7. Worship without sacrifice

Worship needs some sort of sacrifice. This sacrifice may be in terms of fasting, suffering of the soul or the sacrifice of the resources at the altar of God. The sacrifice may be the sacrifice of bad habits, bad companions and vices. If worship does not involve any sacrifice, it cannot become complete and perfect. Therefore, Gandhi suggested that any form of worship must be with suitable sacrifice depending on the type of worship and the result that is expected. For instance, in the case of Gandhi, satyagraha, observation of truth and ahimsa involved all types of sacrifices to get the blessings of God in the pursuit of certain kinds of ethical victory. And the attainment of all these needed some sacrifices in terms of injury by others, sufferings and hardship.

Gandhi on Sustainable Development

To Gandhi, that state of development is most desirable which is not excessive and harmful. A high growth rate which imposes a burden on our environment is not a desirable rate of growth. By implication, Gandhi was referring to what is known as the just (warranted) rate of growth keeping in mind the sustainability of such a growth rate.

To Gandhi, India's backwardness in the past was due to exploitation by the colonial power. He seems to have supported the **dependency theory of underdevelopment** which later became popular with the publication of Paul Baran's *magnum opus*, *The Political Economy of Growth* in 1957. According to Gandhi, the development of the underdeveloped sections of India followed the **immoral British policy of surplus extraction** through direct resource transfer (cash drain) and unequal exchange.

Gandhi's concept of development is holistic in nature and is basically human-centric. He was opposed to capitalist method of development as it leads to exploitation, unending capital-labour conflict and a dehumanization of labour. Mao Tse-tung had many ideas similar to those of Gandhi. Both the great leaders wanted human development, growth with equity and justice. Some social provisions for the poor and the development of the rural sector. Both the models emphasized the importance of self-sufficiency with egalitarianism.

Economic development, social development and moral development are integrated categories in the Gandhian schema. Gandhi's concept of sustainable development is based on the provision of *basic needs* for all the people in a country like India. Unless poverty and unemployment are wiped

out, Gandhi is not prepared to accept that the country has really attained prosperity, freedom and sustainable development. The Gandhian concept of sustainable development is a holistic development that includes social and cultural development. For Gandhi,

Real wealth does not consist of jewellery and money, but in providing for proper food, clothes, education, and creating healthy conditions of living for every one of us. A country can be called prosperous and free only when its citizens can easily earn enough to meet their needs.

Gandhi's development paradigm follows the *principle of balanced development*. To a discerning reader, Gandhi's concept of sustainable development encompasses self-sufficiency, self-reliance, *sarvodaya* and a balanced development. Let us elaborate on these issues.

The following were the basic objectives of the Gandhian schema of holistic development:

First, human development (including moral development) for capability expansion.

Second, development in a balanced way through manual and intellectual labour (development of body, mind and soul).

Third, development with social justice, rights and freedom. This is in accordance with the principle of social and human development.

Fourth, attainment of self-sufficiency and self-reliance through rural development.

Fifth, reduction in poverty through the generation of additional income and employment.

The most important concept of progress in the Gandhian theory of development is the same as the one in the Hegelian version of Marxism concerned with the humanist goal, that is, a journey towards the emancipation of mankind **from the realm of necessity to the realm of freedom**. In the scheme of sustainable development that Gandhi was contemplating, the achievement of freedom was closely identified with the welfare of under-privileged people. Gandhi is like Kant who propounded that a true ideal can never be achieved in one life, but there should be a progress towards it.

However, unlike the Marxian concept of development which is production-centric, Gandhi's concept of sustainable development is human-centric and it limits production to basic needs. Gandhi's theory is not concerned with the perception of newer and newer human needs and the consciousness to satisfy these needs. But like Marx, Gandhi believed that capitalist development, by its very nature, is uneven, exploitative and unequal, and the poor colonies which are linked with the metropolitan countries ultimately become the hewers of wood and the drawers of water.

Gandhi's basic idea of sustainable development was to have an all-round development of society which included human development along with socio-economic-political development. For him, human development and social development are inseparable because the two are interactive in more ways than one. In the context of the Gandhian paradigm of development, a person acquires *soul force* through the practice of all the four nomological rules that include truth, *anasakti*, *ahimsa* and *sarvodaya*. A strong soul-force is the necessary precondition for success in any important endeavour which is just and moral. To Gandhi, proper education not only includes knowledge of the subject but also a devotion to duty, spirit of service and, most importantly the training of character. Gandhi advocated the dissemination of knowledge among common people through the spread of adult education programmes, part-time schooling and also programmes for women's education in

India. For ensuring a command over resources, he suggested the development of village and cottage industries.

In the Gandhian theory of sustainable development, the village is the primary organizational unit and, hence, the development of the village or the rural area is the primary concern in any successful scheme of sustainable development. The methodology of development here is the *bottom-up approach*. In such a schema of development, *khadi* or village industries will predominate and it will generate a number of desirable advantages. First, the development of village industries will create sufficient employment and income for the rural population. The level of income and productivity generated by these industries may not be high but it will be sufficient for the rural population if their meta-needs are controlled. Capitalist production relations are overtly inappropriate for the cottage and village industries that Gandhi was recommending for increasing rural income and employment. To Gandhi, sustainable development should ensure that income and employment must go hand in hand even if they are at the low level.

Gandhi advocated the development of village and cottage industries primarily because such industries would be able to eliminate poverty, hunger, unemployment and human degradation. Secondly, to help village level development, Gandhi popularized the concept of *swadeshi* (home-produced goods). Once people are inspired by patriotic sentiments to buy Indian goods, the indigenous industries can be expanded to a considerable extent and the levels of income, output and employment could be developed satisfactorily.

Gandhi realized that although economic development was necessary for a country like India, capitalist industrialization was unwanted because industrialization leads to either active or passive exploitation of villagers. Capital—intensive methods of industrialization also lead to the impover-ishment of villages and an increase in unemployment. Moreover, capitalist development breeds a permanent conflict between labour and capital. It is because of the possibility of inequality that Gandhi did not want industrialization. Through economic development, Gandhi wanted to generate rejuvenation of mind, body and spirit for everybody.

Gandhi was not in favour of an exorbitantly high rate of growth of output *per se*, but he wanted a fairly good amount of production to satisfy the increased rate of population growth. He was right in appreciating the truth that a high rate of growth is not necessarily the optimum rate of growth. Gandhi advocated the control of desire for meta-needs and bringing down the scale of wants to the *ethical minima*, or what can be called the *basic necessities of life*. This is necessary in the context of the staggering poverty of India and it requires some changes in lifestyle. These basic necessities include people's right to a proper house, an adequate and balanced diet for the family and the supply of locally made clothes, facilities for the education of children and adequate medical relief. To Gandhi, economic development does not mean that one should have more but that one should be more. His concept of development is ethical in nature in the sense that it incorporates social well-being, human capability expansion, equality of opportunity, justice and non-exploitation, and rights and freedom (see Figure 8.1).

The production of basic needs has to be employment-generating and income-creating, and what was needed was mutual help and cooperation without exploitation at the levels of both production and distribution. In the Gandhian schema, sustainable development must have a moral basis. It needs discipline and moral responsibility as well as a particular type of personality pattern. The

production conditions of the basic necessities of life would be under the direct control of the people. Rural development was thought to be a means for correcting the urban bias. Gandhi's main argument for the development of village industries was to remove poverty through the generation of sufficient employment opportunities for the unemployed, underemployed and surplus (idle) labour.

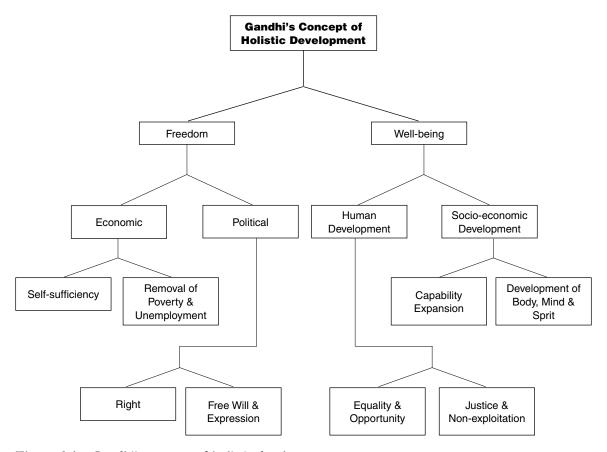


Figure 8.1 Gandhi's concept of holistic development

The Gandhian type of sustainable development seems to be feasible and realistic, given the basic objective functions, the possible parameters of action and the economic milieu of his time.

In Gandhi's view, technological improvement could be introduced to the village industries to make capital more efficient. In fact, an appropriate technology was needed for the regeneration of the village economy, and such technology would not be an anachronism but could be well-embedded in the system. In the case of "Gandhian development", the basic objective being full employment even with a low level of per capita income and economic independence with social justice, the appropriate technique of production could not have been anything other than the labour-intensive method.

The more advanced stage of development in the Gandhian plan would be marked by an increasing degree of decentralization of the industrial structure which was initiated in the first stage of rural

development. Gandhi advocated decentralization for reaping the advantages resulting out of the flexible structure of technology and organization. Decentralization was not meant for capital goods but only for consumer goods industries. Decentralization was not only recommended for industries but also for political power in order to make it more advantageous for the common people. The decentralized structure of the politico-economic system was presumed to be necessary for preventing exploitation, inequality and conflicts. The structural change suggested in the second stage of development after the attainment of self-sufficiency was to eradicate the urban bias in development.

Decentralization is advocated for at least four basic reasons. First, for better administration, control and supervision. Second, for eradicating the possibility of violence, as centralized organizations or institutions are generally prone to violence. Centralization cannot be fully defended and protected without an adequate force. Third, centralization leads to concentration of power and authority which can be misused by the possessor of such power in the name of settling socioeconomic problems. Fourth, decentralization stands for maximization of individual freedom. However, Gandhi was prepared to give more power to people's organizations like panchayats. In the final stage of sustainable development, Gandhi suggested the principle of holistic development (sarvodaya) for the welfare of all.

A Critical Appraisal

In the Gandhian ethics, truth, *ahimsa* and *satyagraha* are all very lofty concepts and ideas. However, in a society which is mostly inhabited by lesser mortals, these ideas cannot be made operational. The following are the fundamental criticisms levelled against the Gandhian ethics.

First, Gandhi speaks about truth. However, absolute truth is an unattainable goal. Relative truth, of course, is attainable, but the problem is that truth is a many-sided reality. It is difficult to understand which type of reality constitutes the truth. Gandhi advised that in order to make any decision based on truth, it is necessary to take the help of the *inner-voice*. However, for a common person, the inner voice may be completely absent as everybody is not endowed with the gift of inner voice. Gandhi also points out that truth is karta (doer) as well as akarta (non-doer). This dialectical explanation of truth is beyond the head of common people and is confusing, to say the least.

Second, in a society full of violence, it is impossible to perform *ahimsa*. *Ahimsa* is not successful in the ultimate analysis unless everyone follows the same philosophy. Gandhi disclosed at one point that there is non-violence in violence. This is also a complicated philosophical statement which cannot be easily interpreted in a correct way.

Third, Gandhi's satyagraha movement became a failure many times in India. The satyagraha makes the opposite party stronger and if that part is not guided by any idealistic philosophy, the movement cannot become successful.

Fourth, Gandhi has underplayed the presence of sex-instinct in human beings. Sex instinct is not necessarily irrational or immoral. If it is controlled, it generates love and affection that bind men and women. However, sex is not immoral for Gandhi in the Calvinist sense, but it was an impediment for Gandhi. It was to be subdued to awaken the soul force. Gandhi practiced celibacy at the age of thirty one, which is not permitted by the code of conduct suggested by Manu. At thirty one years of age, one should practise garhastha (family life).

Fifth, Gandhi's ethics consisting of asceticism, rationalism and monastic detachment from the worldly life are one-sided doctrines.

Sixth, the ideal type of state that should work with non-violence police force, as Gandhi proposes, is practically impossible in modern times.

Lastly, Gandhi idealizes and spiritualizes man. This type of man that Gandhi contemplates is conspicuous by his absence in the materialistic world.

Gandhi's theory is the outcome of a clash between the spiritual reality of traditional *Bharat* and the historical specificity of British capitalism in India. The application of some of his ethical principles was quite relevant in British India. But, these do not seem to be randomly applicable in the modern world. But this is not to deny the fact that although some of the principles of the Gandhian ethics are particular and historic-specific in character, the universal message of Gandhi such as non-violence, truth, *sarvodaya*, spiritualization of politics, and the like, have an universal appeal and can be applied everywhere. Many of the ideas of the Gandhian ethics are Euclidean in nature and will probably remain unrealized in the contemporary world, not because the ideas themselves are noxious, but because the world is not yet prepared to accommodate these ideals.

Summary

Indian ethos is an admixture of and an attempt to juxtapose the possibility of realization of God and the godliness in human nature. The *Dharma Sutras* accommodated many of the ethical principles and precepts of the Hindu way of life. The Manu Smriti dwelt on the four stages and the four objectives of life (religion, wealth, sensual pleasure and salvation). Varnashram Dharma emphasized on the social division of labour through the four-fold caste system (Brahman, Kshatrya, Vaishya and Shudra). Jainsim and Buddhism did not believe in God but argued that through efforts, human beings can acquire the godhood. Jainism depends on five ethical principles (non-violence, truthfulness, non-stealing, non-possession and celibacy). It believed that by following the three ways (right perception, right knowledge and right conduct), one can achieve liberation from this mundane world. Buddhism has advised people to follow four noble paths, saying that the world is full of sufferings which are caused by desire; there is the possibility of cessation of sufferings and that path is the spiritual way. The eight-fold noble paths are—right faith, right resolve, right speech, right action, right living, right efforts, right thoughts and right concentration. Buddha has advised to follow the middle path to realize nirvana, a state of mental equilibrium, perfect bliss and enlightenment.

The Charvaka philosophy is a heterodox system and does not believe in God; it advocates sensual pleasure. The speculative metaphysics of Charvaka is vehemently criticized by many. *Advaita Vedanta* of Shankara points out that the basic source of knowledge is Upanishads which are also Vedantas. It teaches that Brahma is the only reality but due to ignorance, people cannot realize it and once the illusion is eliminated, the person becomes completely liberated. This is possible by true knowledge, devotion and renunciation. The Visishtadvaita philosophy of Ramanuja is different in many important ways from that of Shankara. Vaishnavism had a lasting influence on the Hindu philosophy. It is based on a fivefold sacrament like regular prayer, study of scriptures, yoga, formal worship of God and collection of materials for worship. The basic principles of Vaishnavism are

ahimsa, pious life, truth, freedom from anger and lust, peace of mind, and so on. Patanjali Sutra proposed that by following the eightfold path (that also includes yoga), one can get liberation.

Perhaps the most influential scripture for the Hindus is the *Bhagvad Gita*. The *Gita* builds up a philosophy of karma (duty without the desire for fruits) with skill, based on knowledge and supported by devotion. It advises to remain calm under all circumstances (good or bad) and have strong faith in God and to follow Him unconditionally and surrender to Him.

Mahatma Gandhi was a true *vaishnav* and a follower of the principles of *Gita*. His basic religion was truth and non-violence. He spread the message of compulsory labour (bread labour) and trusteeship for reforming the capitalist organizations and to reinforce the spirit of the philosophy of renunciation and sacrifice. He was against exploitation, inequalities and injustice. He advocated cooperation between labour and capital in the process of production and supported the labour-intensive method of development and the development of villages and small industries for extending employment facilities to all. He wanted a sustainable development which, according to him, was possible through limiting one's greed and bringing down the scale of wants to the ethical minima. His plan was to have a development where everybody will have a house to live in, hand-made clothes to wear and all basic necessities of life. He wanted democracy with power remaining in the hands of the people, decentralization of all power and village level administration by the panachayat. He wanted an ideal polity with spiritualization of politics. The state will only be a coordinating agency and human beings will have all basic rights with duties. Gandhi said nobody should follow an order which is immoral. One can protest (satyagraha) against the unethical order and laws. He listed seven unethical practices and sins people often commit. There are—politics without principle, pleasure without conscience, wealth without work, knowledge without character, business without morality, science without humanity and worship without sacrifice. Gandhi wanted a balanced process of holistic development where human development will be the first priority with freedom, equality of opportunity, self-sufficiency, absence of poverty and deprivation, human rights, natural justice and opportunities for the development of body, mind and spirit.

Key Terms

Smritis Four Stages of Life Varnasharam Dharma Five Ethical Principles of Jainism Triple James of Jainism Four Noble Truths of Buddhism

Eight Fold Path Pravitti and Nivritti Fivefold Samaskara of Vaishnavism Yama and Niyama Nyaya Vaisheshika Nirvana Ahimsa

Sarvodaya Bottom-up Approach Anasakti Principle of Balanced Development

is to devise a means whereby human beings may be

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Jainsim is based on the doctrine of syadvada.
- (ii) Hinduism advocates five stages of life.
- (iii) Hinduism advocates five objectives of life.
- (iv) There are five ethical principles of Jainism.
- (v) According to Buddhism, the basic cause of all sufferings is our desire.
- (vi) Charvaka's philosophy is heterodox in nature.
- (vii) In the true sense, Gandhi was a vaishnav.
- (viii) Bread labour is the term popularized by Nehru.
- (ix) Gandhi was much influenced by Vincent Peale's book, Unto the Last.
- (x) To Gandhi, a state represents concentration and is based on the concept of violence.

2. Fill in the Blanks

(i) The philosophy of

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	persuaded to <i>virtue</i> without any stimulus of supernatural hopes and fears.
(ii)	Buddhism and Jainism do not believe in the, but show
	ways to attain the state of godhood.
(iii)	Smirits are
	In the first stage of life, Brahmacharya, a person is to acquire
(v)	pleasure is denied to students during their stage of learning when celibacy
	is to be followed.
(vi)	Hinduism advocates a caste-based social system, better known as the
(vii)	In ancient India, the system provided a social and economic interdepen-
	dence.
viii)	The ethical attribute of 'non-stealing' in the teachings of Jainism is otherwise known as
(ix)	When a person attains self-consciousness, wisdom and enlightenment, he becomes free
	from the trouble of birth and death. This state of mind of a person is called
	or
(x)	The is the backbone of the cardinal teachings of Lord Buddha.

3. Choose the correct option

- (i) Gandhi advocated the control of desire for the meta-needs and bringing down the scale of wants to the:
 - (a) Ethical minima or the basic necessities of life
 - (b) Ethical maxima
 - (c) Aspirations or desires
 - (d) None of these
- (ii) The Hegelian version of Marxism is concerned with the humanist goal and refers to a journey towards the emancipation of mankind
 - (a) From the Earth to the Heaven

(b) From the realm of necessity to the realm of freedom (c) Both (a) and (b) (d) None of these (iii) In the Gita, the Three Gates or Vices to Hell are: (a) Fear, Love, Greed (b) Lust, Fear and Greed (c) Lust, Anger and Greed (d) None of these (iv) To Gandhi, the basic purpose of state reform is to: (a) Materialize politics (b) Spiritualize politics (c) Both (a) and (b) (d) None of these (v) Which type of behaviour may also contribute to the genesis of conflict? (a) Rent-seeking behaviour (b) Fearsome attitude (c) Affectionate behaviour (d) None of these (vi) Which Gandhian system is meant to reform the capitalist organizations? (b) Trusteeship (a) Non-Violence (c) Satyagraha (d) All of them (vii) The five cardinal virtues that are emphasized in the Gita are: (a) Purity, Self-control, Detachment, Truth and Non-violence (b) Impurity, Attachment, Violence, Control over others, Luxurious lifestyle (c) Purity, Self-control, Attachment, Truth and Non-violence (d) None of these (viii) What refers to the proclivity of mind to refrain from empirical pleasures and enjoyment? (a) Pavritti (b) Nivritti (c) Jnana (d) Karma (ix) As per the Varnashrama Dharma, the Vaishyas are created from the: (a) Mouth of Brahma (b) Feet of Brahma (c) Thighs of Brahma (d) Belly of Brahma (x) The 'Non-possession' attribute in Jainism is better known as: (a) Asteya (b) Griha (d) Sahridaya

Review Questions

- 1. Explain the basic points of differences between Buddhism and Jainism.
- 2. Write a critical appraisal of Shankara's exposition of *Advaita Vedanta*.
- 3. How is Ramanuja's philosophy different from that of Shankara?
- 4. Write a short essay on the ethics of the Gita.

(c) Apigraha

- 5. Explain the basic points of Charvaka's hedonistic ethics.
- 6. What are the eight basic principles of Vaishnavism?
- 7. What is a moral standard? Briefly explain the common moral standards of Indian ethics.
- 8. What are basic ethical ideas of Gandhi on state, power and policy?
- 9. Critically examine the Gandhian ethics as related to *ahimsa*, truth and *satyagraha*.
- 10. What are the views of Gandhi on conflict and conflict resolution?

- 11. Examine Gandhi's views on development and underdevelopment.
- 12. Make a critical appraisal of the Gandhian ethics.

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PART TWO

Business Ethics in Management

CHAPTER 9

Business Ethics: An Overview

LEARNING OBJECTIVES

This chapter will help the reader to understand

- The meaning of business ethics
- Relation between ethics and business
- Historical evolution of business ethics
- Nature and scope of business ethics
- Need, purpose and importance of business ethics
- Approaches of business ethics
- Sources of ethical knowledge for business ethics
- Ten popular myths about business ethics

Introduction

We start off with an important verse from the Bible which says that:

"Whoever has will be given more and he will have an abundance. Whoever does not have, even what he has will be taken away from him"

(The Bible: Matthew, Xiii:12)

Although the Bible here makes an allusion to the spiritual knowledge and faith, the idea can be applied in the case of business too. All businessmen need to accumulate capital, and such accumulation if done in a wise way will lead to abundance. Money begets money. However, a businessman who cannot accumulate will soon have to face diminishing returns. In another sense, from the long-term perspective, a business based on honesty, sincerity and ethical values, will have a sustainable future with abundance and if one does not have it, one cannot survive in the long-run. What many empirical studies have revealed is that, critical consideration for the meaningful survival and growth of any organization is its ethical premises and not simply its machinery, workforce and material stock. It is in this context that one examines the importance of business ethics and values. Historical evidence has shown that many European and American firms which were very prosperous in the past have been reduced to shambles only due to unethical behaviour, fraud and immoral personal gratification. Implicitly or explicitly, business ethics, thus, remains very critical to the sustained growth of a company. This chapter discusses the meaning, nature, scope and other related concepts of business ethics.

WHAT IS BUSINESS ETHICS?

The following are some of the important definitions of business ethics. These definitions are similar in ideas but differ in wordings:

- Business ethics is the application of the principles of ethics in the realm of business, trade and commerce.
- Business ethics is the evaluation of business in terms of certain ethical principles and norms.
- Business ethics deals with certain moral principles that can tell us whether a particular business concern is run in a morally right or wrong way.
- Business ethics is the systematic analysis of ethical principles pertaining to business, industry, commerce, trade and other related activities, institutions, beliefs and practices.
- Business ethics is the sum-total of rules and principles which can be regarded as the standard norm to evaluate and guide business activities.

RELATION BETWEEN ETHICS AND BUSINESS ETHICS

There are definite interconnections between ethics and business ethics. Many of the theories, principles, concepts and precepts of ethics are successfully used in business ethics. In fact, business ethics is the practical application of theories, principles and rules of ethics. Indeed, many interrelations between these two subjects can easily be established. The theories of ethics can effectively contribute to the growth of the subject of business ethics. There are at least the following **three inter-relations** between these subjects.

First, ethical theories offer various concepts and precepts which are relevant to business managers in conceptualising certain ethical issues in relation to business. Some of these concepts are: deonticism, utilitarianism, consequentialism, morality, value and virtues, and so on.

Second, ethical theories provide a set of analytical guidelines and moral standards, which can be directly or indirectly applied to the solutions of business problems in a fairly just and satisfactory way. A proper knowledge of the standards and principles of ethics can make a manager more analytically capable and expert in interpreting many ethical issues in business in day-to-day life.

Third, one of the most important ways in which ethical theories can contribute to business management is the building up of ethical models (framework) about ethical decision-making, ethical audit, solving ethical dilemmas, and so on. This exercise helps managers understand the structure of ethical problems in management and assist in providing an ethical solution to the same.

It must be understood that ethics and business ethics are integrative in nature, and there are many commonalities between these two subjects. Whereas ethics is more theoretical, business ethics is more practical and is the application of the theoretical principles of ethics, as revealed in the definitions given earlier.

EVOLUTION OF BUSINESS ETHICS

Business ethics is a rather new discipline. But the idea that ethics is important in business goes back to the time of Socrates and Confucius and many catholic discourses. In the medieval period, the schoolmen introduced the **idea of just price. St. Thomas Aquinas** (1225–1274) condemned usury (lending money on rate of interest) as unethical. The churches advised the observation of Sabbath (Sunday) as the day of rest for all employers and employees. However, gradually ethics was pressed into service for the analysis of work culture. **St. Paul** went so far as to say that if a person does not work, let him not eat.

With the development of capitalism, the entire gamut of work ethics got dramatically changed in the Western world. In terms of historical sequence, the change from Mercantilism to individualistic capitalism and then to corporate type business enterprise is a reflection of changes in attitude towards a new institution for promoting business enterprises. Commenting on the economic progress of the seventh century Holland, William Petty observed that in Holland, there were numerous dissenters who believed that labour (and industry) was the sacred duty towards God. The glorification of human work can be traced back to the days of early capitalism. Calvinism and Puritanism emphasized the importance of unceasing human toil and trouble for the growth of business from the spiritual point of view (Ghosh, 2009, p.17).

Max Weber in his book, *The Protestant Ethic and the Spirit of Capitalism*, has shown that how from the sixteenth century the attitude towards work and wealth-creating activities changed. In the medieval society and also in the Aristotelian period, a life of meditation and contemplation was acclaimed and in the scholastic economy trade was considered undignified. Merchants were one round higher than *pariahs*. This attitude underwent a change from the time of Calvin. John Calvin was opposed to self-aggrandizement and indulgence but not to accumulation of riches. According to him, the development of material resources through toil and trouble is a virtuous activity which a businessman should perform. *Parables of Talents* were cited from the Bible to support economic activities and productive works. Calvin developed the idea of spiritual callings to materialize the activity relating to economic progress. **The Puritans** conceded the idea that spiritual obligations including business duties are a discipline quite in accord with the Divine Will, and by following this, men can improve and ennoble their characters.

The spirit of Christianity became somewhat different with the **rise of Protestantism.** Protestants actively associated themselves with business and industries. Religious ethics has had a definite impact on the attitude towards the growth of business. Confucianism valourizes hard work, sincerity and honesty, and Hinduism advocates deontic notion of duty without any desire for the results of the action. Both Confucianism and Hinduism do not lay any stress on materialistic acquisitions and culture. In India, in the early twentieth century, the businessmen who accumulated wealth were not given much social respect, and for the same reason, some of them were out-grouped such as the Parsis, Jains and Marwaris. However, being an out-group, a particular business community could break the established social tradition. But with economic development, the attitudes towards these business communities gradually changed and they were again brought back to the social fold and were respected.

Sometimes, an anti-religious philosophy can also help the growth of business and trade. In the communist ideology, the will of God is replaced by materialistic dialectics. Marx has accepted that although capitalism has many attending evils associated with unethical activities like exploitation of labour and dehumanization of labour, there is no denying the fact that capitalism is the most progressive mode of production.

The classical and neo-classical views considered business ethics as irrelevant and supported unbridled expansion of capitalism and market forces. According to these views, business and ethics are two separate categories, and these cannot be meaningfully mixed up. Free market competition, they say, can lead to several types of benefits supported by the theories of both deonticism and utilitarianism (consequentialism). The following are ways through which a free market philosophy leads to social and economic benefits, and so becomes ethical.

Benefits of Free Market Philosophy

- 1. **Market Ethics** may generate social benefits through human selfishness. All sellers, motivated by self-interest, provide goods and services in abundance and all the essential social needs are satisfied by the mechanism of free market forces. Adam Smith believed that in a free market economy, self-interestedness leads to social welfare and happiness.
- 2. **Competition and free market price** setting may lead to maximization of production with minimum possible per unit cost. This generates the producer's and consumer's surpluses that positively benefit the society. Competition reduces prices and a large-scale production decreases the unit cost of production with economies of scale and scope. Thus, competition in business becomes ethical (see the chapter on *Ethics and the Market Structure* in this book).
- 3. **Expansion of business renders free choice and liberty** for the consumers. This satisfies the **libertarian view of ethics**, and the growth technology and different means of production give a choice to producers too regarding production technology, production methods and production mixes. According to one view, more the choice more is the freedom and more is the satisfaction, welfare and happiness. The libertarian idea is propagated by John Locke and Nozick, among others.
- 4. As discussed earlier, the ethical foundation of the growth of capitalism was provided by Max Weber through his writings on *Protestant Ethic and the Spirit of Capitalism*. It is already

- explained in this chapter how the principles of protestant ethics led to the ethical justification of work efforts and business expansion.
- 5. Free market philosophy maximizes individual freedom and utility (utilitarianism). It also leads to better utilization of social and individual potentials and social resources, higher employment opportunities and overall economic growth and increased real per capita income (consequentialism).

Against the two extreme views of medieval writers and classical writers, there is an **integrative** view taken by **Talcott Parsons and others** who claim that business is not an extension of morality nor it can be wholly separated from ethics; both are **complementary** in nature.

CONTEMPORARY DEVELOPMENT

The issue of ethical consciousness in business can be classified into the following six periods. However, this periodization is not based on any clear-cut apple-pie order of historical events but is based on the broad trend with the temper of time. A short account of the historical evolution of the growth of business ethics in America is given in the following chart (see, Ferrel et al. 2003, pp. 25, 29).

An analysis of contemporary development reveals that business ethics was born Nov. 1974 at the University of Kansas Conference on Business Ethics (Bowie, 1986). Subsequently, the greed resulting in "Wall Street Scandals" of the 1980s shocked many observers and instigated them to think about some suitable changes in the managerial psyche (Bradburn, 2001). As a consequence of all these, a few things happened in the United States, such as the development of code of ethics, employees' rights movement, changed relation between business institutions and civil environment in which business operates (Kitson and Campbell, 1996).

	HISTORICAL EVOLUTION OF BUSINESS ETHICS
Before 1960s	1920s: Capitalism was in question and employers were asked to provide fair wages to employees.
	1930s: The New Deal blamed business for the economic predicament and lower personal income.
	1950s: President Truman considered environment problems as ethical issues to be addressed by business management.
1960s	Religious leaders and Catholic Churches raised questions about morality in capitalism, labour practices, workers' rights and unfair wages. Many catholic colleges started courses on social ethics. Religious tradition provided the very building block for the growth of business ethics.
	Consumers' movement became strong and President Kennedy passed Consumers' Bill of Rights protecting the safety of consumers from the unethical business practices in America.
1970s	Growth of the idea of corporate social responsibility. Businessmen became more aware of ethical issues in business and the Watergate Scandal focused on the importance of ethics in administration and government.

1980s	Many unethical business practices came to the fore and business ethics became well entrenched as a subject of study particularly after the conference on the subject in the University of Kansas in 1974. Business ethics was formally recognized by various business organizations. 500 courses were offered in colleges and ethical organizations started growing in leaps and bound. Defence Industry took the initiative of guiding the corporate sector in matters of business ethics. The new wave of globalisation was responsible for many structural and operational changes in business, and since business became more international, the local rules of business had to be replaced by international ethical values.
1990s	This was the period of institutionalization of business ethics. Bill Clinton worked hard to implement business ethics particularly in health-related business organizations. Organizational ethical compliance programmes were stringently applied in business organizations. Companies were forced to formulate their own corporate values and implement them seriously. Thus, business ethics became institutionalized.
2000s	In spite of the institutionalization of business ethics, many business houses in America did not like the idea and were often involved in scandals. Many person and firms were involved in accounting scandals, unethical business practices including Arthur Anderson, Enron, Halliburton, and so on. Laws have been made stringent to make the Directors and top bosses accountable for discovering the risks associated with ethical risk in business. It has been realized that ethical reputation of a company may be more damaging than the financial risks involved.

Nature of Business Ethics

There are generally two recognized perspectives of BE: the **naturalist approach** and the **normative** approach (Frederick, 2002). The naturalist approach to BE takes into account the natural laws, natural religion and nomological principles embedded in the natural system. The normative approach is couched in empirical terms. Business ethics is essentially a normative science where one talks about various ethical norms, and standard practices as prevalent in a particular country.

As has been pointed out earlier in Part One of this book, ethical consideration is relative in nature. Thus, some values in business may be ethical in a particular context or country but may not be ethical in another situation. However, there are some absolute ethical considerations like honesty, sincerity, fairness, and so forth which are transcendental in nature and are equally applicable in all types of business concerns.

Nature of Ethical Enquiry in Business

There are the following **five dimensions** of the ontology of business ethics:

1. Business ethics as a **subject is analytical**. Its purpose is to analyse things as they are. The nature of this type of study is known as positive study. It is both a normative and positive science.

- 2. Business ethics is diagnostic in nature. After examining the various aspects of business dealings, operations and management techniques, it is possible to know the ethical or non-ethical pathology of the business.
- 3. Business ethics is evaluative in nature. It makes an evaluation of business dealings, overt firm behaviour and performance and comes to judge whether a particular business concern is ethical or not.
- 4. **Business ethics is prescriptive in nature.** It makes various prescriptions to eradicate the unethical behaviour of the firm so that it can be ethical. It suggests many corrective ways and means to purge the firm out of the morass of moral wrongs.
- 5. Business ethics sets the moral standard in business as its guiding principle to be followed in all its dealings with the public, employees, suppliers and consumers.

SCOPE OF BUSINESS ETHICS

Business ethics works at different planes and levels. It encompasses different levels of activities:

Individual level (Personal level)

Organizational level (May or may not be business organizations)

Association level (May be with various types of institutions and domestic associations)

Societal level (Customers, Banks and Government)

Internal policy making (Making business strategies)

Global level (Business interactions)

In all these five levels, some ethical issues are conspicuously present and such issues come within the domain of business ethics. For instance, whether tax is to be evaded or not, whether price is to be raised or not, whether insider trading is to be encouraged or not, are all considered as ethical issues. The scope of business ethics is very vast. It encompasses the following areas where ethical issues are directly or indirectly involved with a business concern:

- 1. Ethical responsibilities of business
- 2. Unethical practices in HRM, finance, marketing and informational technology
- 3. Ethical responsibilities towards employees, consumers, suppliers, and other stakeholders
- 4. Ethical leadership and performance of social responsibilities
- 5. Ethical decision-making and solution of various types of ethical dilemmas
- 6. Ethical issues in corporate governance
- 7. Ethical business strategy
- 8. International business ethics
- 9. Ethical audit
- 10. Professional ethics

The list can be extended by making many more topics in the area of business ethics. However, these areas of utmost importance in business ethics.

Towards a New Direction

The subject of business ethics is now taking a new trajectory (see, Frederick, 2002). The following **five main directions** are clearly visible in the horizon of the contemporary scenario of business ethics:

- 1. One of the contemporary trends of business ethics is to explain things in the context of ethical pluralism that admits validity of many moral standards in different contexts. This also permits a business decision to be taken not in isolation but with reference to many theories and interpretations of morality.
- 2. Fact-value distinction is becoming more prominent now, and this has resulted in the separation of empirical and normative business ethics.
- 3. The idea of individualism is gaining popularity, and it puts the individual against the community. Thus, an implicit choice between communitarianism and libertarianism becomes obvious.
- 4. Environmental ethics is becoming an integral part of business ethics for many obvious reasons.
- 5. The application of top-down rules and at the same time the fixed-end reasoning is giving rise to a situation where the demand of internationalism cannot be neglected any more.

The introduction of **globalization since 1980s** has changed the whole scenario of business ethics by making it more complex and convoluted in the context of cross-country differences in ethical norms. Another factor that has given a new dimension to business ethics is the public opinion in favour of sustainable development (Crane and Matten, 2003) as also the environmental ethics. These aspects are discussed in the relevant chapters of this book.

NEED AND PURPOSE OF BUSINESS ETHICS

Business ethics is necessary to give guidance to **uphold the interests of stakeholders** including consumers, shareholders, suppliers, distributors and investors. Business ethics is necessary to remind the business firm that it is the moral duty of the firm as a part of society to **undertake some** social responsibilities. The following are the five primary objectives of business ethics:

Objectives/Purposes

- Business ethics teaches us the ethical rules and principles that are relevant for business.
- Business ethics is concerned with the application of ethical standard and values to business.
- Business ethics teaches the manager as to how to run the business on ethical lines.
- The rules of business ethics enable a business firm to identify the areas which are not practicing ethical principles and therefore can prescribe the necessary ethical code.
- Business ethics can help a firm to make business decisions and strategy which are morally fair, just and consistent.

IMPORTANCE OF BUSINESS ETHICS

Nobel laureate, Sir John Hicks, once said that the best of all monopoly profit is a peaceful life. Aristotle also observed that the happiness of mind can be multiplied several times if one follows certain virtues in life. Needless to say, these virtues give us an ethical life, be it in business or in any other profession. Virtues are intrinsically valuable. **Business ethics has both micro and macro ramifications**. The micro aspect of business ethics is related to the private and professional life of a manager or CEO. The macro dimension of business ethics encompasses all aspects of business world including policy making, settle of conflicts, and running of day-to-day business. At the macro level, many unethical practices are confronted in a business concern like, unfair discrimination among employees, immoral competition, bribery and corruption, deceptive information, forgery, cheating, and so on.

Business behaviour in the macro perspective is based on mutual trust, faith and consideration. This trust is found generally between employer and employee, customers and sellers and suppliers and purchasers. These relations have to be based on some tacit normative moral standards. Thus, ethics can be very useful for running a business successfully. The importance and significance of BE can be summarized as given below.

- BE provides a **broad framework for giving guidance** to all those who run the business. This guidance is based on certain moral principles that we derive from ethics. Without such a framework, business may go haywire.
- A company based on ethical principles is **trusted by all the stakeholders** like customers, suppliers, employees and the public. The visible and invisible benefits of such a trust may not be quantified in the short-run under all circumstances but its benefits can be realized in the long-run.
- A business based on **ethics improves its social image** which gives it a long standing goodwill and financial pay off at the end. A better public image brings about many types of positive externalities and consequences.
- Business ethics improves and strengthens organizational culture at all levels both within and without. When the whole organization is motivated by a unified culture, the milieu of work and motivation, compliance and respect for the company automatically improves. This is indeed a great advantage for not only making a policy but for its implementation as well.
- The strategic value and decision-making goals of a business concern are founded on ethical beliefs and values and not on its balance sheet position and profit mark-up. While monetary norms are transitory, ethical values **create a solid foundation for all time to come**.
- A company which is ethically strong and committed **generates a sense of empowerment** and security among its employees and stakeholders.
- Ethics-based companies are **empirically found to have strong team work**, commitment and higher productivity than similar other firms which have no ethical foundation.
- Ethically conscious employees and management are responsible for changing the work culture and motivation towards a better end without any formal inducement or coercion.
- A company run on the basis of **business ethics can avoid many types of work-related conflicts** both within and outside the firm. The principles of fairness and justice in running

the firm save it from many possible harms, injustice, unfair discrimination and exploitation. Even if there is any conflict, it can be hoped to be solved on the basis of cooperation, justice and fairness.

- A business firm that is run on ethical principles can save a lot of money every year as it can avoid criminal and legal involvement. Indeed, the economic costs of sin are very high. A study by Morse has revealed that many corporations have paid enormous financial penalties for acting unethically (Morse, 3003, p.14).
- Many types of market failures that arise from misleading information, lack of transparency, non-absorption of harmful externalities of firms can be prevented by ethically run organizations. Needless to add, the economic cost of market failure in any society is indeed prohibitively high.

In fact, laws cannot protect a society, but the ethical foundation can in many cases. It needs to be realized that there is no necessarily compelling contradiction between the profit maximization philosophy of a firm and its ethical moorings.

APPROACHES TO BUSINESS ETHICS

There are basically the following three approaches to Business Ethics.

- 1. **Profit-based morality approach**. This approach recognizes the symbiotic relation between profits and moral activities (Hartley, 1993). Thus, when the profit of a firm is high, its morality gets a better priority. In such a case, morality is a function of profit and there is a positive correlation between the two. This is supported by Robert Hartely's study of 20 empirical firms in the United States.
- 2. **Law-based morality approach.** This approach believes that the laws of a country are mostly based on moral principles. Thus, if a firm or a person obeys the established laws of a country, then morality is also obeyed.
- 3. As against the above two approaches on morality, there is a third one that derives its strength from the prevailing **natural laws and spiritual practices and advices**. This approach upholds the view that there the following five moral obligations for business ethics (Laczniak, 1983):
 - **Veracity principle.** A business firm should follow the truth under all situations.
 - Non-injury (no harm) principle. A business firm should not harm anybody.
 - **Fairness** (**Honesty**) **principle.** A business firm must remain honest in its dealings.
 - **Human Rights principle.** A business firm must respect and maintain human rights.
 - **Autonomy principle.** A business firm must ensure that it does not make infringement of human choice for goods and services.

Sources of Ethical Knowledge for Business

How does a business firm know what is good and what is bad? There are five possible sources of ethical knowledge for a business firm:

- Empiricism: According to this view, the knowledge of moral right or wrong comes to a firm by experience and empiricism. The experiential knowledge may be acquired by the firm or it may be vicarious (that is, gathered from others).
- Intuition: The knowledge about what is right and what is wrong is acquired through intuition. Introspection is very helpful to know good and bad things.
- Principle of Rationality: A rational human being, as a businessman is, can, on the basis of common sense, know what is good and what is morally bad. This rationality is inherent in human beings and is supplemented by experience, reading of scriptures and association with rational people.
- Principle of Revelation: This shows that what is already revealed is an important source of ethical knowledge. This revelation may be known through scriptures, divine knowledge, experience of others and the age-old traditional teachings, customs or practices.

A study by John Steiner and George Steiner reveals that in the case of the American business, in general, there are the following six primary sources of ethical knowledge:

- 1. **Philosophical system** existing in a country does influence the pattern of business behaviour. What has been found in actual practice is the influence of a particular type of philosophy on a particular type of person/class. Some business people are basically influenced by the prevalent contemporary philosophical consciousness/system.
- 2. Legal system is an influential factor in business ethics. Good or even bad business people generally have to follow the existing laws in the country, although the latter sometimes take advantage of the loopholes of laws.
- 3. Codes of Conduct. There are various codes of conduct that business people have to adhere to. These codes relate to operating business policies, company codes, and the Affirmative Ethical Principles of the American Institute of Certified Public Accountants. Different types of industries in USA are formulating different appropriate codes for various businesses. The process of codification of ideal business behaviour is itself a proof of the seriousness of business ethics in America. However, a simple formulation of codes does not by itself guarantee the implementation of ideal ethical business behaviour.
- 4. Cultural Experience. Culture, standards and customs are transmitted from generation to generation and these become the standard societal norms that are broadly followed without much questioning. This is one of the ways that individual business norms are influenced and formed. Cultural experience is a strong guideline for the running of business in a particular
- 5. Genetic Inheritance. Evolutionary forces of natural selection considerably influence the development of individual characteristic traits such as proclivity to do good or bad works, cooperative spirit and conflicting attitudes, and so on. These traits vary from individual to individual and can explain broadly the ethical or unethical human behaviour in business and society.
- 6. **Religion and Religiosity**. Religion is a very strong force in individual actions and behaviour, and every religion does teach more or less the same type of absolute ethical or moral behaviour regarding what is good and what is bad. However, some people are religious but not spiritual; they do not strictly follow and practice the basic religious teachings and nomological axioms particularly in the conduct of business.

In many Eastern countries, religion is very strictly adhered to. For instance, Confucianism in China and Japan, Hinduism in India and Islam in the Islamic countries, has established themselves as the basic external (or internal) sources of morality. But in the United States, the external source of morality seems to be very weak, although Christianity remains a generalized type of religion. The influence of religion on the American business psyche is minimal or marginal. This is so because the materialist culture generated by the philosophy of capitalism or marketism always gains the upper-hand.

TEN POPULAR MYTHS ABOUT BUSINESS ETHICS

There are many popular myths about business ethics. Some of the most popular myths are discussed below (McNamara, 2003; Weiss, 2009, pp. 27–31).

Myth # One: When a business house is obeying the laws of the land, it is ethical.

However, this view is not correct simply because all laws are not ethical, nor is all ethical behaviour legal. There are indeed many examples to substantiate this view. For instance, if your neighbour dies, law does not ask you to visit the house but ethics does demand that.

Myth # Two: Business ethics is best suited to philosophers but not to others.

This is not really true. Business ethics might be formulated by moral philosophers but it is to be practiced by businessmen and business corporations. The subject has many practical values. It is a new business discipline.

Myth # Three: Business ethics is more a matter of religion than of management.

As a matter of fact, some of the ethical principles may be based on religion but not all. Moreover, business ethics as a subject is an attempt to implement ethical rules or standards in decision-making, policy framework and conducting day-to-day business activities. Such ethical rules are very much applicable to business management.

Myth # Four: Business ethics is preaching of good persons to bad persons, and even good persons can make mistakes and take bad decisions.

The statement is factually incorrect. Business ethics is not preaching; it is the actual implementation of ethical rules and standards to business practices, policies and regulations. The application of such rules is not undertaken by a single person but by the committees and a group of persons who formulate such policies. There is hardly any chance of mistake in that type of policy making.

Myth # Five: Business ethics is a new type of policing in business and is a recent phenomenon.

The purpose of business ethics is misunderstood by many. It is not a type of policing but is a set of self-imposed ethical rules for the betterment of business climate and the sustainability of a long-run profit and business goodwill. It is, of course, a recent subject of business management.

Myth # Six: Our employees are reasonable and good people, so business ethics is not necessary.

This view is complacent but not necessarily correct. The point is that a good person or a reasonable person is not necessarily a moral person. For instance, a manager may be very courteous and polite in his behaviour but he may be quite unethical in his business. He may be an adulterer, engaged in manipulating accounts or may be out and out a corrupt person. A good behaviour may be a mask.

Myth # Seven: Business and Ethics cannot go together.

This is a very popular myth, but like all the other myths it is empirically incorrect. It is sometimes pointed out that business people are not necessarily immoral but may be amoral. Some people, however, believe that the statement that businessmen are amoral is in itself a myth (DeGeorge, 1999).

They are very much involved in shady deals as history has proved in many countries including the United States in the Twentieth century. Many other cases also prove to the contrary that business can run very well on the basis of honesty and morality. Many business houses accept the age-old truth that honesty is the best policy.

Myth # Eight:

Business ethics is a personal or private matter and not for public debate or practice.

This view is held to be true by many including Milton Friedman, a noted economist. According to this view, corporate social responsibility, which is an extension of the principles of business ethics, is not appropriate for the business world. This is so because business men are not professionally trained to perform such responsibilities (Friedman, 1970, Sept. 13).

However, the truth of the matter is that individuals have to make business decisions by taking into account the milieu, the institutional matrix and the legal framework. If they work in a socially irresponsible way, they have to pay the penalty. Hence, business needs to be socially responsible.

Myth # Nine:

Good business means good ethics.

A question that at once can be asked is—what is good business? Does it mean good profit, good market share or good volume of sales? Whatever be the answer in this case, it does not imply good ethics in a compelling sense. One can have, say, a thriving pharmaceutical business but the medicines may be cheaper but sub-standard, and this fact is not known to the public, so the sale continues. For instance, a blood pressure lowering medicine amlodipine basilate tablet for which the correct dose is 5 mg. and the same is written on the label may actually contain less than the recommended dose. This type of cheating remains unknown for quite sometime to the customers.

Myth # Ten:

Ethics in business is always relative.

This popular myth says that there is nothing which is either right or wrong. Ethics is a relative term.

A relevant question may be asked: relative to what? If it is relative to the attitude of the businessman, then practically anything that is unethical can be

justified by him. Although, ethics is a relative term, it does not mean that there cannot be anything that is unethical. In fact, there are absolute notions of certain values. Thus, cheating in business is cheating; no relativity of ethics will justify it. There are certain virtues in business which are absolute, like, honesty, truth, transparency, sincerity, and so on.

Summary

Business ethics is the application of the principles of ethics in the area of business and commerce. There are many interconnections between ethics and business ethics. Theories of ethics supply concepts and precepts, set our analytical guidelines and provide ethical models or frameworks for solving ethical dilemmas and other related problems. Business ethics has undergone a long period of historical evolution beginning from the medieval period through the 1970s when it was formally well-entrenched as an independent, full-fledged discipline. Reformation movement and the rise of Protestantism gave some valuable impetus to the growth of the subject. In the 1980s, about 500 courses were offered in colleges in advanced countries on the subject. Since globalization has made business international in character, every corner of the earth is eager to learn more about business ethics and international business practices.

Basically the subject of business ethics is normative in character. It is analytical, diagnostic, evaluative, prescriptive, and it sets a moral standard to be followed. Its scope is very wide including within its fold various types of organizations, institutions, customers, banks, corporate houses and private buyers and sellers of all varieties. In the contemporary world, business ethics is playing an inclusive role in the administration of communities, in explaining cross-country differences in business practices, in the management of environment and also in workplaces. The modern tendency is to follow the dictates of ethical pluralism superimposed on the principle of ethical relativity. This trend is gaining popularity in the context of globalization and internationalization.

Business ethics has been found to be necessary to guide and uphold the interests of stake holders in a business and has placed considerable importance on the performance of corporate social responsibility. Business ethics has many micro and macro ramifications and it strengthens the organizational culture and creates a solid foundation for a business. As a result, many stakeholders feel more secure, empowered and many types of conflicts are now avoidable in the business world. In the long-run, business ethics has been found to be beneficial to a firm. It spreads goodwill, creates more confidence among the stakeholders and makes business more trustworthy. The knowledge of business ethics is gathered from various sources including the natural laws, empiricism, inner voice, religious scriptures, legal system, cultural practices and the principle of rationality. There are of course many myths about business ethics. Most of these myths consider business as irrelevant to ethics. It is wrongly argued that ethics is most suitable to philosophers, religious persons and not to managers. This view is incorrect. It is also equally an erroneous view that obedience to laws means obedience to ethics. Ethics is a moral discipline and is designed to reform our mental attitudes, whereas the law of the land is only to control the external individual behaviour. The two can of course go a long way and then they must change their respective trajectories.

Key Terms

Business Ethics Veracity Principle Calvinism Puritanism Market Philosophy Normative Approach Naturalist Approach Parables of Talents

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Business ethics is a positive science.
- (ii) Business and ethics cannot go together.
- (iii) Protestantism justified the work efforts and business expansion.
- (iv) Business ethics became well-entrenched as a subject in the 1970s.
- (v) Business ethics is more a matter of religion than of management.
- (vi) The modern tendency is to follow the dictates of ethical pluralism superimposed upon the principle of ethical relativity.
- (vii) The truth is that business ethics is best suited to philosophers but not to others.
- (viii) Philosophical system existing in a country does not influence the pattern of business behaviour at all.
- (ix) The knowledge about what is right and what is wrong is the principle of revelation.
- (x) A company run on the basis of business ethics can avoid many types of work-related conflicts both within and outside the firm.

2. Fill in the Blanks

(i)	The schoolmen introduced the idea of
(ii)	went so far as to say that if a person does not work, let him not eat.
(iii)	was opposed to self-aggrandizement and indulgence but not opposed to
	an accumulation of riches.
(iv)	believed that in a free market economy, self-interestedness leads to social
	welfare and happiness.
(v)	Free market philosophy maximizes individual and
(vi)	There are generally two recognized perspectives of Business Ethics, namely,
	and
(vii)	One of the contemporary trends of business ethics is to explain things in the context of
	, that admits the validity of many moral standards in different contexts.
(viii)	A Nobel laureate,, once said that the best of all monopoly profit is a
	peaceful life.
(ix)	Ethics based companies are found to have a strong
(x)	The approach believes that laws of a country are mostly based on moral
	principles.

3. Choos	se the correct option				
(i)	(i) The aphorism, "Whoever has will be given more and he will have an abundance. Whoever				
	does not have, even what he has will be tal	ken a	way from him", can be found in the		
	(a) Bible	(b)	Gita		
	(c) Koran	(d)	None of these		
(ii)	Who condemned usury as being unethical	?			
	(a) Aristotle	(b)	Plato		
	(c) Socrates	(d)	St. Thomas Aquinas		
(iii)	Commenting on the economic progress o	f the	seventh century Holland, who observed		
	that in Holland there were numerous disse	enter	s who believed that labour (and industry)		
	was the sacred duty towards God?				
	(a) William Betty	(b)	Adam Smith		
	(c) Karl Marx	(d)	None of them		
(iv)	What were cited from the Bible to sup works?	port	the economic activities and productive		
	(a) Fables of Talents	(b)	Parables of Talents		
	(c) Both (a) and (b)	(d)	None of these		
(v)	Who developed the idea of spiritual callings	s to n	naterialize the activity relating to economic		
	progress?				
	(a) Calvin	(b)	Adam Smith		
	(c) St. Thomas Aquinas	(d)	Mahatma Gandhi		
(vi)	i) Which group conceded the idea that spiritual obligations including business dutie				
	discipline quite in accord with the Divine and ennoble their characters?	Will	, and by following this, men can improve		
	(a) Opus Dei	(b)	Puritans		
	(c) Catholics	(d)	Protestants		
(vii)	"The expansion of business renders free satisfies the	cho	ice and liberty for the consumers"-this		
	(a) Socialistic view of ethics	(b)	Religious view of ethics		
	(c) Libertarian view of ethics	(d)	All of these		
(viii)	The ethical foundation of the growth of ca	pital	ism was provided by Max Weber through		
	his writings on:				
	(a) Industrialism				
	(b) Imperialism				
	(c) Religion and Society				
	(d) Protestant Ethic and the Spirit of Capi				
(ix)	An integrative view taken by whom claim that business is not an extension of morality				
	and nor it can be wholly separated from et	hics;	both are complementary in nature?		
	(a) Max Weber	(b)	Karl Marx		
	(c) Talcott Parsons		Adam Smith		
(x)	Which principle states that a business firm				
	(a) Fairness Principle		Veracity Principle		
	(c) Human Rights Principle	(d)	Autonomy Principle		

Review Questions

- 1. Distinguish between ethics and business ethics.
- 2. Explain the need and basic objectives of business ethics.
- 3. Why should you study business ethics?
- 4. What are the main sources of the knowledge of business ethics?
- 5. Enumerate the scope of business ethics.

Web Links

1. http://media.wiley.com/product_data/excerpt/45/04712305/0471230545.pdf

[Introduction to Business Ethics]

2. http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_19_michael.pdf

[Business Ethics: The Law of Rules]

3. http://web.tepper.cmu.edu/ethics/whybizethics.pdf

[Why Business Ethics?]

4. http://portal.unesco.org/education/en/files/53748/11840802765Baker.pdf/Baker.pdf

[A Reflection on Business Ethics]

5. http://501cweb.wordpress.com/2007/02/07/ten-myths-about-business-ethics/

[Ten Myths About Business Ethics]

6. http://www.eubios.info/EJ86/ej86h.htm

[New Approaches to Business Ethics]

7. http://www.e-sinessethics.com/PowerPointSlides/ScopeofBEthics.pdf

[The Nature and Scope Business Ethics]

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CHAPTER 10

Ethics and Business:Codes, Dilemmas and Dialectics

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Need for ethics in business
- Ethical responsibilities Vs. Social responsibilities
- Adam Smith and Milton Friedman on the ethical responsibility of business
- Ethical dilemma: characteristics, types, causes, sources and resolution
- Dialectics of ethical development in business
- Ethical issues in business and society
- Some major unethical business practices

Introduction

Immanuel Kant, a celebrated German philosopher, once remarked that there are two mysterious things in this world—"the starry heavens above and the moral law within".

The moral laws are not something absolute but are subjective in nature. They are the unfath-omable *noumena* of the human mind which can be conceived by thought but cannot be perceived by experience. Every human being whether a businessman or a commoner has a particular moral standard but the problem is that such a standard might work at the esoteric plane and its outward manifestation is at variance with the covert predisposition. This incongruence is the source of many problems, both personal and impersonal.

As a matter of fact, morality, ethics, right and wrong are all, in a sense, relative terms and they cannot be uniquely defined. The standard of morality differs from country to country and from situation to situation. Ethics, which was once the domain of philosophy, is now being applied to various professions including business a profession that is dominated more often than not by materialistic considerations of life and has been witnessing scams and scandals across the globe. It is gratifying to note that since 1970s, ethics has entered the arena of business and has been influencing many business decisions through the adoption of corporate social responsibility. The present chapter will discuss a number of issues that plague the application of ethics in business. The prominent among these are: the justification of ethics in the running of business enterprises, unethical practices in business, ethical dilemmas and ethical dialectics.

Does Business Need to have Any Ethics?

Chapter 19 of this book discusses at some length the need for corporate social responsibility. In this section, the views of some researchers and economists are analysed to explain the relevance of ethics in the area of business.

Ethical Responsibility vs Social Responsibility

At the outset, it is imperative to distinguish between social responsibility and ethical responsibility. The following are the **major points of difference** between social responsibility and ethical responsibility:

- Social responsibility is related to anything that promotes social development and enhances social welfare such as setting up a school, building a road or any other social infrastructure. The concept of ethical responsibility is a bit different as it gives a moral responsibility to a person to do certain things. Thus, for a manager it is a moral responsibility to ensure that his employees are given a reasonably good working environment. The improvement of working conditions for employees and the production and circulation of safe and useful products among the customers are all examples of moral or ethical responsibility of a manager.
- The basic purpose of social responsibility is to help the society to enjoy certain benefits and it may involve the production of some **public goods** like roads, provision of drinking water and so forth. The purpose of ethical responsibility is to develop the ethical standard of givers and/or receivers. There can be both positive and negative ethical responsibility. Whereas the positive ethical responsibility is done through the construction of some projects and initiation of some activities (like building a church or a temple in a locality), the negative ethical responsibility is to eliminate some morally bad things from a particular area. The purpose is to prevent something which is ethically wrong. For instance, a liquor shop is dislocated from a college area a public institution.
- What is generally expected of a business enterprise is social responsibility and not ethical
 responsibility. It is not proper to assign to a business house the responsibility of moral development of people. Ethical responsibility is more compelling, demanding and complicated.
 Thus, it is too much to ask a businessman to take or give bribe. This is an ethical issue and is
 difficult to implement.

Adam Smith and Milton Friedman on the Ethical Responsibility of Business

Classical economists including Adam Smith have questioned the ethical role of business by saying that for the purpose of business and its success in making profit only two things are important, and these are legal compliance and market contestability through competition in product quality and prices. If these two critical things are well looked after, the firm can be said to have performed all the social responsibilities (Steiner and Steiner, 1988; Friedman, 1970). On the basis of this view, a business firm is considered as ethical in two ways. First, it is doing its duty to supply goods and services needed by the society and second, it is performing its job given by the shareholders of bringing maximum gains to them. In the process of supplying goods and services to the society, Adam Smith says that the business houses are performing a commendable social work which can be regarded as a part of ethical duty.

Smith's argument is fundamentally different from that of Friedman. Basically what Smith is arguing in his The Theory of Moral Sentiments is that although business people are primarily motivated by self-interest, they are indirectly **contributing to the common good** and social welfare. According to Smith, the **invisible hands** are creating through the business expansion a natural order in the society where common good is encouraged and the society comes to a stage of a desirable equilibrium where, assuming perfect competition, the prices are fixed at the lowest possible level and the maximum goods are supplied. In terms of the modern terminology, the society can enjoy both consumers' and producers' surpluses. The automatic market mechanism working through invisible hands brings the economy to the desirable state of equilibrium and in arriving at this state of perfect bliss, the contribution of market remains profound. The business has done its duty in the sense that it has contributed to **common good ethics** through different values like prudence, propriety, reason and sentiment. These values are essentially business values. The bottom line is that through such values, the happiness of mankind can be maximized (Smith, 2000).

Adam Smith is one of the founders of a variety of capitalism, which may be called **enlightened** capitalism. The basic philosophy of this brand of capitalism is that it works selfishly but, still, it has some tendency to do good to others. Friedman's concept of capitalism is not enlightened; it is capitalism simlicita. Ferrell et al. observe that the Smithsonian type of capitalism is now replacing the Friedmanian type of capitalism in most of the capitalist countries (Ferrell et al., 2003). In fact, it is increasingly being realized that business houses do need to care for the well-being of the shareholders for earning trust and cooperation that go a long way to reduce cost, increase productivity and enhance total gains (Bowie, 1990).

Even if it is realized that businesspeople should have some ethical responsibility, it is, for various reasons, difficult to make the concept operational in actual practice for the following reasons:

- Ethical responsibility is an ethical issue, and hence, it is very difficult to define it. If a company improves the working conditions of its employees, does it mean it has performed some ethical responsibility? Not necessarily.
- It is equally problematic to demarcate the boundaries of ethical responsibility. For instance, a business company has built a new road and it claims that it has performed some ethical responsibility. It may not be correct because the road is built for the purpose of its own convenience for the movement of men and material.

• It is often difficult to identify the fine line that distinguishes between ethical and non-ethical responsibilities. Many things are made and unmade by companies, but all of them may not be ethical. For instance, a business house establishes an MBA institute. It does not necessarily mean that it is spreading education in the community. It may be simply to earn profit. The problem is that a particular work can be interpreted as a work of ethical responsibility or a work to enhance private profit. Things depend a great deal on how one looks at it.

The above-mentioned points conveying the practical difficulty of implementing the ethical responsibility of business do not exonerate business firms to shirk from ethical responsibilities. Most of the arguments put forward against the imposition of ethical business responsibilities are feather-bedding arguments; they are more sentimental and funky rather than real.

Critical Appraisal of Friedman's View

Friedman's view that in the case of mistakes or fraud by businessmen it is better for the market to correct those aberrations rather than by the government, is not fully supported by any empirical evidence. A large number of cases of fraud, cheating and ethical mismanagement take place every year in different countries but the market has never been able to correct those cases. In fact, there are times when the market itself fails and it needs the intervention of the government (Ghosh, 2001). Many more points of criticism can be levelled against Friedman's point of view.

- Friedman argues that the basic object of business is to maximise profit. It is not so. **There are many other alternative objectives of business enterprises** which I have discussed elsewhere (for details see Ghosh, 2010, Chapter 2). Some of these alternative objectives of firms are: sales maximization, revenue maximization, assets maximization, goodwill maximization and maximization of market power or market share. To say the least, Friedman has taken a very archaic view of the philosophy of business firms.
- If profit is maximised all the time without any restraint, as Friedman advocates, the **result** will be the growth of monopoly which will lead to less supply of output, higher prices and the concentration of monopoly power. All these are unethical in a free-market economy. In a competitive economy, as Karl Marx observed, the firm which becomes more competitive and efficient, will turn into monopoly. Once monopoly is generated, it is very difficult for the government to control it.
- Friedman talks about the free-market economy. Except in a few countries in the developed world, most world economies are mixed economies dominated both by the private and the public sectors. Given the nature and stages of development of these economies, both ethical and social responsibilities of business become imperative, for many of these business houses are engaged in unethical business activities (see the last section of this chapter) at the cost of the society.
- The automatic market mechanism that both Adam Smith and Friedman believe is not so automatic. The invisible hands operating through the market mechanism have to be controlled by the visible hands of the state. Unless some social or ethical responsibility is fixed for firms, they may prove dangerous for the society. Friedman plays down the potential danger of these unethical firms for the human society.

• Friedman has observed that the profit maximization goal must be pursued by staying within the rules of the game, that is, without deception and fraud. These idealistic conditions for the operation of firms do not hold well in modern times. In the name of profit, many firms do whatever they want to do (Heilbroner et al., 1927). The cases of **regulatory capture** are rampant in our times. Under this situation, if the firms do not want to have social responsibilities, they should have at least **social sense and sensibilities.**

CODE OF CONDUCT IN BUSINESS

Code of conduct in business is important to organize certain business activities. These days code of conduct in business are developed by many business houses and also by the corporate sector (see, for example, the code of conduct in business of Jet Airways, Coca Cola Company, Dow, and so on). All codes of conduct in business are based on the core values of the company, its mission and vision. Core values are the guiding practices of the company and they are meant to be strictly adhered to by its employees and stakeholders. All of them must understand and follow code of conduct in business in order to appreciate the business policy of the company. The basic purpose of code of conduct in business is to ensure a proper ethical behaviour in the conduct of the business. Different companies may have different code of conduct in business; however, the basic business codes remain the same. The following are the standard codes of conduct in business:

- Compliance with laws, rules and regulations.
- Working with honesty, integrity and diligence and on the basis of work ethics.
- Respect and honour for human rights.
- Everybody should follow the policy of the company and nothing should be done against the company.
- Confidentiality should be maintained and there should be no disclosure of confidential information at any cost.
- Maintenance of company's goodwill, assets and property.
- There should no manipulation, abuse or misuse of power and position and non-acceptance of bribery and favour from others.
- Political connection and subscription to political parties are discouraged.
- No discrimination and harassment against any employee or stakeholders.
- Competition with another company can be done with honesty and fair trade practices.
- Non-development of cartels and monopoly practices.
- No insider trading.
- There should be accountability and transparency.
- Adequate disclosure of useful information inside the company is needed.
- The company should serve well the consumers and ensure adequate after-sales services.
- Goods to be produced by the company should be qualitatively good, reliable and moderately priced.
- To maintain adequate and effective health and safety measures and employees' privacy.
- The company employees are to protect the environment and help the government in the achievement of sustainable development.

- The company has to carry out the corporate social responsibilities.
- The whole business will be run on ethical principles for all concerned.

The aforesaid codes will have to be strictly observed by all concerned and if there is any willful violation of the code, the offender will run the risk of departmental enquiry and even dismissal from the service. Any conflict in this matter may be brought to the notice of the supervisor. If any other regulation comes in conflict with the code of conduct in business, the code will be overpowering.

ETHICAL DILEMMAS

Many business managers in their day-to-day working have to face ethical dilemmas, and these create problems in the process of business decision-making.

What is an Ethical Dilemma?

An ethical dilemma is a situation that involves at least an ethical issue where a clear decision or a choice becomes problematic because of competing claims or interests. There may be an ethical contradiction or conflict in the choice to be made. In such a case, the solution may not lie in the interest of the company or of the decision-maker. An instance will make the meaning clear. Suppose John has been appointed as an assistant to the manager of a dairy firm, and on the very first day of his work, he is asked by the manager to mix water in milk and sell it to the customers. John is an innocent boy. He is shocked by this order because he comes from a religious family and he does not want to indulge in unethical work. John is in ethical dilemma now: his ethical principle does not allow him to mix water with milk, but if does not carry out the order of the manager, may lose his new job which he wants very badly. In this type of ethical dilemma, it is difficult to take an immediate, clear-cut decision. The decision of course is possible if the person is straightforward and does not bother about the consequences of his decision. The problem is that, in many cases, the decision-maker has to consider the possible consequences of his action.

In an ethical dilemma, the choice has to be made between two desirable/undesirable situations as John is facing. He does not want either (perhaps) to lose his job or to mix water with milk. In a dilemma, usually there may be two or more than two options or choices. In the case of an ethical dilemma, the decision rules are not clear-cut and may be of conflicting values. For ethical dilemma, the solution is not unique or universal; it depends to a great extent on the ethical background and personality pattern of the decision-maker. If John has a weak moral background, he will obey the order of his manager and will retain his job.

Characteristic Features of Ethical Dilemmas

If one analyses the causes of ethical dilemma, it becomes clear that in the case of dilemmas:

- Social cost and private gains are different.
- No linkage is established between the two alternative courses of actions (choices).
- Competitive behaviour gains predominance in many cases.

- There may be an inconsistency between goals (e.g. materialism vs altruism)
- Cross-cultural value differentials do exist.
- There are some pressures from somewhere.
- A problem of right choice is the main issue.
- Very often, the exact impact of the two alternatives may not be known or determined.

Types of Ethical Dilemmas

Ethical dilemma may be of different types. Some of which are listed below:

- Ethical dilemma between one ethically right and one ethically wrong alternative.
- Ethical dilemma between two ethically wrong alternatives.
- Ethical dilemma between two ethically right alternatives.

In the last two cases, the decision-maker has to make a choice on the basis of his own ethical perception, judgment, background, ethical intensity and needs; such a choice is not often clear-cut but involves dilemmas in the sense that one may have to decide whether to choose the more immoral or less immoral option, as the rewards may be different, or, whether to choose the morally more right one or the less right one, as the pay offs may be different. "More right" or "less right" is the mental judgments of the assessor. In the case of two morally wrong situations, the person may choose the one which brings least harm or injury to the smallest number of people. This may be called the situation of **reverse utilitarianism**. Ethical dilemmas are with respect to two situations created by two institutions or value systems. The **typology of dilemma may involve the following situations:**

- Organization vs Persons (Employees)
- Persons vs Society
- Local culture vs Foreign culture
- Organization vs Law
- Organization vs Society
- Person vs Law
- Right vs Right
- Wrong vs Wrong
- Right vs Wrong

Causes and Sources of Ethical Dilemmas

Several sources and causes are responsible for the phenomenon of ethical dilemma. These sources are:

Individual (Individual values may be in conflict with social or family culture).

Family (Family values may be in clash with values in the business).

Organization/workplace (Organizational culture may be in conflict with personal values).

Society (Social norms may be in conflict with individual norms).

Cross-cultural Level (The culture of one country may be in conflict with the cultural practices of another country). This type of dilemma is found mostly in international business.

The basic causes of ethical dilemmas are the clash of two situations where one may be right and the other may be wrong, both may be wrong, or both may be right. A dilemma is the outcome of a mental perception (psychological) about a critical situation involving choice. The perceptual clash may occur in the following ways: (see Davis and Frederick, 1983).

- The dilemma may be due to a clash between personal values and the organizational culture or values. In such a case, it is difficult to decide as to which value is to be sacri-
- The dilemma may be due to organizational goals and social (or legal) standards. Your senior police officer may ask you to give him every month Rs. one lakh and also urges you to take money from your subordinate officers in the same way. You are told that he would not check the amount of money that you take as bribes from the cases you investigate.
- The dilemma may be caused by a clash between organization practices and personal beliefs. For instance, you may not like racial or gender discrimination. But your boss wants to practice it and continue the trend.
- Pressure from organization may also cause ethical dilemma. The CEO, your boss, wants you to produce and sell hazardous or adulterated products in an organised way, which you do not want. This, then, will create a dilemma in your mind. As empirical cases show, a moral person often faces more ethical dilemmas than an immoral person.

Resolution of Ethical Dilemmas

There is no clear-cut method to resolve an ethical dilemma. However, the following discussion can throw an important light in the matter of the resolution of ethical dilemmas.

1. Study the Nature of the Ethical Dilemmas

- If the ethical dilemmas involves right vs. wrong, ethicists will generally recommend the acceptance of what is right. However, in doing so, one should be prepared to suffer the consequences. For instance, if you do not follow the order of the manager to do the unethical thing suggested by him, you may lose your job.
- In the case of right vs. right ethical dilemmas, apply the one which is very close to your core values and is consistent with the accepted ethical standard.
- In the matter of resolving an ethical dilemma where both the alternatives are wrong, it is better to choose the one which is less damaging to the person, organization or the society.

2. Analyse the Consequences of Each Contemplated Solution

Very often, the following types of ethical dilemmas need resolution:

- (i) Individual Gain vs Social Gain
- (ii) Truth vs Loyalty
- (iii) Justice vs Mercy
- (iv) Short-run vs Long-run Gains

In each one of these cases of ethical dilemmas, the solution can depend on any prejudiced preconception. Each case of ethical dilemmas is a different world and the decision has to be based on circumstances. However, some general naïve views may be useful to remember.

In the first case, it is better to resolve the issue in favour of social gain and sacrifice the individual gain. This is particularly so if the decision-maker is a consequentialist or utilitarian. However, this cannot be generalised. Suppose, your father and a renowned surgeon who can save hundreds of lives, are in a boat which is sinking and you can save one of them. Whom will you save? Utilitarian ethics will suggest that it is ethical to save the surgeon. But the ethics of care will say that you should save your father. Many a times, ethical theories are themselves conflicting in resolving ethical dilemmas. The best way is to listen to your **inner voice** and make the decision.

The third case is similar in nature. Suppose your accountant has done something unlawful. You are in a dilemma as to what to do? There are two alternatives to solve this problem. If you follow the theory of justice, you may hand him over to the police and let the law take its own course, or you may show mercy and let him go by giving some warnings. If you are religious minded, perhaps you will show mercy considering the Biblical dictum that "mercy triumphs over judgment".

In resolving the conflict between truth vs. loyalty [Case (ii)], ethicists will recommend the superiority of truth. But in that case one needs to examine the consequences and bear with them. This is not an easy job.

Ethical resolution in the case of ethical dilemma involving a short-run and a long-run gain is a problematic issue [Case (iv)]. Nothing can be said by way of generalization. In some cases, short-run benefit is considered more attractive than a long-run gain. But the opposite is also true under many situations. The merit of the case is the critical consideration. If possible, it is advisable to make a compromise between short-period and long-period gains. The realization of a short-run goal must not stand in the way of a long-term ethical goal or desideratum. Sometimes, it is possible to work out an optimal combination which is consistent with the ethical core values. A trade-off or a compromise can be worked out between the short-run and long-run objectives. For instance, a firm's short-run objective may be to maximise *savings* and the long-run objective may be to maximise the goodwill through performing corporate social responsibility. However, if the short-run goal is emphasised too much, the long-run desideratum will suffer, for there will be no resources available. Likewise, if the long-run goal of corporate social responsibility is too much stressed, the short-run objective of maximization of the savings will get a jolt, and in the course of time, the long-run goal will remain unfulfilled. Hence, it is prudent to make reconciliation between these two basic objectives. These objectives need to be made complementary and not competitive.

How to Make the Resolution Workable?

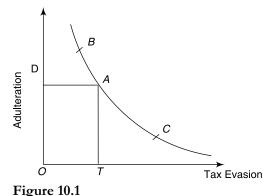
To sum up the discussion, the following points need to be emphasised:

- The resolution of ethical dilemma should be within the legal framework. It must not go against the established law of the land.
- The consequences of all the alternatives must be studied properly.
- It is, at times, necessary to make a compromise. A policy trade-off in this context may be very essential. There may be many points of policy trade-off, and depending on the prevailing

situation, a particular point of trade-off should be chosen. A trade-off is a combination of something of both the policies. It is necessary because both the policies in question cannot be taken in full measure. A trade-off is not a permanent choice; it may go on changing with the circumstances.

Suppose that a business house is trying to remain engaged in two evils: tax evasion and adulteration. At a particular moment in time, this will create a managerial dilemma as to how much money should it make by adulteration and how much through tax evasion. Both are ethically wrong choices. This creates a dilemma in the mind of the manager because it needs some policy decision. Too much of tax evasion is not possible as there will be the chance of being caught by the tax authorities and the penalty may be prohibitively high. In the same way, adulteration cannot be done beyond a point as it involves the risk of criminal involvement, fines and loss of customers.

The manager at this point confronts an ethical dilemma: how much should be the level adulteration and how much the tax evasion. If one is high, the other will be low, given the target of profit. So these two unethical activities are negatively correlated. The manager resolves the dilemma by finding out a point of compromise or trade-off (shown by the point "A" in the following diagram). At this point, OD is the extent of adulteration and OT is the extent of tax evasion. Next time, the trade-off point may shift to either C or B, depending on many internal and external factors.



- The ethical resolution should be based as far as possible on a cognitive ethical principle with justification. All ethical theories are not
- The **principle of universalism** has much to recommend in the resolution of ethical conflict and dilemmas. Resolve the ethical dilemmas in such a way that will win everybody's approval in the given situation.

equally applicable every time in all types of ethical dilemma resolution.

• A balanced approach to the resolution of ethical dilemmas is immensely necessary to make it acceptable to all types of stakeholders. There are many types and balances that one should keep in mind. There should be a balance between private gain and social gain; a balance between cost and benefits; balance between the present and the future prospects; balance between the organizational values, personal values, and so on.

The genesis and nature of ethical dilemma can also be understood by ethical dialectics. The following section explains briefly its essential features.

DIALECTICS OF ETHICAL DEVELOPMENT IN BUSINESS

Dialectics brings into focus the whole range of changes and interactions that occur in the process of development and change (Ghosh, 1990). Dialectic analysis of a system consists of showing the process that can explain its growth and evolution and also the explanation of the interacting

conditions under which the system exists. The explanation of the growth of business ethics as a subject needs to be understood in this context of evolutionary interactions. Dialectics replaces the concept of *things* by the concept of *process* that explains the involved history, relations and future. Dialectical approach begins with the whole system and then it proceeds to an explanation of the parts to see where they fit and how they function. The whole business system, in its macrocosmic sense, is taken to explain the relevance of ethics in this approach and then one can analyse the micro functional aspect of business in relation to ethics. It needs to be appreciated that the parts of the whole are always connected and interact with each other in the area of business and commerce. The whole purpose of the study of ethical dialectics is to explain ethical dilemmas in business and also to understand the ontology of business ethics.

Ethical dialectics can be interpreted as an interrelated dimension of business dilemmas. Dialectics considers everything from the perspective of changes and explains a situation in terms of involved relations and relational changes (Sherman, 1995). Thus, in order to explain the ethical perspective in business, it is imperative to bring to focus the whole gamut of relations within the business organizations and outside it, and account for the systemic changes that have occurred. Business dilemmas and conflicts can best be understood in terms of ethical dialectics.

Interpretations of Ethical Dialectics

Ethical dialectics can be interpreted at least in the following six senses.

First, ethical dialectics can explain many types of ethical dilemmas and conflicts. In the Hegelian sense, it analyses the genesis and the historical character of a particular dilemma. Why the dilemma is created, what contradictions are involved between the personal moral predisposition of the manager and the amoral or immoral business organization? Gandhi found a contradiction between material affluence and moral degradation of a nation (Ghosh, 2007, pp.197–203). Like the Hegelian concept, in the case of business ethics, the moral ethical code is the **thesis**, the unethical or immoral business ethics is the **anti-thesis** and the resolution of the dilemma (contradiction) to do some socially beneficial work is the ultimate **synthesis**. Thus, in the perspective of business ethics, the Hegelian dialectics is at work through **thesis-anti-thesis and synthesis**. The contemporary attempt to accept corporate social responsibility is a reconciliatory ethical dialectics.

Second, in the case of ethics in business, the ethical dilemmas need to **explain the systemic development in business** that neglects some concepts which are interrelated. For instance, Indian civilization, in particular, Hinduism, propagates the four-fold objectives of life that balance *dharma* (religion), *artha* (financial resources), *kama* (desire) and *moksha* (salvation). However, the capitalist system puts more emphasis on wealth accumulation and satisfaction of physical desire. The Western concept of business is overly unbalanced, body-centric and ungodly (Gandhi, 1999, 22 October). In such a situation, ethical dilemma is inevitable and it upholds the truth-value of ethical dialectics.

Third, in dialectics, the same force produces opposite effects. This is also true of business dialectics. Capitalism is a salutary organizational system for the business people because, as Marx says, it is the most progressive mode of production. But the same system leads to exploitation of labour, inhuman working conditions and proletarianization of labour. Thus, capitalism is good for businessmen but bad for ordinary labourers.

Fourth, ethical dialectics witnesses an internal transformation from quantity to quality. In the perspective of business, the growth of the company in terms of market share, profit, assets, and so on are quantitative concepts. But the change in its objective function towards social responsibility, human welfare and environmental consciousness over a period of time are all qualitative transformations. All these transformational qualities can be regarded as its developmental metamorphosis.

Fifth, ethical dialectics seeks to unfold the interactions among institutions, human nature, organizational culture, and ethical values. It also explains the possibility of dilemmas and disequilibrium in the social system. Through interdependence and interactions, the temporal relations are half-heartedly internalized. This produces unstable internality, dilemmas and conflict. For instance, the traditional Indian system was characterised by varnashram dharma (caste-based religion) revealing social interdependence and division of labour. But in the course of time, it degenerated into social exploitation, oppression and conflict.

Sixth, dialectics assures us that there is an essential unity in everything. This is ensured by the natural laws (what Adam Smith calls natural order). The invisible hands ultimately bring about some equilibrium. Thus, business profit and morality do not always remain contradictory for a long time. In fact, many business houses all over the world do perform some commendable social and ethical works and behave as good corporate citizens.

Ethical Issues in Business and Society

Many ethical issues now plague the society and the business world. The problem is discussed to a certain extent in Chapter Twenty, International Business Ethics.

Contemporary society and business are engulfed by a myriad of unethical issues and problems. The problems are intensified by many factors like greed, competitive lifestyle, demonstration effect, excessive materialistic condition of life and the Westernization of culture unleashed by the forces of globalization since the 1980s.

Why Does Business have a Tarnished Image?

Anywhere in the world, modern business is characterized by unethical practices. Only a small percentage of business people in a country are found to be ethically robust and contestable. The percentage of corporate citizenship is below five per cent in India. In the United States, the figure is still lower, not more than three per cent. In developing societies, the public servants, police and the businessmen are proverbially considered to be the rotten lots. Businessmen are involved in criminal scams and scandals, dubious business practices, cheating, fraud, profiteering, black marketing, tax evasion, exploitation, bribery and corruption, to name only a few of their irresponsible practices.

Because of their anti-social activities, the public and the press have contributed to the spread of negative image of businessmen. Van Buren (2006) has explained many reasons that are responsible for the negative image of the business world. There is no denying the fact that many business houses are performing some important social responsibilities but some of them are also exposed to public criticism for being occasionally socially irresponsible. One such example is the mercury spill by Hindustan Unilever Ltd. in 2001 causing potential threats to the lives of about 30,000 people in Kodaikanal in Tamil Nadu (Chokhani, 2005). The company has a record of many good social activities and gradually it discontinued the project in Tamil Nadu. Whether advertent or inadvertent, these types of lapses from business companies are rampant in less developed countries. Because of many anti-social and unethical activities, businessmen, since past have been carrying an unsavory image. I have elsewhere discussed the historicity of the tarnished image of business at some length (Ghosh, 2004, Ch.1), so let me be brief it here.

The Greek philosophers in the Fifth Century B.C. idealised the life of contemplation. Aristotle condemned monopoly and usury, and considered trade as a virile activity. In the medieval society, life of meditation was highly acclaimed. In scholastic economy, trade was considered as undignified. It was thought to be so even in Greece. Merchants were one round higher in status than the untouchables. Luther, a reformer, hated economic activities like trade, credit, capitalist enterprises, and so forth. However, this attitude underwent a change from the time of Calvin. Calvinism was opposed to self-indulgence but not to accumulation of riches. Calvin developed the idea of *spiritual callings* to materialise the activities relating to worldly resources. The growth of Protestantism emphasized certain character traits that were helpful for the development of business activities. The Protestants actively associated themselves with business and industry.

The growth of Marxism and the spread of communist ideology replaced the will of God by **materialistic dialectics.** Capitalism was regarded as the most progressive mode of production and its basic philosophy was the creation of surplus value through the exploitation of labour and capital accumulation at a crazy speed to survive in the rate race of a competitive game. The same philosophy that does not recognise any God does, still, continue in business.

As historical evidence reveals, the group that prospered in business had to break many established social and ethical norms and standards in the past, and such groups were out-groups and had to go through the **process of social ostracism.** In the European community, the Jews were out-grouped and in India, the Parsis were out-grouped but they were all successful businessmen. Since they had to disobey the social customs for the sake of business, they were considered as low class people by some. However, things have changed now in many ways but the unethical activities have multiplied by many times in the business world. It seems that behind every success in business, there are some overt or covert crimes.

Some of the social crimes and unethical issues are briefly discussed in the following section.

Some Major Unethical Business Practices

• Sexual Harassment at Workplaces

It includes many types of offences including sexual advances, requests for sexual favours, avoidable physical contacts, request for dates, and so on. In the name of good business, girls of nubile age-groups are sent to different places and persons to gain business favour, contract and orders. This is often done sometimes by alluring the poor girls with higher pay and promotions, and sometimes, it is done without the consent of these helpless girls. Sexual harassment has been made punishable by laws. Indian Penal Code contains several provisions such as section 354 (outraging the modesty of women), section 209 (obscene acts and signs), and section 509 (insulting the modesty of women) on sexual harassment. Apart from these, there are Industrial

Disputes Act and Industrial Employment Act among others that prescribe punishment for sexual harassment. In a very sensational case of Vishaka vs. the State of Rajasthan (1997), the Supreme Court of India prescribed some guidelines to be followed by organizations in the case of sexual harassment.

Forced Labour and Bonded Labour

In India, bonded labour and forced labour in the rural and urban areas is around two per cent of the total labour force in the country. The incidence is higher in the rural than in the urban labour market. Bonded child labour is widespread in many parts of Andhra Pradesh, Uttar Pradesh, Orissa and Bihar. Child labour is rampant in the carpet industry of Uttar Pradesh in India. Other industries include tea faming, stone quarrying, fireworks, fishing and cigarette making. Children are also forced to serve as domestic servants, road-side beggars, prostitutes and shop boys in many Third World countries. These children never get the opportunity to go to school.

Sweat Shops

These shops are abundant in a country like India and include the places where all types of manual, unskilled and women labourers have to work to eke out a living. They make toys, shoes, and cheap quality consumer goods. The wage is very low and irregular and the working conditions are inhuman, to say the least, with no fans, sometimes no electricity, no pure drinking water and no sanitation facilities. Numerous abuses are reported in sweat shops but no one cares.

Discriminations

Various types of discriminations including gender discrimination, age discrimination, and racial and minorities discrimination are openly practiced by business houses. Favouritism, nepotism and casteism dominate the job market in India. Discrimination is prevalent not only at the entry point but also in job allocation and promotion. There are also glass ceilings that prevent the ethnic minorities and women to reach the upper echelons of the corporate sector in many countries including the United States. In United Sates, the Hispanic, the Asian American and the African labourers do not have the same wage structure. There are serious wage and job discriminations.

Fraud

A fraud is a type of theft by deception. Fraud may be a violation of civil law (Law of Tort) and/or a violation of criminal law. A fraud is a deliberate misrepresentation of facts that causes the other party to suffer loss or damage. Who does not know the case of World Com Accounting Fraud? Impersonation constitutes another kind of fraud (see, Daily Mail, 30 May 1995). There are many types of fraud being practiced by people. Some of these are: forgery, quackery, Ponzi-type schemes, money-doubling scam, mobile phone fraud, telemarketing fraud, chit-fund fraud, phishing (acquiring sensitive information to defraud somebody), and so on.

Theft

The corporate sector every year loses a huge amount of money through theft by disgruntled workers, security personnel, store operators, suppliers, waste contractors, staff purchasers, and so on. Both big officials and lower grade persons are involved in company theft. Corporate

theft is possible because of many types of lapses and loopholes in the system of corporate management. A study by the University of Florida (2000) found that a substantial amount of losses (about 45 per cent) in the studied companies was due to theft by disgruntled workers.

• Corruption

Corruption is the abuse of public offices and power for private gain. The gain may be financial or in kind or any other temptation. There are many forms of corruption such as bribery, kickbacks, extortion and the like. Absence of accountability and transparency and lack of proper control are the basic causes of corruption. Corruption index is rising in every country, for both India and China it was 70 (out of 183 countries) till recently. However, a survey by Transparency International (2010) shows that corruption perception index has increased for India (3.3) and reduced for China (3.5) out of 178 countries (higher value means lower corruption and lower value means higher corruption). According to the same survey, while Denmark, New Zealand and Singapore are voted to be the cleanest, Somalia is classified as the most corrupt.

Corruption is anti-development as it misallocates resources, is anti-poor, anti-democratic and anti-national, to say the least. Corruption is a function of many factors including personal values, social values, nature of governance, the legal framework and institutional competence to combat corruption. Unless these are favourably refurbished, there is no hope of a better tomorrow.

Summary

Business ethics is now the word of the day. At this stage, it is necessary to understand the differences between ethical responsibility and social responsibility of business. Social responsibility is towards the society and ethical responsibility is mainly towards the organization and its employees. The purpose of social responsibility is to promote social development, but ethical responsibility is a type of moral responsibility to ensure that employees enjoy a reasonably good working atmosphere and also get some opportunity for their moral development too.

Social responsibilities of business have been discussed by both Adam Smith and Milton Friedman. However, their views are different. Smith asserts that although business people are primarily motivated by self-interest, they are indirectly contributing to common good and social welfare. Smith's enlightened capitalism shows that even in capitalism, there is the possibility of social welfare maximization.

Friedman, however, argues that the basic objective of business is to maximise profits. However, critics point out that if profit is maximised all the time, there is a possibility of the growth of monopoly. He talks about free-market economies, but such economies need direction; otherwise there may be market failures.

In the process of making business, businessmen are likely to confront dilemmas. It is a situation involving an ethical issue for which a clear-cut answer becomes difficult. Dilemmas may arise out of a clash between the personal interest and the organizational interest. It may be between two wrong alternatives or two right alternatives. Dilemmas may come from various sources: family, organization, society, and so on.

Dilemmas can be resolved in many ways like compromise, taking recourse to the legal framework or by making a reasonable sacrifice. Dilemmas can also be studied in terms of dialectics to understand the nature of the conflict. Today, because of various types of scams and scandals, business people have a tarnished image. Such an image is created by a few business houses and, in some cases such business houses do perform some social responsibilities. But bad news spreads like wildfire and it suppresses all good records. The reason behind the bad image is greed and the propensity to accumulate money even with bad means.

The business sector everywhere in the world is involved in many types of unethical practices like fraud, discrimination, sexual harassment at workplaces, forced labour, exploitation of labour, sweat shops and corruption. The psychology of greed for the purpose of going ahead of someone in competition is the basic reason for the tarnished image of business today.

Key Terms

Ethical Dilemmas Public Goods
Ethical Dialectics Regulatory Capture
Corporate Citizens Policy Trade-off
Varnasharam Dharma Inner Voice
Invisible Hands Globalization
Enlightened Capitalism Westernization

Demonstration Effect Materialistic Dialectics Glass Ceilings Reverse Utilitarianism

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Social Responsibility is the same as the ethical responsibility.
- (ii) Milton Friedman did not advocate enlightened capitalism.
- (iii) Aristotle considered trade as a virile activity.
- (iv) Marxism replaced the will of God by materialistic dialectics.
- (v) The purpose of dialectics is to explain ethical dilemma.
- (vi) Corruption is anti-development as it misallocates resources, anti-poor, anti-democratic and anti-national.
- (vii) Sweat shops aid in the manufacturing of high quality consumer goods and the wages are quite high.
- (viii) Section 209 of the Indian Penal Code is meant to combat sexual harassment against women.
 - (ix) Imperialism was regarded as the most progressive mode of production and its basic philosophy was the creation of surplus value through the exploitation of labour and capital accumulation.
 - (x) Dialectics assures us that there is an essential diversity in everything.

2. Fill in	the Blanks			
(i)	In his book, Adam Si	mith argues that although business people are		
	primarily motivated by self-interest, they are indirectly contributing to common good and			
	social welfare.			
(ii)	Friedman's concept of capitalism is not e	enlightened. It is		
	In the case of two morally wrong situations, the person may choose the one which brings the			
	least harm or injury to the smallest number of people – This is called			
(iv)	The realization of a short-run goal	must not stand in the way of long-term		
(v)	The principle of has m	nuch to recommend in the resolution of ethical		
	conflict and dilemmas.			
(vi)	Dialectics replaces the concept of	by the concept of that		
	explains the involved history, relations ar			
(vii)	•	of business ethics, the moral ethical code is the		
,	, the unethical or immoral business ethics is the			
(viii)		system for the business people because, as		
	Marx says, it is the most progressive mo			
(ix)		cterised by dharma (caste-based		
	religion) revealing social interdependence			
(x)	In theeconomy, trade w			
	·	•		
	Choose the correct option (i) "The starry heavens above and the moral law within", is the maxim of:			
(1)	(a) Aristotle	(b) Plato		
	(c) Immanuel Kant	(d) Max Weber		
(;;)		• /		
(11)	Who questioned the ethical role of business by saying that for the purpose of business and its success in making profit only two things are important and these are legal compliance			
	• * •	etition in product quality and product prices?		
	(a) Max Weber(c) Immanuel Kant	(d) None of them.		
(iii)	(c) Illimanaci Ikani	variety of capitalism, which may be called		
(111)	(a) Enlightened Capitalism	(b) Industrialism		
	(c) Colonialism	(d) Both (a) and (b)		
(iv)		at any restraint, as Friedman advocates, the result		
(11)	will be the growth of:			
	(a) Oligopoly	(b) Monopoly		
	(c) Perfectly Competitive Market	(d) None of these		
(v)	Except in a few countries in the developed world, most world economies are:			
(*)	(a) Free market economies	(b) Open market economies		
	(c) Mixed economies	(d) Both (a) and (b)		
(vi)	Code of Conduct In Business can be otherwise referred to as:			
(12)	(a) Code of Conduct and Behaviour	(b) Code of Conduct in Business		
	(c) Code of Corporate Behaviour	(d) None of these		

(vii) It is at times it is necessary to make a compromise. Hence, a

(a) Policy trade-off is required

(b) Balance of payment is required

(c) Both (a) and (b)

- (d) None of these
- (viii) What brings into focus the whole range of changes and interactions that occur in the process of development and change?

(a) Dialogue

(b) Monologue

(c) Dialectics

- (d) None of these
- (ix) The resolution of the dilemma (contradiction) to do some socially beneficial work is the ultimate:

(a) Thesis

(b) Anti-thesis

(c) Synthesis

- (d) None of these
- (x) The growth of Marxism and the spread of communist ideology replaced the will of God by:

(a) Reformist ideology

(b) Materialistic dialectics

(c) Both (a) and (b)

(d) None of these

Review Questions

- 1. Do business people have any social responsibility? Explain your view.
- 2. What is an ethical dilemma? Analyse its basic causes.
- 3. Write a short note on ethical dialectics. How is this concept related to ethical dilemma?
- 4. Explain the views of Adam Smith and Milton Friedman on social responsibility of business.
- 5. Critically discuss the main points of Friedman's argument against business social responsibility.
- 6. How do you propose to solve ethical dilemmas in business?
- 7. Why is the business world full of unethical practices? Explain your views.

Web Links

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["Business" and "Ethics "Can These Terms Be Used in the Same Title?]

- 2. http://www.independent.co.uk/student/postgraduate/mbas-guide/do-ethics-have-any-business-in-the-workplace-1989377.html [Do Ethics Have Any Business in the Workplace?]
- 3. http://www.succezz.com/Articles/business-ethics-dilemma4.html

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CHAPTER 11

Functional Areas in Business Management: Some Ethical Issues

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Ethical issues in marketing and advertisement
- Ethical issues in finance and accounting
- Ethical issues in human resource management
- Ethical issues in production and operation management
- Ethical issues in information technology

Introduction

President Roosevelt and Winston Churchill were great friends. Once, Roosevelt wanted to meet Churchill without any prior engagement or appointment. When Roosevelt entered into his room, Churchill was completely naked and was getting himself massaged. Churchill was not at all ashamed. He said, "Everything is open before you, I have nothing to hide from you". This is, indeed, the spirit of transparency where everything is open except the physical body. As it is well-known, many of the financial and accounting scams and scandals in our times are occurring more because of its absence rather than its presence. **Transparency and accountability** are the two critical words in the corporate world especially in the areas of functional management.

The functional areas in business management are concerned with the practical application of management principles in different fields of day-to-day business activities. These areas are human resource management, advertisement, marketing, finance, information technology, and so on. In all

such activities, cognitive ethical principles need to be followed. The general ethical principles that these areas are supposed to apply are: justice and fairness in all dealings, producing good consequences to individuals and society, no harm or injury to any individual, respect towards individuals, obeying of certain categorical imperatives, respect for individual rights including human rights and creation of common good or social welfare.

The present chapter will discuss the ethical issues in the management of functional areas. In particular, it will focus on the ethical norms and unethical practices in various fields of management and also on associated problems and their impact on business policy and strategy. The chapter is not meant to teach management principles but to expose the unethical practices in the functional areas of business management.

ETHICAL ISSUES IN MARKETING AND ADVERTISEMENT

Over the years, substantial **paradigm shifts** have taken place in the areas of marketing. Some of these will be highlighted here.

Paradigm Shifts in Marketing Management

In the realm of paradigm shift in marketing management, the following three changes are noteworthy:

- The emphasis has shifted from the philosophy of "let the buyer beware (caveat emptor)" to that of "let the seller beware (caveat venditor)". The implication is obvious. The responsibility of sellers has enormously increased.
- 2. In the case of marketing, there has been a paradigm shift **from products to process.** Marketing involves not only selling but the creation of the whole gamut of the process of product creation and its disposal: the cycle of product procession.
- 3. The **focus has largely shifted from materials or goods to men** and the building up of a sustained relationship between the buyer and the seller.

Ethical Dilemmas in Marketing

Marketing, it should be noted, is not simply about selling but it has a broad connotation of creating a socioeconomic relationship between buyers and sellers while discharging some social responsibilities. The process of marketing involves many types of ethical issues or questions. For instance, suppose a consumer wants to consume a product which is not good for his health. Should the marketer supply it? Opinions differ in this type of situation. Some will say that since it is a harmful product, the marketer should not supply it; others will say it is quite ethical to supply a product when it is demanded (Kotler, 2004). However, many will not agree with the view of Kotler. The whole problem stems from the fact that it has not been unanimously decided as to what constitutes marketing ethics? What are its boundaries and what principles are relevant for its working? However, in a very broad perspective, the following factors can be taken to be the constituents of marketing ethics:

What is Marketing Ethics?

- Honesty in all marketing transactions
- Responsibility for the goods sold
- Openness in all dealing
- Fairness in all the deals (absence of cheating or deception at any stage)
- Respect for human dignity
- Disclosure of information regarding the product
- Selling products that are not harmful or injurious
- Absence of unethical means to sell the product (no unethical advertisements)
- Charging fair prices
- Truthfulness in disclosing the quality and effect of the product being sold (no hiding of information)

Truthfulness, Legality, Honesty and Decency. The basic purpose of advertisements is supplying information about a product and generating a persuasion to buy it. The consequentialist philosophy will say that an advertisement is good for the society if it brings happiness to the largest number of people and especially so if the marketing of the product does have the same effect. However, if the advertisement of the product and the product itself brings any harm or injury to the largest number of people, then both the advertisement and the product marketing are unethical. A note of caveat! If the product is good but its advertisement is unethical, the advertisement is not acceptable. On the other hand, if the advertisement is good (ethical) but the product is not good, the whole marketing process becomes unethical.

Unethical Practices in Marketing

In the process of product market, we should take into account the whole range of issues related to product, pricing, packaging, promotion and placing (distribution). In all these processes, many firms are engaged in certain unethical practices in the following ways:

Products: These are not always safe and harmless. They may be adulterated, qualitatively poor and may contain some substances whose effect on health may be dangerous. The buyers may be ignorant about the long-run impact of the ingredients. For instance, research has revealed that coke contains some carcinogenic substances. Sugar substitutes taken by diabetic patients are more harmful than sugar itself. It is the moral duty of the marketer to supply those products which are completely harmless, but this is not always done. The effects of the product are not always disclosed. In many medical products, the warning signals are not given and the impact on the children is not mentioned. As news items often disclose, chemists are in the habit of selling expired medicines to uneducated, rural people.

Pricing: Dealers and manufacturers often charge either too high (skimming or gouging) or too low (predatory or penetrating) pricing. There are many methods of price fixation (Ghosh, 2010) but manufacturers often indulge in charging unethical prices and not just prices. Predatory prices are charged to eliminate competition, often unethically. The retailers sometimes charge higher than

what is written as MRP on the label. Many sellers use discriminatory pricing policy. There may also be dumping of goods at a very low price just to capture the market at present and to increase the prices at a later date.

Packaging: Does not often mention the safety instruction or level and no expiry date. Packaging may be done with harmful materials like plastics.

Placing (Distribution): May be often uneven but, certain products are not distributed in all the areas and an artificial scarcity is created by the dealers to charge higher prices. Many products that are distributed in the market are pirated or violate the copyright act. Shoddy and adulterated goods (like medicines) are also sold by bribing the hospital directors or purchase officers.

Promotion (Advertisements): Promotion of the product through advertisement is the most unethical part of marketing.

Advertisements: As H.G. Wells once remarked, advertisement is a sort of legalized lying. Very often it makes false claims, and is deceitful and implies cheating. The products which are used for slimming, improving skin colour and hair growth might be misleading and false. Products like fairness cream, slimming tea or belt, or new hair growth formula are all hoax, and unsuspecting customers are duped by these types of unethical ads. Sometimes, foreign names are used as brand names to dupe the customers who think that the product might have been imported for the local market. Thus, such brands are misleading. Very often, in the advertisement for tobacco or alcohol a **surrogate advertisement** is used that shows these products not directly but along with another product or occasion like a big royal party or a get together. In many advertisements these days, young girls are shown in skimpy outfit for sex appeal in order to woo would-be customers. TV ads are notorious for this matter. Such ads might have a negative impact on young school-going kids.

Ethics of Consumer Issues

Since consumers are always neglected in the product market and they are at the receiving end, it is necessary to have an explicit subject of consumer ethics. As discussed earlier, marketing and advertising by sellers are more often than not purported to exploit the consumers in many ways. This is the reason why a concerted attempt is made in many countries to implement consumer ethics at the marketplace. Consumer ethics is based on the following theories:

Contractual Theory

It argues that while buying/selling a product, the seller and the consumer enter into an implicit contract that protects the buyer from the risk of the product, if any, and he expects some satisfaction out of the product, and the seller is giving him the value for money and also the assurance that necessary after-sales services will be provided whenever required.

• Social Cost Theory

The theory argues that the product sold should not create extra social cost by creating negative utility, sickness, disease and environmental degradation, loss of life and any other type of social danger.

Due Care Theory

This theory is based on the presumption that due care has been taken by the seller/manufacturer so that it is safe and does not involve any risk at the time of use. It will not create any problem to the consumer and his family when the product is used with due care.

Two mottos are generally followed in the case of sale and purchase of a product. It is either the rule that "let the seller beware" or the rule that "let the buyer beware". In most of the seller-dominated economies (having monopoly, duopoly or oligopoly-dominated market) the buyer has to take more care than the seller. However, the wind now is blowing from the other direction. In an economy having cut-throat competitions and abundant supply, the consumer has a lot of choices. So the modern consumer market is dominated by the slogan: "let the seller be beware".

However, in spite of everything, consumer ethics and rights are constantly being violated. They are given shoddy goods, risky, unreliable and dangerous products, and no after-sales services. **Ethical consumerism** has therefore take into account many policies, rules and provisions to ensure consumers' rights. **The following are the major issues that consumer ethics is now trying to address:**

- The first and foremost issue is the consumer protection and safety.
- Consumer organization is looking after the interest and welfare.
- Assurance about product life, product safety, reliability and maintenance.
- Disclosure of all necessary and relevant information about the product.
- There should be no information asymmetry about the product between the seller and the buyer.
- Proper marketing and advertisement ethics for selling products.
- Proper product labeling with warnings and methods of use.
- Protection against unfair trade practices and unfair and false advertisement.
- Consumers' grievance cells run by the state.
- Strong consumer organizations and agencies.
- Consumer-seller relations agencies.
- Consumers law and policy.

Many of the states in the world are coming forward to protect consumer rights. However, substantive laws in this regard are still inadequate and they do not cover many aspects of consumer exploitation and cheating by sellers. It is expected that consumer ethics will take care of these burning issues.

ETHICAL ISSUES IN FINANCE AND ACCOUNTING

Finance is the lifeblood of business and with the management of finance, accounting is invariably associated. Financial management is concerned with many related activities like investment, financial decision-making and also decisions on dividend payments. There are, fundamentally, **two objectives of financial management**. First, in the short-run to maximize profits and to plough back some part of this profit. And second, to maximize wealth or company assets. Ideally, the financial sector of a company is motivated by some **operational and social desiderata**. These are:

Operational Desiderata

- To ensure that adequate amount of finance is available when it is necessary to make an investment.
- To efficiently use the financial resources for the benefit of the company.
- To make safe and sound investment that generates a stream of cash flow.
- To ensure that investments leads to net benefits over costs.

Social Desiderata

• To make timely payments of wages, interest and taxes, a reasonable amount of dividend. The social desiderate also may include, in some cases, a payment for social work to fulfill social responsibilities.

A proper financial management, however, depends on the correctness of information and its flow. If there is an uneven flow of information across the market, the financial market dynamics cannot work in an optimum way (Boatright, 1999).

Accountability and Transparency

The manager is accountable and answerable to the management authorities or board about the justification for each and every type of payment made by him or his department. This accountability is a sort of ownership corporate financial responsibility. Accountability slots well with transparency in a responsible managerial function. Transparency implies the openness with which the financial functions are discharged; there is nothing secret or confidential and everything is available for examination and verification.

However, a business world is not the citadel of ethicists or philosophers. It is a world of materialist acquisitions. Here, growth or development does not mean what you are but what you have, and in discharging the duties as a financial manager or officer, many unethical activities are performed by them, some of which are listed as under:

Unethical Financial Practices

- For gathering money for investment it is necessary to show that the financial health of the company is very safe and sound. Hence, the company cooks the financial data and manipulates them to suit the requirements. The cooking of data is also known as creative accounting.
- The share prices are artificially raised without any economic fundamentals justifying this action. In this context, the Harshad Mehta case of Financial Scam is a pointer. In order to raise the share prices, in the prospectus, the company's performance is glorified. **The public** is cheated this way. There may be some government rules and regulations, but there is a **regulatory capture** where government officials are bribed.
- **Insider Trading** is a very notorious form of financial practice. People having inside information buy most of the shares of a company when the conditions are very favourable, and the

outsiders get less number of such shares. It is one of the undesirable situations when company executives pass the information on to some selected people. T.T. Krishnamachari (1958) had to resign as the Commerce Minister to buy the shares of Mundhra. He was involved in the insider trading as he was invested with all the information. In 2008, the CFO of Wockhardt was found guilty of insider trading in India (*Business Standard*, December 12, 2008)

- Merger of companies may be a financial stunt. A good company merges with an old company in order to evade taxes or to reduce competition. After merger, the joint company becomes strong and it is possible to increase prices and market share. Sometimes merger is resorted to take advantage of the brand image of one of the companies.
- Another unethical financial issue **is creating unusual delay in making payments** to suppliers, taxes, excise duties and other legal payments.
- Many companies open accounts in different banks to avoid taxes and avoid adjustments against loans.
- Companies may create many independent subsidiaries and make 'benami' property transactions to avoid payments to government and taxes.
- Financial irregularities also include **cheating employees** in the matter of payment of regular wages, medical bills, bonus, LTC, children's tuition fees, and so on.
- Companies falsify bills of purchase to inflate cost in order to reduce taxes.
- Loans are often taken from those institutions which are ready to do some personal favour.
- Sometimes, excessive or inappropriate trading on behalf of a client is done by a broker. This is called churning. It is a breach of fiduciary duty. Since the broker has access to the account of a client, he does this churning for increasing his commission rather than benefitting the client.
- Many a time a company does not share the correct information in the stock market. It commits fraud and there is information asymmetry. The practice is unethical.
- The banking sector is not free from fraud. Several types of frauds are committed in the banking sector as well (see for details, Nainta, 2005). These frauds are of three types: involving banking officials, non-involvement of banking officials but there may be the element of dereliction of duties, or frauds committed by outside elements. There may also be frauds through forgery of signature, misuse of credit cards, and so on. In a sensational case of fraud, a Chennai-based fraudster was arrested in 2006 for taking loans from different banks to the tune of more than a million rupees by using a colour photocopy of the same property for home loans (Reporter, *The Hindu*, September 7, 2006).

Unethical Practices in Accounting

Everyone is now familiar with the unethical behaviour of Arthur Anderson, the head of the Auditing firm that was entrusted to check the accounts of Enron Company in the United States. It is because of his irresponsible and unethical behaviour led to the eventual downfall of the company.

What is the responsibility of an auditor? The basic task of an auditor is to bring to the surface the financial problems and loopholes of a company and give it a direction and point out how to improve

the situation and manage the company in a better way in terms of finance and accounts. Anderson was doing his job lackadaisically and unethically. Let us now turn to the basic unethical issues in company accounting.

- Misappropriation by not recording the cash receipts. This may be from the recovery of bad loans, cash sales, under-recording of sales proceeds, and so on. The amount may be embezzled.
- **Misappropriation of cash payments**. Cash payment may be inflated, not made at all or a false entry may be made by showing cash payments.
- Misappropriation of goods by wrong recording of sales and supply or by theft, or by showing damages, and so on.
- Manipulation of accounts may be done by showing higher values of assets, lower liabilities, higher sales, and so on. False entries are made in the books of account to show very good financial position of the company. This is called window dressing. For instance, it can be done by recording fictitious sales or profits and the like. This is done to be fool the public.
- There are many ways to manipulate accounts. A few will make the situation clear.

For instance, liabilities may be shown as higher or lower, profit may be shown as higher or lower, depreciation may be shown as higher or lower, and so on as the situation demands.

In India, as in many other countries, books of accounts are manipulated often by some renowned firms. This can be known from annual company reports. Accountants are considered important professionals for an impeccable financial management and they are expected to maintain integrity and a high level of professional ethics (see Chapter 12). But unfortunately they instead follow many unethical practices.

ETHICAL ISSUES IN HUMAN RESOURCE MANAGEMENT (HRM)

The history of all the hitherto existing societies is the history of their human beings, their culture and capabilities. Workforce is the heart of an organization. It is used in administration, supervision and management, production and distribution, marketing and technology development. The importance of HRM can hardly be exaggerated in the system of business management. In the following discussion, an attempt will be made to focus on some ethical dimensions of HRM, apart from other related topics.

What is HRM?

Narrowly defined, HRM consists of acquisition, development and utilization of workforce for the benefit of a business organization. Broadly speaking, it includes recruitment, training, positioning, allocation, motivation, performance appraisal, promotional policy, welfare consideration, workforce strategy and policy, forecasting of workforce demand and supply, and developing a committed workforce through a healthy relationship between the employer and the employees and also between the employees themselves to work as an organized team.

Paradigm Shifts in HRM

Many types of structural changes have taken place in recent years in the management of human resources. Some of the major changes are given below:

- There has been a paradigm shift of emphasis on the recruitment of people based on hard skill or academic qualifications to overall personality endowment, or what is called **soft skill development** (For details on soft skill development, see, Ghosh, 2011).
- Internationally useful skills are given more importance than locally useful skills. These include knowledge of languages, cross-country culture, leadership spirit, and so on.
- The emphasis in HRM has shifted from recruitment of good people to the retention of these people (Karnik, 2006).
- In the days of value-based management, the emphasis has shifted from the creation of physical
 productivity to value creation that includes the idea of value added as well as ethicality and
 human values.
- There has been a definite shift of emphasis from a legalised and formalised settlement of conflict to a more personalized and humanized system of resolution of discord and dissensions.

Challenges in HRM

Several challenging areas have come to the surface in the matter of HRM particularly in the era of globalization in addition to the traditional problematic areas. Some of these challenging situations will be pointed out in the following points:

- The training of workforce poses a challenge. Not only does it involve funds but also a choice
 of the right type of training that the organization will need both in the short-run and in the
 long-run. Another connected problem is that after training, many of the trainees leave the
 organization.
- The problem of **brain drain** is a real challenge to those organizations that need highly qualified workforce. The issue is how to retain them. Globalization has made labour more mobile and footloose, and hence, the retention of good labour is indeed a problem.
- To maintain **allocative efficiency** where the productivity of a factor is just equal to its remuneration, is also a challenge. This is so because the firms do not, strictly speaking, calculate the marginal productivity of labour before making the factor payments.
- The removal of **discrimination is a tricky issue**. The discrimination may be due to age, race, caste, religion, and so on. There may also be gender discrimination in recruitment, promotion, allocation of jobs, and so on. Sometimes, it becomes a very sensitive issue. Connected to this issue is the problem of **reverse** discrimination where the weaker section has already been enjoying a favourable position for a long time. Thus, there is a **reverse discrimination** for those who are discriminated now (may be high-caste employees). How to solve this problem? There is no easy solution.
- Pay differences among various ladders of services or jobs are substantial in some firms. For
 instances, in many educational institutions in foreign countries (as in Malaysia), the pay of a
 lecturer is 3,000 Ringgit per month but the pay of a Professor is 15,000 Ringgit. Both these

posts need doctorate degrees. Is such a difference in pay justified? The removal of such a gap in pay is a great challenge for some firms.

- There may also be a problem of **alienation** among some employees; it may be an alienation from the product, alienation from organization and alienation from the working environment. With the growth of sophisticated and expensive products being produced by factories, the ordinary workers feel alienated when they cannot buy them, as Karl Marx observed. It is indeed a challenge to solve this problem, and unless it is solved, the workers feel themselves aloof and disinterested.
- Many foreign organizations believe that there is an economy in high wages. High wages should lead to higher labour productivity. It comes under the scheme of incentives. But how the individual firm should go about it and how to make sure about its effectiveness in micro perspective are some of the critical challenges in HRM.
- While it is accepted in principle that there should be a balance between the economic efficiency
 of a firm and its ethical policy-making, nobody is sure as to how to bring this balance through
 a change in wages and salaries.
- To enhance the **contestability of employees** through capability expansion is perhaps one of the greatest challenges in HRM today.

Ethical Dilemmas in HRM

There are, indeed, many types of ethical dilemmas in HRM. Only few of them are mentioned here. In all these cases, it is difficult to take a straightforward policy as they all involve some ethical dilemmas.

- In the matter of promotion, whether one should give **special preference to his relatives** or friends, or caste and religion?
- Should the manager follow the **policy of divide and rule** by making a rift in the trade union leaderships? If he does so, he can control the work perhaps in a better way. But is it moralistic to do so?
- The use of women and children will reduce the wage cost. Is it morally all right to use child labour?
- Many MNCs practice what is called the policy of **race to the bottom** so that at the lower end of the employment ladder, wages are reduced, and the workers who are affected are mostly women and manual workers. This is profitable for the firm, but is it morally correct?
- Should the firm declare a generous bonus at the end of the year or a stingy one?
- By **exploiting labour** (that is, by paying less wage than productivity) the company can gain much, but is it morally permissible?
- **Should discrimination be permitted**? It may allow the firm to get some egoistic satisfaction or earn more profit. But is it not morally oblique?
- Given the resource endowment, a firm can increase the wage level and reduce the level of employment or wages may be lowered to employ more people. Which alternative is ethically correct?

- The firm can practice the policy of hiring and firing of labour without giving any prior notice. This is done in China with the connivance of the government. But is it morally justified?
- The **choice of technique of production is itself an ethical issue**. If labour-intensive method of production is used, productivity per labour may be lower but employment can be given to a large number of labourers. However, if the capital-intensive method of production is used, labour productivity will go up but labour employment will go down. Which alternative is morally correct? Gandhi used to say that in a labour-surplus economy like India, capital-intensive method of industrialisation is morally wrong.

Unethical Practices in HRM

There are rampant unethical practices in HRM. Some of those practices are listed as under:

- Many firms use **discriminatory policies** in recruitment, promotion, wages payment and even in work allocation. This includes gender and caste or religious discrimination.
- Firms often do not care for safety, health, job satisfaction and comfortable working environment.
- **HRM policies may be absent or biased** with respect to promotion, recruitment, reward and punishment.
- Workers' rights and unionism are not looked upon favourably by employers.
- While practicing downsizing and lay-offs, sufficient prior notice is not given to employees.
- Many firms are engaged in **exploiting workers** by giving them unjustifiably lower wages.
- Sometimes **privacy is not allowed** and this goes against the women workers.
- Forced labour and child labourers are used by many firms.
- **Hiring and firing** policy is extended too far to threaten the workers.
- Sexual harassment prevails in many firms in both overt and covert forms.
- Industrial disputes are solved high-handedly without much consideration for the inferior economic status of workers. Conflicts are not settled through negotiations and co-operations.
- For the exploited workers, compensatory justice policy is either delayed or completely denied. No **affirmative actions** are permitted.

Qualities of a Good Employer

- A good employer is always considerate. He follows the **principle of natural justice and fairness** in dealing with cases of aberrations.
- He guides his employee in a proper way, respects them and is their well-wisher. He obeys **the principles of human rights.**
- His **HRM policy is based on justice and fairness** in the matters of recruitment, promotion and dismissal. There is no discrimination and harassment.
- He keeps the working environment comfortable, safe and healthy.
- He solves all disputes and conflicts in an amicable way.

- He does not exploit workers but allows them fair wages.
- He never resorts to unethical short-cuts to win over workers.
- Like the Japanese system, he **builds a life-long relationship** with employees.
- He respects privacy, permits unionism and allows whistle blowing.
- He is in favour of capability expansion of workers, human development and employees' welfare maximisation.

He becomes a fatherly figure and works as a friend, philosopher and guide to the workers. He is well-respected by all workers and he never creates a chance for an enmity between him and the workers. He believes in industrial democracy and works as a trustee. He remains thoroughly ethical in his behaviour and cares for ethical and social responsibilities associated with his own business. An ideal employer is inspired by the ethical **principle of care and compassion** and he is forgiving in nature. He bears no ill-will against anybody and shows his love to all and sundry.

ETHICAL ISSUES IN PRODUCTION AND OPERATIONS MANAGEMENT (POM)

What is POM?

POM is concerned with all matters related to the organization and production, working environment, occupational safety and health, regulations and precautions. There are basically two dimensions of POM:

Product and its quality and safety aspect, and workers engaged in production and their safety and health.

Unethical Attributes of Products

The following are the seven major unethical and socially unacceptable standards of products:

- The **product may be unsafe and damaging to health** either in the short or in the long-run. For instance, a particular brand of painkiller may be addictive. Coke may quench thirst but it contains carcinogenic substances.
- The product is **not reliable**. This means that product on its application does not serve the purpose for which it was bought in spite of the claim by the producer.
- The product may be **sub-standard**. For instance, a particular brand of blood pressure reducing medicine that contains 5 mg of amlodipine, as written on the label, contains only 3 mg of the medicine, hence it might not be effective.
- The service **life of the product may be shorter** than what is claimed.
- The maintenance standard as claimed by the producer may not be correctly stated. It needs more frequent attention and involves expenditure.
- The product may produce **unwanted side-effects**. A particular brand of medicine may cure the disease but leads to hair growth on the face and many other parts of the body. It cures one disease but produces a new disease.
- The product may be contaminated and adulterated by another product whose effect is unknown and uncertain. For instance, milk may be adulterated by unclean water from an ordinary pond containing bacteria.

Unethical Working Conditions

The working conditions and environment in many factories particularly in the less developed countries are inhuman, to say the least. Some examples provided as under will substantiate the statement:

- Many serious diseases like cancer, asthma and bronchitis are job-related (Ghosh, 2010a, Ch.11). To give a few examples, mercury poisoning is very common among felt workers, silicosis among the stone-cutters, asbestosis among the workers working in asbestos factories and the like.
- Noise pollution inside the factory is another serious concern. Noises produce congestion, visual distraction and deafness. Noise at a high pitch (over 80 decibels) may cause temporary decrease in the size of blood vessels and produce high pulse rate, hearing damage, cardiovascular problems and the constriction of muscles. In Germany, hearing impairment is the most serious type of occupational hazard problem costing more than \$100 million every year. Other countries are not an exception.
- **Death due to physical accidents in factories** is a common problem in all countries. This is so because of the fact that adequate **occupational or functional safety** measures are not provided by factories.
- Occupational hazards are mostly preventable if adequate care and instruments are used in factories. However, POM authorities do not often care for the occupational safety measures.
- To work under the conditions of **occupational safety** is one of the important rights of workers, but it is not carefully implemented by POM authorities. They may be unethical, or amoral. In the United States, the Occupational Safety and Health Act (OSHA) was enacted in 1970 is strictly followed.
- Other unfair practices in POM may be about **the choice of unhealthy production site**, buying of second quality machinery and poor maintenance. Generally, to save money, factories are set up in a location far away from the main town where good doctors and hospitalisation facilities are not available and in building the factory, an adequate provision is not made for a good working environment. The factory may be congested, with less air circulation, lack of oxygen, lack of air-conditioner or fans, and so on.
- The working conditions and facilities may be inadequate like long working hours, high temperature at the working place, lack of privacy, dirty or no separate washrooms for men and women, polluted environment, no provision for first aids, no clean drinking water, not reasonable compensation for over-time work, and so on. To take but one example, in many MNCs factories in the Philippines, girls have to work at 30 degree temperature without any fans just to earn about 25 Philippine pesos per day.
- Inside and outside pollution by chemical substances and obnoxious gases are the regular features of many types industrial enterprise. The Bhopal gas tragedy is a case in point. However, the authorities do not internalize the negative externalities.

In India, there are norms and rules provided in the **Indian Factory Act of 1948** but these are not strictly followed in POM.

ETHICAL ISSUES IN INFORMATION TECHNOLOGY (IT) INDUSTRY

Salient Features of IT Industry

In recent years, IT industry is proving to be one of the best industries in terms of employment generation, economic growth and international business interaction.

- The demand for its products is constantly growing. The classical theory of Say's law of Market is perhaps applicable in the case of IT industry. Here, supply creates its own demand. Newer and newer varieties of products are being invented by this industry almost every month in the international market, and the demand copes with the supply.
- IT industry is based on research and knowledge. Hence, it is managed by high quality workforce. Without constant innovation and application of new knowledge, this industry cannot be made contestable and competitive.
- The industry is linked with many other growing industries and is supported by many sunrise consumer goods industries both in India and outside.
- In India, the bulk of the development of the services sector is due to the growth of this industry. In the post-liberalization period in India, the inflow of Foreign Direct Investment (FDI) has been mainly responsible for the growth of IT industry.
- The export of IT products and services has enormously grown in recent years. Export contributes 75 per cent of the total revenue of the IT industry in India.

While the industry is growing very fast, many challenges are in the offing. The following are the major challenges of this industry:

Major Challenges in the IT Industry in India

- Contestability in the international market demands that the industry climbs constantly on the **learning curve** and makes newer and newer innovations in the areas of product development, looks for newer sources of raw materials, finding newer markets, newer technique of production and devises newer organizational structure. All these are difficult challenges to cope with.
- The maintenance of the excellent standard already achieved by the IT industry of India seems to be optimum. The basic challenge is now to keep up the standard and make it contestable all the time, and like Alice in the Wonderland, it has to run and run to find itself at the same place. The question is how to run and run without getting exhausted.
- The human resources aspect of the industry is serious. It will be difficult to cope up with the growth of this industry in terms of human resource requirement. As the industry is getting more and more sophisticated, it needs more and more skilled workforce. But the supply curve of high quality workforce is rather steep in any developing country, and India is not an exception.
- The industry is adversely affected by the problem of **brain drain**. Every year, thousands of brilliant IT specialists are moving out of India to work or to settle in some advanced countries. This type of brain drain is adversely affecting India and other developing countries, and involves substantial losses in terms of productivity, income and leadership. The net result is

a negative multiplier effect. We have analysed this major problem elsewhere in detail (see Ghosh and Ghosh, 2001).

Ethical Issues and Dilemmas in IT Industry

There are many ethical issues and dilemmas in the IT industry (ITI). Some of these can be briefly explained here as under. The discussion here is partly based on Richard Mason's analysis (**Mason**, 1986).

- Level of informational privacy. In the present age of information, it is necessary to keep some information completely private. But this involves both ethical issues and dilemmas. What information should be kept in the private domain? How to keep it private and personal? How much of the information is to be shared with others, when and under what circumstances? With whom should we share the information? All these questions involve ethical issues and dilemmas.
- Ensuring the accuracy of information. How to ensure the accuracy of the information? Who is responsible for the wrong information? How to fix up the accountability? How much should be the compensation for the harm done to the affected party? All these constitute ethical dilemmas.
- Informational property rights. Who owns the information? How should he allocate or share it? What should be the cost and benefits of such information? How to decide the fair price of information? These are the basic issues.
- Accessibility of information. How to access the information? Is it fair to use the information without compensation? Does one have the right to access the information? If yes, under what circumstances and conditions?
- Availability without payment. If the information is available only with payment, is it ethical to approach somebody to avoid the payment or bribe him to get the information?
- Use the information in a modified form. Sometimes, copyright information can be modified linguistically or by slightly changing the content of the information. Sometimes, data is used not on the whole information package, and the other way round is also possible. In many cases, it is not known to the user whether the Internet material involves any copyright or not. All these cases involve ethical issues and dilemmas.

Unethical Practices in IT Industry

Since there is no universally accepted **netiquette**, the IT industry is invaded by many unethical issues. Some of these are related to computer. Some very common unethical issues are discussed below.

- **Spreading viruses:** This is a major issue that unnecessarily puts the computer users into trouble for no fault of their own. This goes against the principle of common good or unethical consequentialism.
- **Piracy:** This is a kind of illegal copyright of software and causes financial damages to the original provider.

- **Hacking:** It is the practice of modification of the computer system when it is insecure. This is done to satisfy some personal motives of the hacker. The hacker illegally gains access to and very often tampers with the information in a computer system.
- **Hijacking**: It is an attack in which the original server resource is disconnected and replaced by another server resource. In this way, a channel is hijacked.
- **Spoofing**: It involves the replacement, destruction, forging or corrupting a resource. It is a variation of hijacking.
- **Infringement of copyright materials:** It is unethical to use somebody's materials without permission or proper acknowledgement. This constitutes theft of intellectual property.
- Credit card fraud: This is done by obtaining personal information of the original credit card holder and using it for personal gains.
- Account take-over: This happens when the fraudster obtains the information about somebody's credit card and bank account number. Then he, through impersonation, asks for an address change, and subsequently he declares that the credit card is lost. In this way, he gets a duplicate card with a new address.
- **Phishing:** It is a crime done through the internet. In this case, the Phishers set up a bogus website and email addresses. Then they will inform a person that his bank (where he has the deposit) has encountered a problem, and they will ask you to send the account details. These are then sent to a person in some distant location and then he will misuse the information provided. This is a serious threat to the internal banking system.
- Cyber extortions and electronic message transfer: This is to keep a track, for example; terrorist attacks are also perpetrated through Internet.
- Emails threat: Some problems related to emails are impersonation, forgery, virus spreading and other unethical message transfer.
- Unauthorized sharing of information: Sharing is a common kind of unethical problem. By knowing the passwords, when the system is insecure, a lot of unauthorised information about a person can be obtained.

Summary

The functional areas of business management are concerned with the practical application of management principles in different fields of day-to-day business activities, including marketing, advertising, human resource management, accounting production and operation management, information technology, and so on. In all these areas, the manager encounters ethical dilemmas and has to confront many types of unethical practices. The general ethical principles that these areas are supposed to apply include justice and fairness in all the dealings producing good consequences to individual and society, no harm to any individual, respect for individuals, obeying of certain categorical imperatives and the creation of common goods.

Marketing is not simply about selling but it has a broad connotation of creating socio-economic relationship and discharging some social responsibilities. Thus, in selling products or services, there should be truthfulness, honesty, legality and decency. Bad goods should not be marketed at any cost. Many a time it is found that the product is good but its advertisement is unethical, or the product is

bad but its advertisement is a hoax and gives wrong information to the public. Sometimes, both the product and the advertisement are bad. All such cases are unethical. Many of the advertisements of certain products are targeted to hoodwink the customers. The unethical practices in marketing involve products which are neither safe nor harmless, prices are unreasonably high, packaging does not often label the safety instructions and the advertisement is totally false.

In the area of finance and accounting, the unethical practices include cooking of data and information where share prices are artificially raised, falsification of bills of purchase, window dressing, permission of insider trading, manipulation of accounts, misappropriation of cash payments, and so on. Unethical practices in HRM include the the practices of child or forced labour, discriminatory practices in recruitment, unsafe working places, no provision for privacy, exploitation of workers and the like. Unethical issues in production and operations management are many. Products may not be reliable, they may have shorter lives than claimed, products may be unsafe and damaging to health, unwanted side effects are not often mentioned on the product package, and similarly, other product-related information may either be suppressed or wrongly stated. In the IT sector, some information is not available without payments, the information may not be accurate making some information unavailable, and many other unethical practices like phishing, piracy, account take-over, hacking, hijacking, spoofing, credit card fraud, and infringement of copyright materials are rampant.

Besides all these, the working conditions and factory environment, particularly in the developing economies, are inhuman to say the least. In many cases, occupational or functional safety measures are not provided, there may be arduous and long hours of work, inside and outside pollution in the factory and noise pollution. It has been empirically found that many diseases like cancer, asthma and bronchitis are job-related. It is instructive to note that efficient business management is not the same thing as ethical business management.

Key Terms

Dumping
Gouging
Predatory Pricing
Surrogate Advertisement
Insider Trading
Transparency
Accountability
Window Dressing

Regulatory Capture
Creative Accounting
Churning
Soft Skill Development
Value-based Management
Brain Drain
Allocative Efficiency

Reverse Discrimination

Alienation
Race to the Bottom
Affirmative Actions
Occupational Hazards and
Safety
Learning Curve

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Value-based management means the creation of more values through product development.
- (ii) Allocative efficiency is achieved where the productivity of a factor is made equal to its marginal productivity.
- (iii) The emphasis has now shifted from "let the buyer beware" to "let the seller beware".
- (iv) Accountability generally comes from a good accounting system.
- (v) Price gouging means charging too high a price.
- (vi) Piracy is an attack in which the original server resource is disconnected and replaced by another server resource.
- (vii) Contestability in the international market demands that the industry climbs constantly on the learning curve and makes newer and newer innovations.
- (viii) Serious diseases like cancer, asthma and bronchitis are never job-related.
 - (ix) The use of women and children reduces the wage cost.
 - (x) In reverse discrimination, the weaker section enjoys a favourable position for a long time.

2. Fill in the blanks (i) _____ and ____ are the two critical words in the corporate world in the areas of functional management. (ii) "Let the buyer beware" can be termed as ... (iii) In the case of marketing, there has been a paradigm shift from to (iv) The philosophy will say that an advertisement is good for the society if it brings happiness to the largest number of people and especially so if the marketing of the product does have the same effect. (v) Very often in the advertisement for tobacco or alcohol it uses _____ that shows these products not directly but along with another product or occasion like a big royal party or a get together. (vi) The _____ theory argues that the product sold should not create extra social cost by creating negative utility, sickness, disease and environmental degradation, loss of life and any other type of social danger. (vii) Ideally, the financial sector of a company is motivated by some operational and (viii) Companies falsify bills of ______ to _____ cost in order to reduce taxes. (ix) The problem of is a real challenge to those organizations that need highly qualified workforce. (x) An ideal employer is inspired by the ethical principle of _____ and

3. Choos	se the correct option				
(i)	Sometimes excessive or inappropriate tra	ding	on behalf of a client is done by a broker.		
	This is called:				
	(a) Spoofing	(b)	Hacking		
	(c) Churning	(d)	Phishing		
(ii)	The theory which is based on the presumption that due care has been taken by the seller/				
	manufacturer so that it is safe and does not involve any risk at the time of use is called:				
	(a) Social Cost theory	(b)	Due Care theory		
	(c) Contractual theory	(d)	None of these		
(iii)	"Let the seller beware" is better termed as:				
	(a) Caveat Emptor	(b)	Ultravires		
	(c) Caveat Venditor	(d)	All of them		
(iv)	Dealers and manufacturers often charge either too high by:				
	(a) Predatory or Penetration Pricing	(b)	Skimming or Gouging		
	(c) Both (a) and (b)	(d)	None of these		
(v)	To make timely payments of wages, interest and taxes, a reasonable amount of dividend				
	is:				
	(a) Operational Desiderata	(b)	Systematic Desiderata		
	(c) Social Desiderata	(d)	None of these		
(vi)	Who observed that with the growth of sophisticated and expensive products being produced				
	by the factories, the ordinary workers fee	l alier	nated when they cannot buy them?		
	(a) Adam Smith	(b)	Karl Marx		
	(c) Max Weber	(d)	None of these		
(vii)	A good employer follows which principle		ealing with cases of aberrations?		
	(a) Principle of natural justice and fairness				
	(b) Divide and rule principle				
	(c) Both (a) and (b)				
	(d) None of these				
(viii)	Which department is concerned with all the matters related to the organization and				
	production, working environment, occupational safety and health, regulations and precau-				
	tions?				
	(a) Purchase Department		Production and Operations Management		
	(c) Both (a) and (b)	. ,	None of these		
(ix)	The Indian Factories Act was formulated in the year:				
	(a) 1948		1984		
	(c) 1872		1881		
(x)	What involves the replacement, destruction, forging or corrupting a resource?				
	(a) Human commands		Divine commands		
	(a) Hacking		Piracy		
	(c) Churning	(d)	Spoofing		

Review Questions

- 1. What is an ethical dilemma? Explain some ethical dilemmas in the IT industry.
- 2. What are major unethical practices in the IT industry? Explain some major problems.
- 3. What do you think are the major challenges in India's IT industry? Suggest some solutions.
- 4. What are the major internet crimes these days? Suggest some solutions.
- 5. What are the unique features of India's IT industry? Explain with reference to some recent developments.

Web Links

1. http://en.wikipedia.org/wiki/Marketing_ethics

[Marketing Ethics]

2. http://dspace.iimk.ac.in/bitstream/2259/392/1/17-27.pdf

[Social Responsibility and Ethics in Marketing]

3. http://en.wikipedia.org/wiki/Accounting_ethics

- [Accounting Ethics]
- 4. http://www.download-it.org/free_files/Pages%20from%20Chapter%202%20Ethics%20 and%20Human%20Resource%20Management-ced48f14eea2a5b20df2e2c60376c3a1.pdf [The Ethical Nature of Human Resource Management]
- 5. http://www.prenhall.com/behindthebook/0132304619/pdf/laudon%20MIS10_CH-04%20 FINAL.pdf [Ethical and Social Issues Information Systems]
- 6. www.mbaknol.com/wp.../03/ethical-issues-in-accounting-and-finance.ppt

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CHAPTER 12

Professional Ethics and Human Values

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Meaning of work ethics
- Characteristics of professional ethics
- Professional ethics and human values
- Professional ethics for journalists
- Professional ethics for physicians
- World Medical Association code
- Professional ethics for lawyers
- Professional ethics for engineers
- Professional ethics for accountants

Introduction

Aristotle said, everything in the world moves naturally towards a specific fulfillment, and of the various causes that determine an event, the final cause, is the most decisive. Development of anything is not accidental or haphazard; it is guided in a certain direction from within by its nature, structure and purpose. A profession has its specific fulfillment and final cause (the *telos*). The teleology of a profession is guided in a certain direction according to its purpose. The fundamental purpose of a profession is to help the mankind in a certain way and that assistance will be several times more

useful and meaningful if the profession is ethically grounded. The present chapter makes an attempt to define professional ethics in a very broad way and examine the ethical dilemmas of different professions. The professional codes or ethics of professions like journalism, medicine, engineering, accountancy and law have also been laid bare in this chapter.

MEANING OF WORK ETHICS

Before discussing professional ethics in detail, one should understand the meaning and nature of work ethics. All professional ethics involve work ethics but all works ethics may not involve professional ethics. However, the two concepts are interdependent in nature. Work ethics relates to certain norms and a set of values that a worker considers as essential in his view while doing a work. All this then becomes the basis of **work culture.** Work ethics puts to the forefront the moral benefits and compelling virtues in all the professions and vocations that people choose voluntarily as those are ordained by God. Thus, work ethics becomes a part and parcel of culture and character.

There is a Latin saying that "to labour is to pray". Mahatma Gandhi used to say that everybody, irrespective of his social position or status, must do some physical labour. It gives an opportunity to participate in the fulfillment of the universal *law of karma* (duty) and recognise the significance of the dignity of labour (Ghosh, 2007). In fact, labour is the creator of value, and it is through work that an individual participates in the divine act of creation. Work is also a means of achieving personal realisation. Thus, laziness is morally wrong and it is equally wrong to eke out a living based on the work done by others. However, there must be a philosophy behind work, apart from it being a source of livelihood. This philosophy is called work ethics. The Christian world view suggests that work must be done with humility and love. Works should be based on ability and should involve honesty, integrity and accountability. The *Bhagvad Gita* advises everybody to perform his duty given by God in a dispassionate manner without being inquisitive about the fruits of labour. The work ethics propounded by the *Bhagvad Gita* considers work as a type of *yoga* (meditation) known as the *Karma Yoga* and *yoga* is defined as the skill in the performance of any work or duty.

Work ethics idealises hard work and diligence. However, hard work is not always looked with favour. For instance, Aristotle believed that hard manual labour dulls and deteriorates the mind. According to him, manual labour is fit for people without mind and is suitable for slaves. To him, a person with leisure is a more honourable person and should be given a position in the government. Such a person can be a thinker. To the Greek philosophers, a life of contemplation is more adorable than a life of action and work.

Before Industrial Revolution, work ethics was not a popular term. Workers preferred more leisure than work and even by raising wages labour supply could not be increased. This is substantiated by the theory of *backward sloping supply curve of labour*. But after the protestant reformation, the cultural perception about hard work underwent dramatic changes. The glorification of human work can be traced back to the days of early capitalism (Ghosh, 2009, pp.16–18). From Luther to Puritans, one notices a gradual change towards the religious approval of economic activities. This was conspicuous by its absence in the medieval period. Calvin propagated the idea that the resources of the world are the creation of God and the development of material resources through proper work ethics which includes favouring toils and troubles is a virtuous activity. Parables of

Talents were cited from the Bible for supporting work and economic activities, in particular the Biblical statement that, "to everyone who has more will be given but as for the one who has nothing, even what he has will be taken away" (Luke, IX:26). Calvin developed the idea of spiritual callings to materialise the activities relating to economic development through proper work ethics. The Puritans conceded the idea that spiritual obligations including business duties are a discipline quite in accord with the Divine Will, and that by following an appropriate work ethics, a man can improve and ennoble his character (Ghosh, 2009). The idea that "work is worship" became popular.

The reformation was important from the point of view of the development of work ethics and culture that could be helpful for the development of capitalism. Protestants actively associated themselves with business and industries and encouraged the development of work ethics. This message of a new work ethics spread from Europe to America through English Puritans and French Huguenots. Since the 18th century and through the 20th century, work ethics became a part of the new work culture in the wake of capitalism. Karl Marx regarded labour as the fundamental source of creation of all the values in the capitalist system which, according to him, is the most progressive mode of production.

However, keeping alive the Marxian tirade against capitalism and its impact on the working class, intellectual people came to realize that behind the facade of a capitalist's insistence on work ethics in the name of efficiency, regularity, honesty, and so forth, there is an ulterior motive of spreading authority and developing the spirit of blind submission by workers to the capitalist system of control and management. It is observed that more or better work may not be a better alternative unless there is a system of reward and incentive. This is often absent in the case of manual and unskilled workers. The philosophy of race to the bottom practiced during the period of globalization is in fact designed to work against these workers in the matter of wage payments (for details, see Ghosh and Guven, 2006).

The philosophy of work ethics is, however, more popular among professional workers including doctor, professors, engineers and accountants as they get positive returns out of that and corporate governance promotes this type of work culture. Let us now discuss professional ethics at some length.

WHAT IS PROFESSIONAL ETHICS?

To start off, it is imperative to make clear the meaning of a profession. A profession is a social calling that ensures a vocation which provides one with the means to earn one's livelihood. The main characteristics of a profession are given below.

- Professional ethics is based on certain ethical values and norms which a professional is supposed to follow.
- A profession is a specialised calling that needs skill, commitment, special knowledge, dedication and dignity. A profession is based on expertise and special capabilities.
- A professional person has to take an oath on his expected social duties and ideal behaviour at the time of entering into a profession as a doctor, engineer, cleric, and so on. The oath is the acknowledgement and the promise to observe certain ethical standards for these public services and do the duties in the spirit of service and sacrifice.

- A profession is above and beyond any monetary gain or temptation. It has a mission to serve
 the society. The purpose of a profession is to serve and not to exploit others in the name of
 fees. The fees should be as low as possible. Charging of too much of fees by a professional is
 to trivialise the noble profession.
- A profession is meant to provide some public services and has some social responsibilities. There are three types of social responsibilities:

Responsibility towards the community

Responsibility towards the profession, and

Responsibility towards the client or the victim

PROFESSIONAL ETHICS AND HUMAN VALUES

Professional ethics is necessary to reveal, sustain and enhance certain basic human values. These values are kindness, care and compassion, trust and reliability, truthfulness and honesty, justice and fairness, performance of a duty for the benefit of others, non-violence and non-injury, and accountability and social responsibility. The following **three types of human values** are embedded in a profession:

- Human values on which the profession is based and the professional values which a person is expected to respect and observe.
- The impact of professional values and actions on the values of the client, recipient, or the victim.
- Professional values and socio-cultural values.

All these three values are interactive in nature. The outcome of such interactions may be positive in the sense that they may reinforce one another, go in the same direction and enhance the social and ethical values. This may be called as **cooperative interactions**. The interactions may also be conflicting in nature and there may be a **clash of values**, leading to the disturbance of social cohesiveness, bickering and tension. The third possible outcome of the interaction of these values can be a situation of **cooperative conflict**. In such a case, the initial value conflicts may be resolved peacefully by the affected parties through cooperation and all of them will have a win-win situation that will maximise their goals. **Cooperative conflict is not a conflict qua conflict**, but there are differences of opinions that ultimately lead to the maximization of common goals. For instance, a patient may not agree to undergo surgery as suggested by his doctor for fear of potential excruciating pain but is ready to suffer silently, the inconveniences created by the disease. Once the doctor assures him that the pain is very negligible and temporary as it is a laser surgery, the patient agrees to it and both of them achieve the common goal of disease elimination.

Professional Ethics for Journalists

Basically, journalism is concerned with news management and it is a very responsible public profession that brings to us everyday stories of right and wrong, morality and immorality and many other sensational news and episodes. The basic purpose of journalism is to make the public aware of what is happening around in the areas of politics, economics and business, society, entertainment

and sports. Coverage is a critical issue in journalism. In some newspapers and media politics is given more prominence than social and economic issues, and in some others, the opposite is the main focus. The coverage is a function of many factors including the bias, orientation, reporter's attitudes, values and beliefs, resources and the culture of the media. The disquieting fact is that the same sensational or national incident is reported differently in different newspapers. One of the most serious aspects of reporting is the incorporation or omission of some ethical principles of journalism, and this makes a major difference in the presentation of facts. A journalistic writing is always a mixture of facts and fictions, the writer's own idiosyncrasies, personal likings and disliking and, of course, his mental or moral orientation. The present section is devoted towards the analysis of basic moral issues and ethical codes of good journalism.

Ethical Dilemmas in Journalism

It is often very difficult for a journalist to objectively resolve an ethical dilemma in a particular context without compromising and in doing so, the personal values and ethical culture of the journalist becomes a deciding criterion. One can cite a large number of cases of ethical dilemmas that a practicing journalist has to resolve before sending his report to the media. A few examples here will make the importance of the issue of ethical dilemma clear. Suppose a close relative of a reporter is involved in a sex scandal and the concerned person holds a responsible public position. Should the journalist report the full details of the case? If he does, his relation with the involved relative will be strained; if he does not report the full details, his professional morality gets a jolt. Second, suppose, a journalist has gathered some sensational news about a national event but the authenticity of the source is not yet either properly verified or may be slightly doubtful. The incident might have happened but the sources and other details are not yet accurately known. Should the journalist report the matter to the newspaper? Third, he wants to make public, the secret of success of a businessman but there is a court case pending (sub judice) against him. Should the journalist interview the businessman and publish his credentials in his news magazine? There are many such dilemmas that confront a journalist and he must apply the principles of morality to resolve these dilemmas to the satisfaction of everybody. What are these principles and what are the ethical codes of journalism? What a journalist should and should not do? This is discussed in the following section.

Ethics of Journalism

- The very basic ethical principle of journalism is to **present the facts in an objective manner** without any fear or favour. No subjective likings or disliking should cloud the facts of the case being reported. A journalist is a neutral observer and reporter. He must forget his party affiliation or religious feelings while reporting a matter of national or public interest. His reporting should be done dispassionately.
- A journalist must not be biased or prejudiced. He should not use the policy of discrimination against race, sex, political party, religion, colour or creed. The European journalism ethics is particularly against discriminatory practices. This is also the principle of journalism in many countries.

- There should be truth and fairness in the reporting of a case. The reporter must follow the canons of journalism and should work in the public interest, and should give a comprehensive account of the fact. Thoroughness and honesty in reporting are basic requirements for a good journalist.
- A good journalism involves public accountability. A journalist is responsible for what he reports and the full onus is on him.
- The reporting should be based on the principle of fairness and justice, and also compassion. For instance, it is not necessary to disclose the name of a rape victim, her exact age, the location of her house and so many other personal details about her. All details may stand in the way of her social adjustments in future.
- While reporting a case, the journalist should follow the **policy of minimum harm to the victim, and also respect the principles of human rights.** As Kant says, the respect for the personality of a man is a fundamental ethical principle under all situations.
- The freedom of press should be practiced with sufficient caution and circumspection. The reporting must be with decency and in good taste. Nasty matters and dirty side of the case should be played down as far as possible.
- There is a dire need for maintaining privacy even though the case needs some public revelation for the information of the common people. Thus, it is imperative to have a balanced reporting between the public interest and the right to have privacy.
- It is necessary to keep in mind, as some noted journalists believe, that **truth reporting is not** a **libel**. But the truth should be reported with fairness and decency.
- It is indeed difficult to deal with sensationalism. Sensitive issues need honesty and objectivity in reporting. **Perhaps the introduction of a media ombudsman is a better way** of dealing with sensationalism.
- Sub judice cases (pending court cases) must be reported in such a way that there is no casting of unnecessary aspersion on the involved victim. It should be borne in mind that the law of the land considers a person innocent so long as his guilt is not proved beyond the shadow of doubt.
- The information reported for the consumption of the public must be based on accuracy, professional integrity and objectivity. A journalist must not use a double standard while reporting cases. In case there are eye-witnesses, their views and opinions can also be used for reporting.
- The lure for negative journalism in the case of scoop news should be carefully avoided. Such a type of journalism presents facts in a very crude manner without any regard to decency and decorum.

The bottom line is that a good journalist should have social responsibility for what he writes and it is better if his reporting on a matter is based on some substratum of truth and on either documentary or a circumstantial evidence.

Professional Ethics (Bioethics) for Physicians

Health is proverbially regarded as wealth, and the ancient Hindu scripture wishes everybody to be happy and well (*sarve sukhino vabantu*, *sarve santu niramaya*). Like food, health is our basic

requirement. Since human capital resides in human bodies, body capital is an important part of human capital. The contributions extended by the physicians to keep us in a wellness paradigm can hardly be exaggerated. That is why in many countries, doctors are regarded as the representatives of God. It is a noble profession and certain natural ethical principles are attached to it. The ethical questions are interlinked with law, religion and culture.

Ethical Dilemmas in Medical Profession

In the course of practicing, a doctor may come across numerous ethical dilemmas which he has to resolve. The dilemmas are the outcome of a clash between professional values and personal values or among legal, moral or professional ethics or values. Some of the biomedical dilemmas are presented as under:

- A teenaged college-going girl becomes pregnant and she tells that to her family physician. The girl wants to undergo abortion; otherwise, she will not get married and the name of the family will be ruined. Whether you should help her or not?
- A cancer patient is suffering from excruciating pain and is on a queue to get admitted to the hospital where you practice. Suddenly a relative of yours who is also suffering from cancer comes to your hospital with the hope that he will be immediately admitted as you are his relative. Who will admit first, given the limited number of seats? If you do not admit your relative, your personal relationship breaks down, and if you do not admit the patient waiting in the queue, you are breaking the hospital rules. This is when you face an ethical dilemma.
- A terrorist from Pakistan is under your treatment in your hospital and there is a strong pressure on you to kill him somehow as he is dangerous for the country. The authorities tell you that if you can wipe him out, you will be rewarded with a huge amount of money. But your ethical code does not allow you to kill him. You are now between two horns of an ethical dilemma.
- There are many uncertainties involved in surgical operations. For instance, you have a patient who wants to get a bypass surgery and you are not sure about the exact percentage of success of the operation and the survival chance of the patient. Will you perform the surgery?
- Is it better to invest some money by the government through public education system, advertisement and the like to reduce smoking and bring down heart diseases, or to invest money directly to hospitals as subsidies to treat heart disease? Prevention has no guaranteed success. How will you resolve the dilemma as the medical advisor to your government?

Ethical dilemmas can be solved in many ways, but in some cases, you need to apply your judgement and stick to your value premises. In modern hospitals, driven by the need to gain more profit, it is difficult to maintain your ethical standard. In such hospitals, many a times, unnecessary clinical tests are ordered and very expensive branded drugs are prescribed and sold although lessexpensive alternatives are available in the market (for many such cases, see Ghosh, 2010). Medical service is an essential basic service, but many doctors these days resort to a prolong period of strike to enhance their pay scale. According to many, this constitutes an unethical practice. It is sometimes pointed out that doctors should work on the basis of the prevailing law of the land. However, law is not always the substitute for ethical reasoning. For instance, the law tells that whenever an accident case comes to the hospital, it is first of all necessary to inform the police. But if there is an emergency and the patient is struggling with a situation of life and death, a good doctor may not be able to follow the legal requirements first.

Principles of Medical Ethics

One of the earliest exponents of medical ethics is Hippocrates (460 B.C.) who founded a School of Medicine at Kos. The graduates of the school had to take oath at the time of receiving their degrees. These oaths consisted of several important ethical principles for physicians.

Hippocratic Oath

In the first part, the oath consists of a declaration that the physicians will have respect for parents and teachers and will provide all help, even monetary assistance, to them when needed. The oath says that they will abide by the Physicians' laws and none other. The second part of the oath has the following **five ethical principles:**

- The physicians will treat the sick according to their abilities and judgement and will not do any harm or wrong to the sick people.
- They will not administer poison to any one even if asked to do so.
- They will not cause abortion.
- They will keep themselves free from fornication with women or men, bond or free.
- They will maintain secrecy regarding their patients and their diseases.

Revised Hippocratic Principles

Medical graduates in recent years take oath on the revised Hippocratic Principles. The **five revised** medical ethics are:

- Complete loyalty to the profession
- Professional practice with uprightness and honour
- Doing everything morally and professionally good for the sick
- Keeping aloof from all types of corruption
- Doing nothing for a criminal purpose

The World Medical Association Codes (WMAC)

WMAC were formulated in London (1949). These codes are quite elaborate (see WMA Publication, 1949). However, a simplified form of the codes is given as under:

- A doctor is supposed to maintain the highest standard of professional excellence.
- A doctor must not be influenced by monetary temptation and profit motive.
- A doctor must maintain professional independence.
- A physician must not engage in self-aggrandizement or self-advertisement.
- A doctor must accept only the professional fees and no other money.
- A doctor must take great caution in publishing or using new technique or discovery.

- A doctor should certify or testify only to that which he has personally verified.
- A doctor must not do anything that will weaken the resistance power of human beings.

Duties of a Physician

- Complete loyalty to patients.
- Maintain secrecy regarding what he has been told by the patient.
- A doctor must give necessary treatment in emergency as a humanitarian service.
- A doctor should behave with his colleagues in such a way as he himself will expect them to behave with him.
- A doctor must not entice away the patients from his colleagues.

To sum up the discussion, one can state that basically there are five very compelling medical codes for the practitioners to follow. These codes are:

- Giving freedom to patient to decide on certain matters (autonomy)
- Beneficence (doing good to the patient)
- Non-malfeasance (doing no harm to the patient)
- Maintenance of doctor-patient confidentiality
- Treating sick as a sacred bounden duty above all (Kantian deontology)

PROFESSIONAL ETHICS FOR LAWYERS

It is a generalized opinion that lawyers are by and large unethical. Therefore, the expression "legal ethics" or "ethics for lawyers" seems like an oxymoron (Hazard and Dondi, 2007). However, this does not prevent anyone to prescribe some code of ethics for the normative behaviour of lawyers. The analysis here presumes that a lawyer is a normal human being with a feeling of good and bad and that, like all other humans, he is also guided by certain socially acceptable and reasonable behaviour pattern though with some constraints. However, in his day-to-day working life, a lawyer may come across more ethical dilemmas than anyone else.

Ethical Dilemmas in Legal Profession

For understanding the nature of ethical dilemmas in the legal profession, a few examples are provided as under:

- Whether a lawyer **should take up a case of a person who has accepted his guilt to him** and try to support and save him from the legal punishment. This dilemma comes to the mind of a lawyer almost every day. If he tries to save a criminal, he is doing an unethical work; and if he does not take up the case, he is not true to his profession and cannot earn and maintain his family.
- In order to win a case, for which he is being paid and has taken a challenge, **should he ask** his client and other witnesses to tell lies? This is often necessary to win a case in the court which wants concrete evidence. How far the lawyer should go to win the case, and at what cost? This is a clear dilemma in a court case that the lawyer is fighting. He very often needs organized lies and manipulation.

• A lawyer is often **offered a huge amount of money** from the opponent party to weaken the case of his own client. Should a lawyer do that or should he honestly fight for his client? There is a temptation of clandestine income over and above his regular fees. This initiates a clear dilemma in the mind of a lawyer.

The profession of a lawyer is full of dilemmas, unethical manoeuvrings and organized lying. However, to some extent, a lawyer, if he is ethical, can avoid many immoral professional hazards. This is the reason why many countries have codified certain ethical rules for the lawyers and legal practitioners.

Professional Ethics for Lawyers

- In the United States, the Bar Associations have formulated some standard ethical rules for practicing lawyers. If these rules are violated, the lawyers can be punished and that punishment may be in the form of disciplinary actions, reprimand or disbarment. **The rules emphasise the importance of local practices and ethical traditions.** Till 2008, 50 states had adopted the Bar Association's model codes. The Association has the role of monitoring legal ethics in the country.
- A lawyer should maintain dignity, independence, and guarantee professional confidentiality. In order to be ethical, he should follow the principles of conscience and humanity.
- He must respect all the individuals involved in the court case. Human dignity is the basis of all ethical reasoning. Everybody is to be regarded as innocent in the eyes of law unless his guilt is proved beyond the shadow of doubt.
- A lawyer should avoid all canvassing or solicitations for the clients. He or she should not snatch away the clients from another lawyer.
- A lawyer should not solicit employment from a prospective client.
- A lawyer should not get his clients' cases published in the media, and give interviews in connection with any sensational case.
- When approached by a prospective client, a lawyer can accept or refuse to accept any brief. However, once he accepts a case, he should continue with it till the finalization of the case.
- Rule of law has been accepted as the guideline for the legal profession in all the civilised countries. In this context, various rules and regulations framed by the government need to be observed. The law in the broad sense also includes social convention and morality.
- Lawyers are supposed to follow the legal codes of the country like the Penal code, Criminal Procedure code, Evidence act and so many other Acts and Rules. Their interpretations are to be supported by similar cases already decided. They are supposed to have a thorough knowledge of all the legal documents and procedures.
- Lawyers are to **follow certain professional decency and norms** while arguing for a case or examining witnesses. In such cases, any immoral remark or personal attack is to be strictly avoided to escape from the offence of **contempt of court.**
- He should not ask his witnesses or client to give false or wrong evidence. Perjury is a serious criminal offence.

- A lawyer has two types of rights: right to be heard in the court and the legal right to speak to the judge.
- A good lawyer is to fight for truth and justice. It is not a good practice to take time again and again and delay the case. Justice delayed is justice denied.
- Lawyers have a social responsibility of not protecting criminals in the larger interest of the society. They have to maintain a balance between their legal duties, social empowerment and the trust they enjoy.

Lawyers are often confronted with legal battles. It should be instructive to note that legal conflicts are not often legalistic or philosophical in origin but are specific in character, and need to be contextualised in terms of historical specificity, social norms, tradition and culture. In settling such disputes or conflicts, an ethical lawyer may have to go beyond the boundary of absolutist view of ethics and need to explore the relevance of the relativity of legal ethics. Here comes the importance of meta-ethics.

It seems that the theory of **consequentialism** has some relevance in the case of legal ethics. For instance, if the offender is not properly punished or goes scot-free, he may repeat the crime on a larger scale and the social consequence of this will be explosively dangerous. In the **deontological** sense, the duty of a lawyer is to be understood in terms of ethical duty or right duty to reveal truth and justice. The meaning of duty is not just any action but the action that is desired of a profession in terms of social responsibility and common good.

Professional Ethics for Engineers

Engineering services are essential for the industrial development of a country. Engineers make infrastructure, technological outfits, communication network, factories and equipment and the like. The importance of engineering profession is increasing in recent years due to globalized and competitive industrial product markets. It is felt that since engineering is a crucial profession, there should be a code of ethics for engineers. There are two types of code of ethics: one for the general engineers to follow and the other for the corporate members. However, in the discussion here, all ethical principles are clubbed together. The code of ethics for engineers in India is formulated by the Institution of Engineers. The Rules for Professional Conduct were first formulated as early as in 1944 on the basis of the Royal Charters of London. Subsequently, those rules were replaced by the Code of Ethics for corporate members and were updated and slightly modified in 1954, 1997 and 2003.

Code of Ethics for Engineers

The corporate members of the Institution of Indian Engineers are committed to serve the community and promote and practice the profession of engineering in such a way as would contribute to common good and national welfare. At all times while working, engineers are to keep in mind the **five concerns** as under:

- 1. Concern for the application of an ethical standard.
- 2. Concern for social justice, social order and human rights.

- 3. Concern for environmental protection.
- 4. Concern for public safety and tranquility.
- 5. Concern for sustainable development.

The following code of ethics is accepted as universal for the professional engineers:

- All engineers are supposed to **follow the general ethical principles** of honesty, justice and fairness, truth in all dealings, individual respect, trustworthiness, reliability, human welfare, safeguarding of human life and property, working with competence and accountability and social responsibility.
- Engineers will serve the society with a view to ensure social safety, creating a social good and enhancing the public utilities, preventing the wastage of national resources through the application of their knowledge, expertise and professional competence.
- An engineer shall pay particular attention to safety in design and operation for all processes and products.
- An engineer should maintain the honour, integrity, dignity of his profession so that he gains the trust of the people and the profession.
- One of the important duties of the engineers is to enhance **engineering efficiency** by using less input to produce a particular amount of output. This concept is different from **economic efficiency** which aims at reducing cost of production to the minimum.
- Engineers are to promote the common tie that exists between the humanity at large and the engineering profession in particular. The members should have the highest regard for social justice, and fairness, and equality of opportunities without any discrimination.
- Engineers **should not misuse their power and position** for private, sectional and personal gain. Maximisation of social welfare should be their motto.
- They should **neither solicit nor accept any financial or other consideration** from any one related to the project or assignment of which they are in-charge.
- While making a statement or giving evidence in the court of law, they should reveal the interest, pecuniary or otherwise, that may have a bearing on the case.
- They should make statements or give evidence in the court of law in an objective and responsible manner and give opinion on the basis of proved knowledge, evidence and experience.
- They should not act in any manner that may injure or damage the reputation of the Institution of Engineers or of the Institution where they are employed.
- They should **maintain confidentiality** of any information with utmost sincerity. However, if non-disclosure of such information leads to jeopardising public safety, welfare and health, they may disclose the information.
- When an engineer is asked to review the work of another person, known and unknown to him, he should consult another competent person or organization and give a balanced and correct opinion without fear or favour.
- An engineer should keep his employer or client informed about a project all the time which may or may not be viable or feasible in terms of technicality, environment, economic and other risks. In such a case, there may be a conflict of interest and he can save himself by disclosing all the necessary information.

- In order to secure a job, an engineer should neither pay nor offer any kind of inducement or bribe.
- An engineer should refrain from a breach of contract which is already finalized.
- He should not snatch away the contract/project given to another engineer.
- In all the job opportunities for which he is a candidate, he should compete only on the basis of merit and experience, and no extraneous influence.
- A qualified engineer should work only in the domain of his competence and expertise with all honesty, sincerity, care and diligence.
- An engineer shall not falsify or misrepresent his own or his associates' qualifications, experience and other credentials.
- He shall reject any kind of offer that may involve unfair practice, or may cause avoidable damage to the eco-system.
- An engineer should be concerned about and shall act to the best of his abilities for maintaining and promoting sustainable development.
- An engineer shall apply his knowledge and expertise in the interest of his employer or **client** for whom he shall work without any compromise.
- An engineer shall inform his employer/client about the economic, social, environmental and other probable consequences of the project whenever it is necessary.
- An engineer shall not directly or indirectly damage the professional reputation of another engineer.
- He should perform his duties timely, honestly, correctly and impartially for the benefits of others.
- He should have an accountability and social responsibility for all the actions performed by him.

Ethical Dilemmas for Engineers

An ideal engineer always strives for the advancement and betterment of human welfare, participates in honest enterprises and strives for excellence. However, in the course of discharging his duties as an engineer, he is likely to face many ethical dilemmas where he has to decide about the correct decision that he should take. Some of the ethical dilemmas are explained below.

• An engineer has taken up a contractual project and will be given a certain amount of money for the work. He is asked to use good materials. While starting the work, he finds that the contractual amount for the job is not very large. He then thinks about increasing the margin of profit by using spurious and sub-standard materials. These materials are not only unsafe but are of an inferior quality. But he is under an ethical dilemma: should he use the sub-standard and cheaper materials?

If he uses standard materials, his profit margin becomes negligible but if uses sub-standard materials, he is, in a sense, cheating the client. What should he do?

• A contractor has given a construction work to a civil engineering firm for the completion of the project within a specified period of time. However, although the firm is doing the work, the contractor is not satisfied with the speed of the work. The contractor then approaches

- you with the request to take up the work. You are in the midst of an ethical dilemma because your code of professional ethics does not allow snatching the work from another person/firm. However, you are urgently in need of a work as you have no project at the moment. How will you resolve the dilemma?
- As a software engineer, you have developed a software while working in a private firm. The software can automatically type out the verbal dictation before a machine developed by you. A publishing company has approached you to sell them the software in exchange for a huge amount of money. You have now an ethical dilemma: should the software be sold to a party for private gain without the knowledge of the present employer? Should it be duplicated or the secret of that software be divulged?

There are many such ethical dilemmas that may stand in the way of an engineer. The problem is how to solve them in a way that will be acceptable to all.

Professional Ethics for Accountants

Ever since the serial failures of many giant corporate houses in the United States and the United Kingdom in the present century, the profession of an accountant has become all the more critical and important. Although the bosses at different layers of the company ganged up for personal greed, the downfall of Enron was hastened by the callous activities of the company auditor M/s Anderson. It is a fact that the accountants are not tough enough with big corporate houses because servicing with a consultancy job is a big business. Since companies choose their auditors, there is an unholy alliance and dependency. Anderson committed an out-and-out fraud because he was paid for it. The lessons from Enron alone make the code of ethics for chartered accountants all the more relevant.

Code of Ethics for Chartered Accountants (CAs)

The genesis of the modern accounting profession is the appearance of limited companies during the days of Industrial Revolution in England. The profession of accountants grew out of the need for statutory accounting and auditing for companies. In India, the Chartered Accountants Act of 1949 is the primary source of code of ethics for accountants. The basic codes of conduct for CAs, as given in the CA Act of 1949, are briefly enumerated as under:

- CAs is expected to **work with professional dignity and prestige** in discharging his duties. They are expected to work in a manner which is not derogatory to their profession.
- They should work with diligence, honesty and independence, and it is essential for him to command the respect and confidence of the general public and he has his obligations and responsibilities to those who rely on his services.
- A CA must have the necessary professional competence and should be a person of **character** and integrity.
- A CA shall act in public interest and public responsibility must always be alert in his mind.
- The accountant should prepare the financial statements and auditing in a dispassionately efficient and correct manner so that the users can rely on the financial documents prepared

by him. These documents are used by tax experts, management consultants, government and other companies.

- The services provided by CAs are to be executed at the highest level of performance in accordance with ethical requirements.
- Objectives of the accountancy profession are based on:

Credibility of information provided by CAs

Professionalism

Professional ethics to evoke public confidence

Best quality of services

• The achievement of the aforesaid objectives will necessitate the CAs to observe a number of fundamental ethical principles.

The Fundamental Principles are:

- **Integrity** (straightforward and honest)
- **Objectivity** (should work without prejudice, fear or favour to any one)
- **Professional competence and care** (diligence, skill and circumspection)
- **Professional demeanour** (behaviour consistent with the good reputation of the profession)
- Confidentiality (should not disclose the accounting information unless there is legal obligation)

Punishment for Professional Misconduct

A chartered accountant (under Sections 21 and 22 of the CA Act of 1949) can be punished for professional misconduct (and other misconduct). The punishment may involve disciplinary action, legal prosecution and imprisonment. Other misconduct may include, among others, offence like material representation, moral turpitude, use of coercive method by a CA for personal gains, misappropriation, possession of crucial records and non-reply to important letters and the like.

Ethical Dilemmas for Accountants

A chartered accountant (CA) is likely to confront many ethical dilemmas while performing his official duties. Some of these dilemmas are briefly discussed below.

- The CEO of a firm may want the financial statement to be stated in a particular way. His purpose is to show that the company is financially stable, which is not the fact. What is necessary is a type of window dressing in the balance sheet of the company. This is done to attract investors and to raise the share prices. The CA of the company in such a situation finds himself in an ethical dilemma because he is asked to do something which is unethical and contrary to facts.
- It is the usual practice of a company to minimize the payment of taxes. This is possible when the company's account is manipulated and falsified. The company often maintains duplicate account books for this purpose, and the services of CAs or auditors become extremely necessary for such manipulations. Once again, the CA of the company confronts an ethical dilemma because he is asked to do something which is against facts, contrary to the ethical principles, justice and fairness. In the matter of tax evasion, company accounts and auditors play a major role.

- From time to time, a particular company needs to issue certificates to government, export-import authorities and other companies regarding its financial position. Certificates are also necessary for obtaining loans and getting some financial favours. These certificates are to be issued and certified by CAs and auditors. The CEO may ask the accountant to issue such certificates whenever necessary. This creates some ethical dilemmas in the mind of the accountant if the financial position of the company is very poor and unsound.
- In view of the escalation of commodity inflation in a country like India, the government is committed to check the price rise. One of the methods to do so is to have a control over the mark-ups through the estimation of the cost of production. Thus, **cost auditing** is becoming an important anti-inflationary instrument in India. The company may ask the accountants to show on paper a high cost of production so that it can maximize the profits through higher prices. A CA may find himself in ethical dilemma as he has to inflate the cost and manipulate the cost data in favour of the company.

The aforesaid examples of ethical dilemmas are not exhaustive by any means but are only illustrative of some representative situations.

Summary

A professional ethics is the fulfillment of the final cause of a profession. Work ethics and professional ethics are interrelated categories. Work ethics is concerned with the value or a culture attached to a particular work. History shows that work, particularly manual work, was considered of a low status in the early days. Aristotle considered manual works as an alternative fit for only slaves. However, after the Industrial Revolution, the whole concept of work underwent considerable changes. Work was glorified. The rise of Protestantism and the Reformation movement brought in a new work culture. Work was considered as a divine will and it was believed that by participating in a work, a person could associate himself with the divine act of creation.

A profession is a social calling that ensures a vocation which provides one with the means to earn one's livelihood. Professional ethics is based on certain ethical values and norms which a profession is supposed to follow. Professional ethics is necessary to reveal, sustain and enhance certain basic human values. There are many professions including journalism, legal profession, medical profession, accountancy and the like. Every profession has its own professional ethics.

The basic purpose of journalism is to make the public aware of what is happening around in the areas of politics, economics, business, society, entertainment, sports, and so forth. A journalist has to present facts in an objective manner without fear or favour. There should be truth and fairness in the reporting of a case. The freedom of press should be practiced with caution and circumspection, and the reporting must be done with decency and in a good taste. Truth reporting is not a libel, but the information reported must be based on accuracy, professional integrity and objectivity.

A doctor is supposed to maintain the highest standard of professional excellence. A doctor must not be influenced by monetary temptations and profit motive. A doctor must maintain professional independence. A physician must not engage in self-aggrandizement or self-advertisement. A doctor must accept only the professional fees and no other money. A doctor must take great caution in publishing or using new technique or discovery. A doctor should certify or testify only to that

which he has personally verified. A doctor must not do anything that will weaken the resistance power of human beings. The duties of a doctor include complete loyalty to patients and maintain secrecy regarding what he has been told by the patient. A doctor must give necessary treatment in emergency as a humanitarian service. A doctor should behave with his colleagues in such a way as he himself will expect them to behave with him. A doctor must not entice away the patients from his colleagues.

A lawyer should maintain the dignity of his profession, independence, and guarantee professional confidentiality. He must respect the individuals involved in a court case. He is supposed to follow the legal codes of the country. He should not ask his witnesses to give false or wrong evidences. He is supposed to fight for truth and justice. Engineers are supposed to follow general ethical principles while discharging their duties. He should maintain confidentiality. He should pay particular attention to safety in design and operation for the concerned processes and products, and should not misuse his power and position. He should not follow unfair practices and must refrain from breach of contract. A chartered accountant (CA) is expected to work with professional dignity, prestige, honour and competence. He or she shall act in public interest and public responsibility must always be present in his mind. He should maintain objectivity, integrity, professional competence and confidentiality.

All the professions have ethical dilemmas. These will have to be resolved by keeping in mind the supremacy of professional ethics, objectivity and truth, and not personal interest, private motive, rapacity and selfish gain.

Key 7	Terms
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Common Good
Deontological Sense
Consequentialism
Cooperative Conflict
Engineering Efficiency
Economic Efficiency

Sustainable Development

Window Dressing Cost Auditing Race to the Bottom

Test Your Knowledge

1. State whether the following statements are True or False

- (i) In a cooperative conflict, the broad objective remains the same.
- (ii) Journalism has no public accountability.
- (iii) Mercy killing is always ethical.
- (iv) According to the Hippocratic oath, abortion is ethical.
- (v) It is unethical for a lawyer to take up the case of a bad person.
- (vi) A doctor must not entice away the patients from his colleagues.
- (vii) A journalist has to present facts in a subjective manner without fear or favour.
- (viii) Maximisation of social welfare is not always the motto of the engineers.

- (ix) In the epistemological sense, the duty of a lawyer is to be understood in terms of ethical duty or the duty to reveal truth and justice.
- (x) Till 2008, 60 states have adopted the Bar Association's model codes.

` '					
2. Fill in	the blanks				
(i)	To the Greek philosophers, a life of		is more adorable than a life of		
	and				
(ii)	Before the onset of the Industrial Revolu	ution, w	ork ethics was not a popular term. Workers		
	preferred leisure more than work and even by raising wages labour supply could not be				
	increased. This is substantiated by the t				
(iii)	The philosophy of pra	cticed d	uring the period of globalization is in fact		
	designed to work against these workers in the matter of wage payments.				
(iv)	The very basic ethical principle of journ	nalism is	s to present the facts in an		
	manner.				
	Treating the sick as a sacred bounden d				
(V1)	The Bar Associations emphasise	the	importance of and		
(vii)	Lawyare have to maintain a halance hetw	yoon the	ir and the		
(VII)	and trust they enjoy.	veen the	and the		
(viii)		ere first	formulated as early as in		
(1111)	The Rules for Professional Conduct were first formulated as early as in on the basis of the				
(ix)	The genesis of the modern accounting	profess	ion is the appearance of		
()	companies during the days of				
(x)	is the fulfillment of the				
	se the correct option		•		
	The World Medical Association Codes was formulated in:				
(1)	(a) London, 1949		London, 1984		
	(c) France, 1949		Denmark, 1950		
(ii)	One of the earliest exponents of medical ethics is:				
()	(a) Aristotle		Pythagoras		
	(c) Patanjali		Hippocrates		
(iii)	Who regarded labour as the fundamental source of creation of all values in the capitalist				
	system which, according to him, is the	most pr	ogressive mode of production?		
	(a) Victor Hugo	` '	Adam Smith		
	(c) Karl Marx		None of them		
(iv)	Who developed the idea of spiritual callings to materialise the activities relating to				
	economic development through proper work ethics?				
	(a) Karl Marx	. ,	Calvin		
	(c) Adam Smith		All of them		
(v)		the pers	onality of a man is a fundamental ethical		
	principles under all situations?	(1.)	III		
	(a) Immanuel Kant		Hippocrates		
	(c) Adam Smith	(d)	Karl Marx		

(11)	The work ethics propounded by the Gita considers work as a type of yoga (meditation)				
	known as the:				
	(a) Varnashrama Dharma	(b)	Karma Yoga		
	(c) Both (a) and (b)	(d)	None of these		
(vii)	According to whom does everything in t	the w	vorld moves naturally towards a specific		
	nine an event, the final cause, which deter-				
mines the purpose, is the most decisive?					
	(a) Plato	(b)	Socrates		
	(c) Aristotle	(d)	All of them		
(viii)	A profession has its specific fulfillment an	d the	final cause, which is also known as the:		
	(a) Logos	(b)	Telos		
	(c) Both (a) and (b)	(d)	None of these		
(ix)	Work ethics relates to certain norms and a s	et of	values that a worker considers as essential		
	in his view while doing works. All this then becomes the basis of:				
	(a) Organizational Culture	(b)	National Culture		
	(c) Work Culture	(d)	All of them		
(x)	What is defined as the skill in the performance of any work or duty?				
	(a) Karma	(b)	Dharma		
	(c) Rasa	(d)	Yoga		

Review Questions

- 1. Define a profession and its essential characteristics
- 2. What is professional ethics? What are the purposes of such ethics?
- 3. How will you relate professional ethics and human values?
- 4. Explain ethical dilemmas in any profession that you are acquainted with. How do you propose to resolve such dilemmas?
- 5. A murderer has approached a lawyer to save him from punishment and he has confessed his crime. Should the lawyer accept his brief? Should he try to save him?
- 6. A physician's services are essential in nature to any society for helping the sick and dying people. Given that ethical duty, is it moral for any physician to go on strike for his possible pay rise? Justify your answer.
- 7. What should be an ideal ethical code for journalists? Should a journalist publish all the details about an incident of rape that he has witnessed himself and the rape victim?

Web Links

1. http://en.wikipedia.org/wiki/Professional ethics

[Professional Ethics]

2. http://www.psihq.ie/DOCUMENTS/Code%20of%20Professional%20Ethics.PDF

[Code of Professional Ethics]

3. http://en.wikipedia.org/wiki/Journalism ethics and standards

[Journalism Ethics and Standards]

4. http://www.issuesinmedicalethics.org/054mi105.html

[Medical ethics: relationships between doctors]

- 5. http://rajeev2007.wordpress.com/2006/10/20/the-hindu-work-ethic/ [The Hindu Work Ethic]
- 6. http://rationalwiki.org/wiki/Work_ethic

[Work Ethic]

7. http://rationalwiki.org/wiki/Work ethic

[Legal Ethics]

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CHAPTER 13

Organization, Culture and Ethics

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Organizational structure and ethical culture
- All about leadership
- Value-based management
- Social audits, ethics committees and hotlines
- Whistle-blowing

Introduction

An organization without any ethical culture is like a ship without a rudder. It has no direction, no trajectory and no definite destination. Such an organization cannot be successful in the long-run even though it may earn a hunk of money. In recent years, the failures of most of the well-established companies did not occur due to lack of salesmanship, goodwill or strategic planning but mostly because of lack of ethical terra firma. The lesson that we get from the failure of these corporate giants is that unless a company is seriously accepting and operating value-based management, it cannot survive with success. The word *success* has to be cautiously interpreted. Making money is not necessarily and always the yardstick of success. The success must be interpreted in terms of a composite index that includes good financial returns, goodwill, customers' satisfaction, employees'

welfare, performance of social and ethical responsibilities, and above all, the organization's ethical core values.

In the present chapter, an attempt is made to analyse the structure, leadership and ethical culture of an organization. In doing so, the importance of leadership in the development of ethical core values and value-based management is also discussed at some length.

ORGANIZATION STRUCTURE, LEADERSHIP AND ETHICAL CULTURE

An organization accommodates many types of structures with respect to administration and functional matters. There may be a hierarchical centralized or a decentralized organizational structure (see for details, Ferrell et al., 2003). In the matter of taking decisions, a centralized system is less flexible, and less amenable to adaptability. But it is not so in a **decentralized system**. Such a system is very flexible, adjustable, amenable and ever ready for adaptability. In most of the cases, a decentralized system is more informal and personal whereas the centralized system is more formal and impersonal. The bureaucratic control in a centralized system is very rigid and time-taking but the division of labour is well-defined. A centralized system follows the **top-down approach** in decision-making but a decentralized system follows the **bottom up method**. The speed of implementation is very quick in a centralized system but it is rather slow in a decentralized system.

Ethical Implications of Organization Structure

In general, in a **centralized organization structure**, the down-top communication is few and far between, and there is also an absence of personal contact, relationship and concern. Thus, the employees at the bottom have practically no chance to communicate to the top level bosses. It is this distance that makes the medium level and lower level employees somewhat aloof and alienated from the mainstream culture and ethos of the organization, and because of the communication gap, the lower level employees often engage in many unethical activities such as bribe, gift-taking and so on for favours done to outsiders. They may also run **sweat shops**, use forced labour and illegal immigrants for the factory work. This may be done without the knowledge of top level bosses as they never visit the production centre of the factory. In fact, lack of communication, and absence of direct supervision by top level employers can lead to many unethical practices in and outside the factory premises. Unless the ethical culture is put into the communication flow and all the official activities by a motivated leader, the employees in a centralized system do not have the feel and compulsion to work ethically.

Contrary to the ethos of a centralized system, a decentralized system is more informal with personal contact and communication. In such a system, the flow of information is very quick and information asymmetry is almost conspicuous by its absence. So, any unethical behaviour by an employee promptly comes to the notice of everybody through grapevines. It is very difficult for an unethical person to survive there for a long time, as he is caught and condemned sooner or later. **Official ostracism** is the cost of an unethical behaviour. Thus, an unethical aberration can be corrected more easily in a decentralized system than in a system which is centralized. A decentralized system can resolve, or even avoid, many **ethical dilemmas** more promptly through

informal discussion, as the system is more democratic. In a centralized system, however, corruption and similar other unethical practices get institutionalized over time, and it is very difficult to remove them. In fact, it takes a long time to unearth unethical practices as they get entrenched. The procedure is too formal, cumbersome and lengthy. However, if a person is found guilty of any serious unethical aberration, he is dismissed from the job. However, the bottom line is that certain unethical practices are possible in both centralized and decentralized types of organizations. But in a centralized system, it takes a long time for the unethical cultural rooting and the elimination of such a behaviour, as compared to a decentralized system where minor unethical aberrations may come and go without rooting and sprawling. Much will depend on the nature of organizational leadership. Let us concentrate on this topic.

Leadership and Corporate Ethical Culture

The ethical culture in a corporation depends primarily on the nature of its leadership. If the leadership is ethical, the ethical culture easily percolates down to the level of the whole organization and its employees are inspired naturally by it. A good leader can contribute to the:

- Creation of some ethical core values
- Setting of ethical goals and agenda for action
- Development of ethics programmes for the company (by setting up a code of ethics, ethics committees, ethics hotlines, and so on)
- Development of ethical culture
- Implementation of all ethical policies
- Settlement of all ethical dilemmas
- Resolution of all conflicts through ethical means

Who is a Leader?

A leader is a person who can lead a team of followers towards the right direction to achieve a particular goal. A political leader, however, is substantially different from an ethical leader. But a leader has the ability or power to guide the followers in a compelling way.

Types of Leader

A seminal contribution has been made by Daniel Goldman in recognising six types of leadership in an organization (see Goldman, 2006). These leadership styles are:

- Affiliative type (values the needs and emotions of people)
- Authoritative type (strong-handed with a positive vision)
- Coercive type (gets works done by imposing fear and punishment)
- Democratic type (depends on participation and team work)
- Coaching type (teaches the people how to work with skill and competence)
- Pacesetting type (sets high standards and gets the work quickly done)

As against the aforesaid six types of leadership proposed by Daniel Goldman, a different type of classification of leadership is proposed here by the present author. In this schema, we have the following seven types of leadership which is somewhat fundamentally different from the one proposed by Goldman.

- **Proactive Type** Taking the action on its own without waiting for the situation to arise
- Reactive Type Doing something by way of reaction or solving the problem arisen
- Creative Type Doing something new for the organization
- Creatively Destructive Type Destroying the old habits/culture or practice and creating something new
- **Benevolent Dictator Type** Working like a dictator but for the good of an organization and its stakeholders
- Collaborate-cooperative Type Deciding everything on the basis of cooperation and collaboration. It is more democratic in orientation
- Radical Transformer Type Doing things in a radical way to improve the status of the organization by making structural changes. This is somewhat similar to the type of leader mentioned by J.M. Burns (1985).

Leadership and Power Structure

A leader possesses certain inherent or acquired power and, therefore, has the ability by virtue of his power to convince or compel others to follow a certain course of ethical action proposed by him. Power remains important in the sense that it is necessary for making and implementing effective ethical policies. French and Ravin (1962) have identified **five main power bases**. These are: coercive power, reward power, referent power, expert power and legitimate power. However, for the present discussion, an attempt is made here to analyse the power bases in a broader manner and we propose the following seven critical power bases:

- Power accrues to a person because of his expertise and vast knowledge in a particular discipline. It is an accepted fact that knowledge is power.
- Power comes out of the official position. The official position might have been acquired by him on the basis of merit or nomination by a superior authority.
- Power may be because of the person's intimate and informal contact with the higher-ups who can make and unmake policies.
- Power of an authority may be delegated by a superior authority. This power may be for a temporary period.
- Power is acquired by a person if he has the ability to hire and fire. This power is mainly valuable for the employees of an organization.
- A person becomes powerful when he is a in a position to use coercive method to penalise persons working under him. He has a certain amount of nuisance value. He may not be in a position of hiring and firing but he can write bad reports or can complain to the higher authorities. This power generally belongs to middle level managers or supervisors.
- Power comes from personal charisma, ability to convince others and certain behavioural traits (like friendship, spirit of sacrifice, fellow-feeling, uprightness and the like) that make a person popular and powerful.

It is instructive to note that power is not an end in itself but a means to an end. The end may be public good and/or organizational development. An ideal system would be like an expanding concentric circle, as Gandhi believes, where the power of the outer circle will not squeeze the inner circles but would mutually reinforce each other (Gandhi, July 28, 1948).

For the ethical development of an organization, the leader must possess certain power base and should be a person of high moral integrity and strong personal character. An ethical leader must possess certain habits and character traits. These are discussed as under.

Ten Habits of Strong Ethical Leaders

Following Stephen Covey's classic book (1989), A.B. Carroll (2003) formulated seven habits of highly moral leaders, which Ferrell et al. (2003) has adopted to characterise strong ethical leaders. The ten habits discussed here are somewhat different from the seven habits identified by them. In the present discussion, an attempt is made here to identify ten habits of strong and successful ethical leaders. These ten habits are:

- An ethical leader always works and feels for the good of the people in general including the consumers, employees, suppliers, stakeholders, clients and the general public.
- He is inspired by the ethical **principles of care, compassion and kindness**. He does not do any harm to anybody knowingly. His ethical policy is based on the principle of service to humanity and in particular to the organization where he is working.
- He follows the policy of justice and fairness in all his official and personal dealings. He is fair and impartial in treatment avoids practicing any unnecessary prejudice or discrimination.
- He gives respect and dignity to human beings and does not look down upon anybody. He follows the principle of human rights and the basic equality of all human beings.
- He keeps his promises, honours, his contracts and commitments and follows just laws. He is reliable and trustworthy in all matters.
- He is guided by the policy of truth, honesty and integrity. He holds an exemplary moral character which influences the organizational culture and values. He is a role model and influences everyone around him.
- He is devoted to his duty and only performs those activities which are morally right. He observes all categorical imperatives not only in his personal life but also in his official capacity.
- He respects individual freedom and autonomy. He encourages the principle of self-determination within the general ethical framework. He gives importance to individual opinion, right to free choice and right to have privacy.
- He always follows the principles of transparency and accountability. He discloses to the concerned persons all types of information that he is supposed to share. He believes in the principle that all individuals have the right to know many corporate matters.
- In discharging his works, he follows a rule-based policy without fear or favour. However, in the application of the set rules, if there is any chance for some people getting harmed, the ethical leader tries to minimise the harm to the maximum extent possible by following the principle of negative utilitarianism, i.e. minimum loss to smallest number of people.

VALUE-BASED MANAGEMENT

One of the important ways through which the ethical culture of an organization can be established and entrenched is the introduction of value-based management (VBM). Value-based management aims at looking at the long-term benefits and goal (shreya) and values rather than a short-term goal that is temporarily pleasant (preya) and incorporates certain long-lasting motivational strategies that transform the whole concept of management from the skill-based objective concept to the subjective concept of human development in the true sense of the term (Chakravorty, 1998). Valuebased management is human-centric and aims at holistic development of man and expansion of human capabilities. Once the owner of the renowned automobile manufacturing firm, Mitsubishi, said that, "we do not manufacture automobiles, we make men". This sums up the whole philosophy of value-based management. Value-based management is a process of transforming the level of consciousness to purer and higher levels, and an ethical leader of an organization can be of considerable help in this direction. Such leaders can make it sure that the company is based on some ethical mission and vision, and all the concerned stakeholders follow the ethical path without any exception (Seiznick, 1983).

The mission and vision of an ethical organization will clearly state the fundamental purpose of the existence of the company apart from making money. In fact, the real reason for the existence of a corporation is other than simply making money. In many cases companies are inspired by social mission and aim at enhancing the community value. Some well-known companies state their values that are to be followed very seriously. These values may vary from company to company depending upon the focus, expertise and experience. However, some values may still remain fundamental. These values are: integrity, honesty, serving the people, fair dealings, value for money, and so on. Some companies may emphasize equal employment opportunities.

Code of ethical conduct, originality, social responsibility, innovation and courage. These are the values set by Levi Strauss and company, and the company has the courage to state that it will "clothe the world". The mission of the company is very clear.

The **core values** are immensely essential for the successful existence of a company. These are the be-all and end-all of an organization. The core values are core ideological tents of a company (Svendsen, 1998). Some of the core values of well-known companies are:

"We believe in the dignity of the individuals." (Johnson & Johnson)

"We exist to provide value to our customer." (Wal-Mart)

"To honourably serve the community by providing products and services of a superior quality at a fair price" (Motorala)

"Respecting and encouraging each individual's ability and creativity" (Sony)

Svendsen believes that through core values and core ideology, the employees of a company can be thoroughly indoctrinated and gradually, a culture will emerge as a mark of identity that will sustain it. A value-based organization will follow the core values in all its important activities. Such a system of management will create and sustain an ethical culture, and will guide the building of strategies and policies. Given the integrity and the value-based management technique, it is possible for managers to:

Act with compassion and kindness

- Invent new, innovative strategies
- Understand the customers more clearly and serve them better
- Create a culture of understanding and work on the basis of fairness and justice
- Empower everyone to do his/her best

It should be noted that when a company becomes value-based, the message has already percolated down to the stakeholders and they will approach the company to receive value based services and share the culture. That tacit understanding will go a long way for the company to be successful.

The value-based management can develop from the perspective of spiritual leadership (Reave, 2005). The basic idea of spirituality is the discovery of ultimate meaning and purpose of life. A person can be spiritual without being religious; conversely, a person may be religious without being spiritual. The two are separate entities. Spirituality has a broader connotation and is more relevant for an organizational management. In the case of an organization, spirituality means the management on the basis of its purpose and enshrined value premises. Spiritual values emanate from what Mahatma Gandhi called "inner voice" or wisdom. Wisdom is a virtue and a part of morality with the help of which one can set the correct goal and build up strategies to achieve it. The spiritual values give the courage to do the right things without fear and favour, and these right things are directed to the maximization of social benefits and common good. When a person (say leader) gets illuminated by the light of spirituality, he will be ready for a calling or a profession where he can do his duty without being disturbed by any worldly materialism. This type of duty enables him to work for others who may be customers, suppliers, shareholders and the society. The duty to do good is also advocated by the Kantian categorical imperatives. In the Bhagvad Gita, Lord Krishna advises Arjuna to do selfless duties without caring for reward.

Value-based management is a system of management that manages the organization on the basis of accepted ethical values or values that aim at satisfying both stakeholders and stockholders. In such a company, not only the ends should be good, but also the means. There ends do not justify the means; both are to be ethical. In a value-based management, all secular values like truth, dignity, honesty trust and the like are given important roles in every matter. A value-based management approach is more effective in the long run than a rule based management approach. This is simply because values are more or less permanent but rules are rather temporal. Even if we apply the logic of ethical relativity, it can be said that the universal or absolute values are unchangeable. A system of management based on values is more appealing to the human mind since it is more supportive and permanent.

In the value-based management, six core values have been found to be useful by researchers (Schartz, 2002). These core values are:

- Trustworthiness
- Responsibility
- Respect for others
- Fairness in all dealings
- Care and compassion
- Corporate citizenship

Corporate ethics should clearly define the moral identity and moral tone of a corporation. It should provide a set of guidelines for everybody to follow and to adjudicate disputes on ethical issues. The importance of ethics in value-based management can hardly be exaggerated. Many successful companies which are implementing value-based management are often referred to as firms of endearment as these firms become dear to every stakeholder. These days, leadership is defined in terms of value-based management that it can influence, and the companies with high ethical values are often used as the **benchmarks** for transforming the organizational ethical culture of companies with a comparatively lower ethical index.

EMPLOYEES RIGHTS AND CONFLICT OF INTERESTS

Employees in any organization have certain rights and obligations. The fulfillment of these rights is mutually beneficial for both, employees and the organization. The following are the **major important rights:**

- Right to have fair wages
- Right to have good working conditions and environment
- Human rights and mutual respect
- Right to have confidential personal information
- Right to be a member of a recognized labour union
- Right to have collective bargaining
- Right to have workplace safety and security
- Right not to be asked for unethical and illegal favour or activities
- Right to file legal complaints against the employer, if necessary
- Right to have legal protection
- Right to enjoy workers' compenzation
- Right to have privacy
- Right to have fair treatment and non-discrimination in the workplace
- Right to get promotion if qualified and experienced

Conflict of Interests

The conflict arises out of two competitive situations which are more are less equally desirable. The situations giving rise to conflicting interests of a person (employee or employer) may be as under:

- Private or personal interest and organizational interest
- Outside employment in another organization may cause conflict with the present employment for many reasons
- Competing interest and loyalties
- Outside activity and the primary organizational interest
- Institutional interest may affect employee interest
- Conflict between the two roles of the same person (decision-making and ordinary employee)
- Conflict as profits maximize and also as a moralist
- Conflict to choose between two wrong or right situations when a choice has to be made. There may be various types of ethical dilemmas (see Chapter 10).

- Conflict between morality and rationality
- Conflict is inherent in many cases involving principal and agent (discussed in Chapter 16)

STRENGTHENING PERSONAL AND ORGANIZATIONAL INTEGRITY

The organizational ethical culture of a company primarily depends on the people who are manning it and on the nature of leadership as well. We have already discussed the importance of leadership in the development of ethical organizational culture. It is an empirical fact that personal integrity and organizational integrity are closely-interlinked. However, a person may be immoral but still the organization may remain honest and ethical. This is possible in a micro situation of a particular person or employee, but if all the people or employees are immoral then it is rather difficult to make the organization ethically sustainable. In many cases, organizational behaviour influences personal behaviour and in turn, personal ethical behaviour also influences organizational behaviour. Since both are interdependent to a great extent, it is necessary to strengthen both personal and organizational behaviour. The following are some of the ways through which both personal and organizational integrity can be strengthened:

- The employees must be held responsible for any unethical action whether that action is taken on behalf of the organization or on a particular employee's own behalf.
- The organization must develop a code of ethical conduct for everybody.
- Personal integrity should be the guiding principle everywhere whether at work or in the private domain. Once this is distilled in the sub-conscious mind, it will become a part of individual behaviour.
- It is necessary to understand right and wrong very objectively both in the case of personal activities and also in organizational matters.
- The organization must encourage right, ethical leadership and it will ensure that ethical personal behaviour converges with that of organizational behaviour. The leader must circulate the advantages of ethical behaviour and action for all concerned and also for the growth of organization.
- The manager should be responsible for the maintenance of an ethical ambience through the functioning of ethics committee which will work on the basis of reward-punishment principle. A carrot-and-stick policy should be used to carry out proper functioning.
- Consistent ethical behaviour and commitment to the idea of growth of the company will strengthen both personal and organizational integrity.

The virtues like mutual trust and unity, participatory management style and the supporting role of the organization will go a long way to maintain an atmosphere of integrated ethical development. The motivation for the development of altruism, common values and community services should be encouraged both at the micro and the macro level of company management. What is perhaps most important for an organization is to inculcate the habit of moral uprightness coupled with the idea of social responsibilities. For both these noble ethical missions, it is imperative to be spiritually motivated. What is the use of winning the whole material world, if the soul is lost? Unless a person understands the meaning of spiritually, it is for him to strengthen his own and his organization's ethical integrity.

SOCIAL AUDIT

Social audit is comparatively a new concept that tries to study the social responsibilities of a business organization in a systematic manner. It is a system that attempts the social performance and not the economic performance. Social audit is a method of understanding, measuring, reporting and improving the organization's social and ethical performance. Social audit is necessary to substantiate the claim of a company that it has been performing social responsibilities. The basic purpose of social audit is to identify and measure the social component of a business organization. Social audit is basically a tool of analysis.

In the process of measurement, a quantitative or a qualitative method can be used. Since some of the social responsibilities are not amenable to quantitative manipulation (for instance, the development of business relations in various social areas), it is better to use both quantitative and qualitative measures. Social audit should be conducted by both internal auditors and external consultants for a better, neutral auditing.

Theodore Kreps (1940) coined the term social audit in a study of 72 industries over a period of two decades in an attempt to study the social performance through the system of social audit. The methodological approach to social audit has been modified subsequently by many researchers and the prominent among them was Howard Bowen (1953) who took into account many variables including advertisement, community relations, human relations and public relations to gauge the extent of social performance of companies.

The scope of social audit includes many social areas including the satisfaction of community needs, building of social infrastructure, consumerism, labour and employee relations, help to minorities, disabled, orphans and very old people, donations and ecology and environment protection, and the like. The following are the major objectives and advantages of social audit:

- It makes the company aware of the social works it is doing. This may function as a guide for the future course of action.
- It is an important determinant of the **public image of a company.**
- It can be helpful to qualify a company to be a **corporate citizen.**
- It can reveal the social status of a company.
- The company can know the practical effectiveness of the different types of social **programmes** and make a comparative cost-benefit analysis in this regard.
- In making future programmes, the company can make use of the data and information provided by social audit in its budgeting, priority formation and project evaluation.
- Social audit can be related to various social impacts of corporate social responsibility programmes.
- Social audit creates an impact on corporate governance and is a reflection of its social effectiveness. It is taken up for the purpose of knowing its contribution to social development.
- It measures the gap between social objectives and actual achievement.

The Indian Scenario

In India, for the first time, social audit was conducted by TISCO to "examine and report whether and to what extent the company has fulfilled the objectives ...regarding its social and moral

responsibilities to the consumers, employees, shareholders, society and the local community". Subsequently, many other companies including the UTI, SAIL, JK Synthetics, Escorts started social audit on a regular basis. However, many renowned private companies in India do not perform social audit as it is not mandatory. The Department of Public Enterprises has now made social reporting compulsory for each and every public enterprise which is under compulsion to disclose its social expenses. This is a great step forward and it should be extended to the private sector as well.

ETHICS COMMITTEES

Ethics committees are formed in many organizations for the purpose of setting ethical standards for both the employees and the employers, to settle disputes of ethical nature, and give ethical guidance to the organization by formulating certain ethical policies and codes of conduct. These committees are concerned with all types of ethical issues that an organization is confronted with and solve the ethical dilemmas. The Motorola for this purpose maintains Business Ethics Compliance Committee (Ferrell et al., 2003, p.178).

In order to function properly, however, the ethics committees' members must be neutral and independent, and they should have no stake with the management. Hence, many analysts recommend that ethics committee should consist of both insiders and outsiders. These people must have an sound knowledge of the organization's culture, values, mission and vision. They should have independent power to settle an issue.

In many organizations, however, the ethics committees cannot function well because of many constraints. Some of these constraints are:

- If the members are appointed by the management, most of the time, they are misused and have to abide by the view of the management in every situation. The CEO often recruits only those members who are henpecked or yes-men.
- Sometimes, the members of the ethics committee are not well-aware of the company's stand, core values and ethical culture. Moreover, a company's policy is a variable and not a constant: for every case, it has a different policy. Supposing that an employee is not liked by the CEO, he may be fired for even a minor infraction. Very often a double standard is followed and the Committee is politicized.
- Many a time, the personal views of some members may clash with those of other members and even if there is a consensus on a particular issue, the decision arrived at by the ethics committee may be in conflict with the organization's own standard. Unfortunately, some members may not know the views of the CEO on a particular case, and that may create a trouble if his views are different from those of the members. The manager's personal view in a case may be different from the view of the management or the Board of Directors.

Although ethical committees are recommended by experts for better corporate governance, many Indian companies do not have the ethics committee as these are not mandatory.

ETHICS HOTLINES

Ethics hotlines are communication facilities that can bring any matter related to any ethical issue to the notice of a member of the ethics committee for an immediate solution. These are toll-free lines. On receiving the communication from an employee or even from an outsider, the member of the ethics committee starts investigation, finds facts and solves the problem. The investigation is conducted by an ethics officer specially appointed and empowered for the purpose. The matter regarding ethical violations is first reported to the ethics officer who is a full-time employee. The allegation is kept secret for the personal safety of the reporter. The reporter may be the victim, his/ her colleague or well-wisher. Ethics hotline is one of the ways to control unethical practices inside an organization. It is the duty of the organization to make sure that every employee is aware of the ethics hotline and its purpose and working.

WHISTLE BLOWING

Whistle blowing is a mechanism of protesting against the misdeeds of the manager, some **employees or any one of the corporate bosses.** It is a method of publicly exposing either the covert or the overt unethical or immoral activity of a person. Whistle blowing is a way of reporting organizational misconduct. The reporting of a wrong doing can be done by a journalist, public interest groups or even by a single individual who may or may not be employed in the company. The reporting may come from the insider or outsider (Hoffman, 1990). It may be personal or impersonal. The analogy is taken from the world of sports where the referee blows his whistle to announce a foul when somebody violates the rules of the game, then the game stops for a moment and the penalty is imposed. It is instructive to note that all allegations made by a whistle blower may not be correct in the ultimate analysis, but it is just a first information report (FIR) for a possible corporate crime. Whistle blowing goes against the boundary of loyalty towards the company one is working for, and it involves a sort of **ethical dilemma**: on the one hand, there is an implicit loyalty and on the other, there is something which is going against the moral fibre or culture of the potential whistle blower.

Objectives of whistle blowing:

- Whistle blowing may be undertaken to bring the unethical matter before the public.
- It is resorted to for increasing the awareness of the people about a particular firm or a corporate house. This is one of the ways the public can be informed about the real picture of the company about what is happening inside.
- The basic purpose is to put the wrong-doer on the ethically right track. It a method of moral correction. It is an act of reform.
- It is to prove that the company is not ethical or the involved person is unethical, although the company is projected to the public as ethical.
- It is practiced to bring justice and fairness in all the activities of the company, and therefore, the deviations need to be brought to the surface.
- It is necessary to book the wrong-doer and punish him as per the law of the land.

- The allegation is made for the purpose of further investigation and analysis to reveal the
- It may be necessary to protect or improve the corporate image, which is under threat.

Can Whistle Blowing be Justified?

Whistle blowing is not always justified, but under certain circumstances, it can be resorted to. DeGeorge (1990) is of the opinion that under the following five conditions, whistle blowing is justified:

- It is justified if the fool-proof evidence (eye-witness) or any documentary evidence can support the case of the whistle blower. If one is sure that the policy, product or practice of the firm is damaging to the public's security and safety.
- Whistle blowing is justified if the product or policy of the firm is going to harm the consumers and others members of the public in a serious manner.
- When the serious threat (the way the harm will come) is identified, the matter needs to be reported.
- Whistle blowing is justified if the immediate supervisor of the employee is indifferent about the matter when internally reported. The matter can be reported to the board of directors.
- The whistle blower must be sure that if the case is reported, a proper action will be taken to remedy the situation. It can be reported, if the risk of whistle blowing should be equal to the degree of its completed success.

Necessary Precautions before Whistle Blowing

In a paper written by Brown and Williamson (as quoted by Weiss, 2009, p. 231), the following twelve guidelines have been offered as a precautionary measure before one decides to blow the whistle.

- It is necessary to make sure that the situation justifies whistle blowing in spite of the potential risks involved.
- Examine your motive of whistle blowing. Is it strong and justified under the given situation?
- Prepare beforehand all the documentary evidence and information. You may have to produce them in a court of law.
- Clearly understand the category of wrong-doing and the person to whom it should be reported.
- State your allegation specifically and clearly.
- Be ready with facts always.
- First report the case to the internal supervisor, and if he does not pay any heed, report it to the external authority (may be newspapers).
- Decide whether you want to disclose your identity or not. Study the risk.
- Decide whether you should resign or not before whistle blowing. One should take into account all the possible consequences and risks involved in whistle blowing.
- Follow proper guidelines for reporting such cases of wrong-doing.

- It is imperative to consult a good lawyer at every step and listen to his advice.
- Prepare all the documents that may be necessary if your case is challenged in the court of law.

Apart from all the twelve precautionary measures to be taken before whistle blowing, it is also necessary to ponder over the **following five points not mentioned by Brown and Williamson**:

- 1. Is it not advisable to take your colleagues or at least a few of them into confidence? They may support you every time you need their help.
- 2. Does the whistle blowing satisfy your personal vendetta? Or, is it for the benefit of all the employees or the public at large? If it is a personal grudge, whistle blowing may not be necessary. Self-interest is not a compelling moral principle.
- 3. Study minutely the consequences (in a cost-benefit framework) of your action on you and on your family.
- 4. Confide with your very close friend or relative about your decision to whistle blowing.
- 5. Ponder over all the alternative actions that can mitigate the unwanted situation.

Possible Consequences of Whistle Blowing

- The whistle blower may undergo constant pressure, trauma and stress. This may take a toll on his health, both physically and mentally.
- The whistle blower may be terminated from his job. His family may have to bear the brunt and his family budget will become unbalanced.
- If he is not dismissed from the job, he may be discriminated against by the management. He may be given more onerous duties, burdensome assignments and his every action will be monitored. He may have to undergo disciplinary actions and there may be financial penalties and harassment.
- He may be identified as a trouble shooter and some of his colleagues, who are very loyal to the company, will shun him and may report his weakness or dereliction of some duties. He may be officially ostracized.
- Some of the members of his family may not cooperate with him and family relations may be restrained for a while.

However, if he wins his case, and draws the attention of his sympathetic friends and the public, he will be able to restore the lost paradise. If a person wins the battle based on an ethical issue, he gets a lot of mental satisfaction which is incomparable.

Protection to Whistle Blowers

Depending on the situation of the case for which WB is resorted to, protection may or may not be justified.

Protection to the whistle blower is justified under the following situations:

- The whistle blower is fighting for a morally right cause.
- He is fighting for a common cause which affects his colleagues and the public.
- Protection can be given by keeping his name and identity secret.

- Legal protection can be given if he is fighting a socially and morally just cause.
- In case of any punishment imposed upon him by his firm, the government can take action against the firm if the latter is right.

However, protection should not be granted to a whistle blower under the flowing situations (Ewing, 1977):

- If the whistle blower has divulged the confidential matter of the company which is supposed to be kept secret for the sake of business.
- When the accusation is not convincing about the wrong-doing of the company and when that accusation is damaging to the company.
- When the accusations are irrelevant to the policy and practices that may appear to be irresponsible or illegal.
- Whistle blower relating to a manager's competence in daily work decision has nothing to do with legality or ethicality. So this type of accusation is not to get any protection from any quarter.
- Whistle blower against the decision of the management to transfer, demote or discharge, if rightly done, is not legal or moral. Hence, the whistle blower should not be protected.

Indian Laws on Protecting the Whistle Blowers

In India, the Public Interest Disclosures and the Protection to Persons Making the Disclosures Bill of 2010 is the outcome of the Supreme Court's strong pitch for a mechanism to protect the whistle blowers (*The Hindu*, 2 Sept., 2010). The Court issued an order to the Central Vigilance Commission as early as in 2004 to receive and act on the complaints of the whistle blowers and protect them. The Bill was to become a law in 2006. The Bill concentrates basically on two things: First, to protect the identity of the whistle blower and second, to safeguard him against the punitive disciplinary actions. However, what measures will be necessary to achieve these two objectives have not been mentioned in the Bill.

The Right to Information Act (RTI) of 2005 is one of the most powerful laws enacted in India. But many whistle blowers who are exposing the corrupt officials involved in land scam, sand scam, and so on are being killed (*The Hindu*, Sept. 20, 2010). This has been happening in many parts of India including Bihar, Gujarat and Maharashtra. There is a threat from corrupt officials and the mafia. Dangerous nexuses between the corrupt officials and the police on the one hand, and the politicians and the mafia on the other are open secrets. The Central and the State governments should protect the RTI activists if misconduct, malpractices and corruption are to be kept in check. In the United States and the United Kingdom, the laws to protect whistle blowers are more rigorous than those in India.

However, prevention is better than cure. The question then is: How to eliminate the need for whistle blowing? This is briefly discussed in the following section.

How to Eliminate the Need for Whistle Blowing?

The following managerial actions can reduce or even eliminate the need for whistle blowing that

may damage the reputation of a corporate house. Some of these actions are also emphasized by Maatman (2000, p.158):

- Take strict actions against those who are filing false reports.
- Do not produce any harmful or dangerous products.
- Stern actions should be taken against those who are corrupt and accepting or giving bribes, or engaged in any other type of corruption.
- Appoint an ethics officer to investigate the reported wrong-doing cases.
- Make it obligatory on the part of the employees to bring any act of malpractices and corruption
 to the notice of the internal ethics officer or another senior executive entrusted with investigating these cases.
- There should be an internal mechanism to listen to employees' grievances.
- Reward those people who are ethical and who internally inform the malpractices.

These simple steps will eliminate the need for whistle blowing and perhaps the reputation of the organization can be kept intact.

Summary

Organizational success needs to be cautiously interpreted. The success must be interpreted in terms of a composite index that includes good financial returns, goodwill, customers' satisfaction, employees' welfare, performance of social and ethical responsibilities and above all, the organization's core ethical values.

An organization has many types of structures. It may be centralized or decentralized. A centralized system is very rigid and follows a top-down approach; a decentralized system is flexible and follows the bottom-up method in decision-making. In a centralized organization, communication between the top and the lower levels personnel is rather difficult, and hence ethical culture takes time to become rooted. A decentralized type of organization can avoid many ethical dilemmas through informal communication. The ethical culture of an organization depends primarily on the nature of its leadership. A good leader can contribute to the creation of some ethical core values and can strengthen and sustain the ethical milieu.

There are many types of leadership. It may be authoritative, affiliative, coercive or democratic. It may also be radical, benevolent, collaborative, reactive or proactive. Leadership has to have some power base. Power may come from expertise, official position, contact with higher authorities, coercive or personal charisma and behaviour traits. The ethical leader should have an ideal character with accountability and transparency, and must be neutral in making decisions.

The ethical culture of an organization can be established through value based management. It aims at looking at the long-term benefits, values and goals in the matter of management. The value-based management can develop from the perspective of spiritual leadership which seeks to discover the ultimate meaning and purpose of life. The social responsibility of a company can be enforced by many ways including social audit. It reports an organization's social performance. Many companies these days appoint ethics committees and ethics hotlines to promote an atmosphere of ethicality. The company following value-based management should give special attention to employees' rights and try to fulfil those rights. It is indeed necessary for the employees to strengthen personal

and organizational integrity at all costs. In case there is any conflict, it should be settled by giving topmost priority to the organization.

The misdeed of an officer of a company can be exposed by whistle blowing. It is justified under certain circumstances but it involves many personal risks and undesirable consequences even to the extent of loss of one's job. Indian laws give some protection to whistle blowers. However, it is better to eliminate at all costs the need for whistle blowing in an organization.

Key Terms			
Ethics Hotlines	Top-down Approach	Official Ostracism	
Ethics Committee	Bottom-up Approach	Core Values	
Negative Utilitarianism	Sweat Shop	Social Mission	
Ethics Officer	Whistle Blowing		

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Official ostracism is the cost of an unethical behaviour.
- (ii) Power is not an end in itself but a means to an end.
- (iii) Stephen Covey's classic book analyses five habits of highly effective people.
- (iv) Value-based management considers only long-term benefits, goals and values.
- (v) Whistle blowing is not ethically justified.
- (vi) The Right to Information Act (RTI) of 2005 is one of the most powerful laws enacted in India.
- (vii) Whistle blowers never undergo constant pressure, trauma and stress.
- (viii) In India, for the first time, social auditing was conducted by Infosys.
 - (ix) Social auditing is to identify and measure the social component of a business organization.
 - (x) Spiritual values emanate from what Mahatma Gandhi called "inner voice" or wisdom.

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(i)	The decentralized system follows a approach.
(ii)	A leader who values the needs and emotions of people is an leader.
(iii)	The type of leader who works like a dictator but for the good of an organization and its
	stakeholders is
(iv)	An ideal leader always follows the principles of and
(v)	Value-based management (VBM) is and aims at the
	development of man and expansion of human capabilities.
(vi)	The VBM can develop from the perspective of leadership.
(vii)	is comparatively a new concept that tries to systematically study the
	social responsibilities of a business organization

(viii)	In India, the and the		Bill of 2010 are the outcomes of
	the Supreme Court's strong pitch for a mechanism to protect the whistle blowers.		
(ix)	are communication facilities that can quickly bring any matter related		
	to any ethical issue to the notice of a member of ethics committee for an immediate		
	solution.		
(x)	To settle disputes and set ethical standards	s for i	its employees, the Motorola has set up the
	·		
	se the correct option		_
(i)	Who have identified the five main power b		
	(a) French and Ravin	` '	Blake and Mouton
	(c) Both (a) and (b)		None of them
(ii)	Which type of leadership depends on part	_	
	(a) Coercive type		Democratic type
	(c) Coaching type		None of these
(iii)	Which type of leadership sets high standa	rds a	nd get the work quickly done?
	(a) Democratic type		Coaching type
	(c) Pacesetting type	(d)	All of them
(iv)	Long-term benefit and goals may be terme	ed as:	
	(a) Yoga	(b)	Karma
	(c) Dharma	(d)	Shreya
(v)	Short-term goals that are temporarily pres	ent a	re termed as:
	(a) Preya	(b)	Shreya
	(c) Dharma	(d)	None of these
(vi)	The duty to do good is also advocated by	the K	antian:
	(a) Dharma	(b)	Metaphysics
	(c) Interpretation of dreams	(d)	Categorical imperatives
(vii)	In India, for the first time, SA was conduc		-
	(a) TISCO	(b)	IBM
	(c) CTS	(d)	All of them.
(viii)	Who (full-time employees) are specially a		
,	issues in an organization?		
	(a) CBI	(b)	Ethics Officers
	(c) CID	` /	All of them
(ix)	Which is a mechanism of protest against		
()	or any one of the corporate bosses?		
	(a) Whistle Blowing	(b)	Annual General Meetings
	(c) Both (a) and (b)		None of these
(x)	The Right to Information Act came into for	` /	
(11)	(a) 2000		2005
	(c) 2004		2001

Review Questions

- 1. What do you mean by power bases? Explain how they are related to organizational leadership.
- 2. Write a short essay on social audit by explaining its objectives, scope and limitations.
- 3. Explain with examples the importance of leadership in a corporate ethical structure.
- 4. What do you think are ten most strong habits of an ethical leader? Elaborate.
- 5. What are the functioning styles of different types of leaders? Which one is the best?
- 6. Write an essay on whistle blowing explaining its purposes, importance and limitations.
- 7. What is value-based management? Explain its basic features and determinants.
- 8. Write short notes on: Ethics Committees, Ethics Hotlines and Ethics Officer.

Web Links

1. www.answers.com/topic/employee-rights

[Employee Rights]

2. http://www.darden.virginia.edu/corporate ethics/pdf/ethical_leadership.pdf

[Developing Ethical Leadership]

3. http://www.ijtef.org/papers/27-C133.pdf

[Ethical Corporate Culture and Guidelines for Ethical Leadership]

4. http://www.accountancy.smu.edu.sg/events/pdf/whistle_blowing.pdf

[Whistle Blowing History]

- 5. http://timesofindia.indiatimes.com/india/India-doesnt-have-a-law-to-protect-whistleblower/articleshow/5736903.cms [India doesn't have a law to protect whistleblower]
- 6. http://www.scu.edu/ethics/practicing/focusareas/business/whistleblowing-update.html [Encouraging Internal Whistle Blowing]
- 7. http://en.wikipedia.org/wiki/Leadership

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CHAPTER 14

Business Ethics:

A Cross-Country Perspective

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Why do levels of ethical developments differ?
- Business ethics in Japan
- Business ethics in America
- Business ethics in India
- Business ethics in China
- Business ethics in the Arab World

Introduction

International business ethics is difficult to conceptualize, more difficult to interpret and perhaps most difficult to make an appraisal. While interpreting business ethics of different countries, it is imperative to take note of a couple of caveats. **First**, business ethics is not static; it cannot stick at a particular plane and at a particular point in time. **Second**, the level of ethicality is a mixed bag containing both ethical and unethical syndromes. Therefore, in the fitness of things, it is necessary to keep in mind only the overwhelming ethical trajectory of a country. Since there are exceptions, it is hazardous to generalize on the ethical nature of a country. In this chapter, an attempt will be made to analyse the trend of business ethics in a few countries like the USA, Japan, China, India and the Arabian countries as broadly as possible.

Why do the Levels of Ethical Development Differ?

In order to answer this question, one should make a distinction between religion and spirituality (explained in Chapter 13). Business manager of a firm may be religious but not spiritual; conversely, it is possible to be spiritual without being religious. Spirituality is the quest for discovering the meaning and purpose of life, and hence the meaning and purpose of business. It is the proclivity of mind towards self-discovery. Indian philosophy advises a person to "know thyself" (atmanam biddhi). Religion, however, is a devotion (worship) to a particular deity in the framework of a system of rituals. However, having said that, it should not be forgotten that there is an invisible undercurrent between religion and spirituality. But this may not be so compelling as to unite the two.

It is apparent that most of the **Western countries are pre-ethical** in the sense that they have not embraced religion in a serious manner as a part and way of life although Christianity has been the dominating religion for a long time. In the name of religion, people mostly follow the rituals and rules without knowing the real meaning and purpose of life, and also of the religion. But religions ask people to look inside and to know themselves, for infinite strength springs from the self within (atmana vindate viryam). The Eastern countries including Japan, India and China, Ceylon, Nepal, Indonesia and so on had religious traditions, and religion was taken as a way of life unlike their Western counterparts. It is in this context that Rudyard Kipling's ballard: "the East is East, the West is West, and the twain shall never meet" seems to be relevant. The Eastern countries, however, are now in a **post-ethical stage**. They had already experienced enough of ethicality. For instance, Indian religious philosophy is more than 5000 years old and almost the same is the case with China. But as an aftermath of neo-liberal liberalization, these countries have been experiencing a clash of culture and civilization (Huntington, 1993), and their religious ethos is on the decline. The clash of civilization may not be a clash of religions as Huntington thinks, but it may arise out of a clash of ethical values.

Ethical values of countries will be more or less the same if the religious tradition is the same; otherwise, different religions will manifest different moral values and codes of conduct. This is one of the reasons why we find ethical relativism in modern times. That is, every country has a different set of ethical values and codes of right and wrong. Whatever is right in the western culture may not be right in Saudi Arabia or India. For instance, an adult can smoke in front of parents in America, but it is not so in India. An Indian teacher will never offer cigarettes to his students who are in the habit of smoking but an American teacher does it. For instance, women are regarded as subordinate to men in the Islamic tradition but in the West, they are equal partners. Thus, cultural differences between the West and the Rest are very obvious. This may be partly the reason for differences in ethicality. Racial discrimination and sexual harassment in the working place are explosively higher in the West than in Eastern countries.

The impact of religious tradition on cultural relativism is often forgotten in the West because they have a very weak spiritual tradition. This is reflected in their business ethics and practices. The corporate failure of Enron and WorldCom, among many others, is unprecedented in dimension and intensity, and has nowhere been experienced in the developing world. The whole business culture was based on fraudulent window-dressing from the very beginning to the end, and excessive greed was the basic cause of the corporate downfall in both the cases.

Needless to add, when the value systems are different in different countries, the outlook to business ethics is bound to be different, and there must be different techniques to resolve the **ethical dilemmas**. However, there is a tacit understanding among scholars that the standard international management culture is the same, it never varies. This notion of the uniformity of business culture is known as **universalism**, and by implication, it is supposed to generate the same type of business ethics all over the world. However, the business reality is not so simple, as will be evident from the discussion hereafter.

BUSINESS ETHICS IN JAPAN

A bit of historicity is important to understand the Japanese system of business ethics. Japan had a long history of hibernation during the Tokugawa period. The Japanese economy became open for trade and commerce with foreigners only after the historic and revolutionary period of Meiji restoration in 1868. At the beginning, Japan had a strong history of cultural cohesion and religious ethos that dominated every field of life, including management and public administration. However, by and large, during the late twentieth century, that religious ethos was replaced by more of materialistic culture and values. Both the trends will be discussed here at some length.

Iowa Taka (1997) has described several stages of development of business ethics in Japan. From the very beginning, business ethics in Japan has been influenced by its culture and religions. Japan has three dominant religions like Confucianism, Buddhism and Shintoism. These religions compelled the country to follow religious equality everywhere including the workplace. Human equality is one of the important facets of Japanese business ethics. Japanese work culture is also the product of religious basis of life. Profession or duty is regarded as a sort of religious calling that permits people to work hard beyond the officially permissible limit suggested by the spiritual micro universe. It is said that the unflinching devotion to duty is a means to unify the individual spirit with the larger macro cosmos, and in this way, a person can enjoy harmony and peace in every walk of life.

Work is regarded as a means for self-actualization, and hard-working people are well respected everywhere. The idea of calling for material progress that is working in Japan is similar to the philosophy propagated by Calvinism and Puritanism which emphasised the importance of unceasing human toil and trouble from the spiritual point of view (see Ghosh, 2009, p.17). Calvinism was opposed to self-aggrandizement and self-indulgence but not to the riches. Calvin thought that the resources of the world are the creation of God, and the development of material resources through toil and trouble is a virtuous activity. In the same way, the Puritans conceded the idea that spiritual obligations including business duties are a discipline quite in accord with the Divine Will, and that by following this, a man can improve and ennoble his character. In fact, capitalism could not have been developed anywhere had not the greatest part of man's energy been channelled in the direction of work (Fromm, 1942). Max Weber in his celebrated book, *The Protestant Ethic and the Spirit of Capitalism* (1930) has shown how from the sixteenth century the attitude towards work and wealth-creating activities changed. In Japan, the process of self-actualisation through hard work is based on ethical ideals.

In the past, Japan had a **centralized feudalistic system** and that has gone a long way in influencing the system of teamwork and group practices. Hierarchical relations are still prevalent in Japan. The workers are subordinated to companies, and small groups are subordinated and pay allegiance to larger groups of corporate houses. It is indeed very difficult to violate this age-old tradition. Deviant behaviour is openly criticised and punished. **Group ethics** is very strong in Japanese industries and the business ethics or codes formulated by big corporate group of industries, are followed obediently by the smaller group of industries. For instance, the following business principles formulated by the Matsushita are widely followed in Japan:

- Fairness
- Harmony and cooperation
- Courtesy and humility
- Adjustment and assimilation
- Struggle for improvement
- Gratitude
- National service through industries

In Japan, there is a conscious attempt to balance between the rationalization of the West and the spiritualization of the East. The Japanese industrial ethics is always based on a visionary spirit. The secrets of the success of the Japanese industries are listed below (Ouchi, 1982):

- Caring and sharing spirit of management and workers, disciplined working environment and intimacy with the society.
- Mutual trust between workers and management and also between the management and the stakeholders.
- Loyalty to the organization. The workers and the management are in a familial relationship and the conflict between the two, if ever happens, is a healthy, constructive and cooperative conflict.
- The employment is permanent and the commitment is lifelong. The employers know the workers very well and make the right decision at the right time for their promotions. Every decision is made not by one man but by a group of executives.
- Leaders are motivated by personal integrity, hard work and social responsibility.
- Works are to be done just in time (JIT) with zero defect management (ZDM).
- Ethical values are not only to be respected but also to be translated into practice.

The seven principles cited above form the core principles of Japanese business ethics and management practices. The long-term relationship between the two concerned parties has considerably helped to build up a harmonious society. The philosophy of reciprocal help has remained the basic tenet of Confucianism and Buddhism in Japan, and contributed to the development of a harmonious business climate and growth of business ethics. The mutual trust has been the basis of Japan's **social capital**. Social capital is the mutual trust for the benefit of the society. Reciprocity has influenced business ethics in the sense that it creates viable balance between sacrifice and benefit. Everybody is working hard to benefit from business. Nobody is an exception. In the system so developed, the transgressor is looked down upon and thus, finds himself isolated from the group. The relationship between the employer and the employee is very strong and healthy. Both are implicated in a system of **mutual dependency**. Japanese industries do not believe in downsizing, retrenchment, merger and acquisitions and shareholders' priorities, unlike the American system.

Japan's business ethics is based upon religious and social ethos. It is like a system of concentric circle where the outer circle does not squeeze the inner circles but both mutually reinforce each other. Concentric circle applies different ethical rules. Groups have their own spirit (*numen*) which is connected to the ultimate reality in a normative framework. There are two normative environments—transcendental normative environment and group normative environment. These are interconnected. In a system of transcendental normative environment, the inner microcosm is connected to the outer macrocosm through a good work based on ethical values. Japan did well in retaining business ethics till the 1990s.

However, things have considerably changed in the area of business ethics in Japan after 1990s. The recession had hit the economy hardly and in an attempt to recover from the recession, Japan lost the spiritual values to pave way for materialistic considerations. People started working long hours without caring for families just to establish themselves in a highly competitive world. The workers became, so to say, the company's livestocks. In the absence of the head of the family for a long time, away from home, the family developed a different lifestyle which is not so ethical in reality. Many executives commit suicides and mental diseases are a normal outcome of *karoshi* (overwork). In recent years, loss of spiritual value in work, high-handed and corrupt bureaucracy, cut-throat competition, dominating profit motive and the breakdown of employer-employee relations are the basic causes of deteriorating ethical standards in the Japanese business today.

BUSINESS ETHICS IN AMERICA

In Christopher Marlowe's famous play, *Doctor Faustus*, the protagonist at the end realizes that he has won the whole world but he has lost his soul. This is perhaps true in the case of business ethics of USA. The country is at pre-ethical stage of development. This is, however, not to deny the presence of any religious influence in the country. The constitution of the country apparently reveals the importance of God. The US currency embodies the religious faith by declaring that "in God we trust". However, the business world of America upholds a diametrically different picture. The only business of America is business, and there is no free lunch in a capitalist system of production, distribution and exchange relations. In general, the business world is immersed in unethical practices and window dressing to rob clandestinely the poor investors, shareholders and customers. There has really been the demise of ethics in America (Thomas, 1988). This is proved by many cases of downfall of big business houses since 1990s and even earlier. The recent debacles of Enron and WorldCom are cases in point. In spite of many ethical codes and principles, and ethical mission and vision, companies are not practicing ethicality in their dealings with the public. It is not that the country is bad but that its corporate sector is full of manipulators and drivers. The individual managers or corporate leaders may be religious but they are not spiritual in the sense that business ethics does not reflect in actual practice the basic purpose of business, corporate life and the long-term objective of the company. The core values like fairness, integrity, honesty and transparency are there on papers only. Gabor (1978) has rightly pointed out that, "Our present civilization is based materially on an extraordinarily successful technology and spiritually on practically nothing".

The American business system is based on the ideas as under:

- Excessive materialism
- Performance and productivity
- Strict market principles
- Protestant ethics (for the sake of business, any means are justified)
- The best is rewarded and the worst has to go out
- Hiring and firing of labour
- Importance of value-added
- Use of science and technology
- Individualism and freedom
- Decisions are based on benefit over cost criterion.
- Personal relations do not matter
- No ethical values like, harmony, loyalty, religiosity and spirituality are given any priority.

Under this system of business design, there is hardly any scope for ethical compulsion, and the freedom given to the corporate sector is abused and misused. The following unethical practices in business are rampant:

- Corporate **leaders are tempted by a very high target of profit** and the concerned employees have to achieve the target for promotion, job stability and good assignment.
- Corporate pressure compels the employees to adopt unethical ways and means
- By and large, most of the American companies violate the ethical principle of accountability. Loss of accountability has been responsible for many types of corporate crimes and manipulation.
- Information leaking worth millions of dollars is another corporate misbehaviour. By doing this, some insiders get benefits at the cost of the company's goodwill and reputation. This is an ethical infraction because managers do not take the responsibility. The only interest of managers is to keep the business a going concern at any cost.
- The **employees are not trained in business ethics**, and the business environment is haphazardly diverse.
- Unethical practices like greed and temptation are rampant. Corporate leaders who are not spiritual in orientation cannot resist from these unethical lures.
- Corporate transparency is also conspicuous by its absence in many enterprises. The auditors who are appointed by the company have to work to the satisfaction of the boss who is motivated by illegal and immoral gains and window dressing strategies.
- There are also various types of discrimination like sexual discrimination, racial discrimination, religious discrimination and insider-outsider discrimination at workplaces.
- In many cases, the workers are paid much less than their productivities and just wages. Thus, exploitation of labour is randomly practiced. Workers are used as commodities, particularly in the case of less skilled manual labourers.
- The pay differences between highly qualified manpower and low level manpower are too wide. The multinational corporations practice what is known as "race to the bottom". In such a system, the workers at the lowest rung of the ladder (manual and unskilled workers) have to face a dilemma of accepting a lower pay or quit the job.

- Many of the American companies are dumping goods to developing countries.
- American MNCs are also known to pollute the environmental standards of the less developed countries.

Most of the companies working unethically these days are exonerated in the name of bad business and recession which is endemic in a capitalist economy like America. However, before 1990s, America companies were much better on the whole. But the beginning of the 1990s was also the beginning of bad days. A few lines from Charles Dickens are apt to describe the situation:

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the season of light, it was the season of darkness, it was the spring of hope, it was the season of despair". (Charles Dickens, 1984)

The good news is that after the downfall of many renowned industries, many corporate houses have now realised the importance of ethics in business from a long-run perspective. Incidentally, companies that had high levels of corruption and unethical practices had to face the onslaught and they were ultimately destroyed. The recent recession of 2009 experienced much lower incidence of ethical misconduct, although otherwise it had remained very high in normal times.

All said, it is instructive to note that the Department of Commerce has approved certain business principles in America for implementation. These principles are:

- Every business needs to respect human rights.
- Businesses are responsible for environmental protection.
- Development of a legitimate business system and a corporate culture and no political coercion in the workplace.
- Encouragement of corporate citizenship.
- Business is to be based on fair principles, practices and competition.
- No bribery should be resorted to for the benefit of business.
- Maintenance of a safe and healthy working place.
- Compliance with local and the US laws while doing business.
- Fair employment practices with no forced labour, or employment of child labour. The employees should have the right of association, organization and collective bargaining.
- No discrimination at the workplace in terms of gender, religion, race and nationality.

The principles mentioned earlier, though do not cover many compelling ethical issues like social and ethical responsibilities, and so on, are fair enough. The set of principles in itself is not that important, but its fair and strict implementation. Many international business principles like the Caux Round Table Principles and the Sullivan Principles, and so on, have been enforced in America from time to time. But in spite of all that, many companies are behaving in an ethically oblique way.

Business Ethics in India

India is now in a **post-ethical stage**. However, many business firms based particularly in semiurban or rural surroundings are at the **ethical stage** and follow many of the ethical principles like justice and fairness, non-discrimination, cordial personal relationship, honesty and social responsibility. But this is not the story of all types of small and medium business firms. Some of them are over-ambitious and want to get rich quick. They do not much care about ethics in business and use corrupt practices, adulteration, tax evasion, account manipulation, and so on. Although Indian firms, particularly some of the big ones, are at post-ethical stage because of the influence of globalization and a fierce competition, some of the big businesses in India are still at the ethical stage and do not indulge in large-scale unethical practices.

A bit of historical development of corporate ethical practices will be necessary here to understand the evolution of corporate mentality and, hence, the corporate ethics. There are three distinct periods of industrial development in India—pre-independence, the period between 1947–1990 and the post 1991 period (period of economic liberalization). In the pre-independence period, there was hardly any industrial growth and corporate ethics was not elaborate, and there was strict control by the British colonial power. The industries like the Ahmedabad textile mills, jute mills in Kolkata and some other existing industries did practice some unethical labour relations and exploitation but serious scams were absent. In the second period (1947-1990), India experienced many unethical industrial practices because of the lack of strict government control, unethical bureaucratic practices, and flexible industrial rules and regulations. Tax evasion, bribery and labour unrest were the usual practices. During the period of economic liberalization, many firms tried to be more internationally competitive and they became outward-looking. So, these firms started following international ethical practices and standard, at least on paper, and because of the conflux of efficiency and ethicality, many of the Indian firms like the Tata, Infosys and Ranbaxy, to name only a few, have become well-known. The positive spread effect compelled many other firms to follow the suit and this has been improving the corporate ethics in India by and large. But all this does not mean that all firms are ethical in India.

In fact, there are two types of business firms in India—ethical small, medium and large firms, and unethical small, medium and large firms.

Ethical Indian Firms

They are both spiritual and many a time religious with the following managerial styles:

- Decisions are taken on the basis of the merit of the case and these are not unreasonable or unethical.
- At the working place, respect is shown to elderly people and senior officials.
- Work is regarded as worship and official duty is performed without much consideration for its material reward, as the Bhagvad Gita teaches.
- Human rights are respected and allowed and disputes are amicably settled on the basis of cooperation and negotiation.
- Women employees are allowed privacy and respect.
- Working place discrimination is avoided as far as possible.
- Firms are engaged in performing social and ethical responsibilities.
- Employees are treated well, and often empathy plays an important role.
- Sexual harassment is conspicuous by its absence.
- Management is value-based and embezzlement, bribery and corruption are mostly absent.
- Accountability and transparency are widely practiced.

- Reliable price and product qualities. Promises are kept with regard to after-sales services. Customers' satisfaction is the motto of many firms. Customers are regarded as *Lakshmi* (the Goddess of wealth).
- The margin of profit is reasonable, and there is no attempt to cheat the customers. Firms are guided by the idea of creation of goodwill and reputation.

Unethical Indian Firms

Unethical firms are characterized by many overwhelmingly unethical practices. The following are the manifestations of some of these practices:

- Discrimination is rampant in the matter of selection, promotion and job allocation. Nepotism and favouritism are widely prevalent.
- Adulteration, sub-standard and even dangerous products are marketed.
- Imitation of foreign brand names to hoodwink customers.
- Political pressure impinges on the ethical standard of firms. The appointment in the high post is often political.
- In some types of industries, like carpet manufacturing, use of child labour is rampant.
- Delay in wage payments and promotions are the usual practices in many small and medium firms.
- Window-dressing in the balance sheet is widely done to attract investors and increase the share prices.
- Many types of company scams have cropped up in India (for details, see Fernando, 2006). Some of these scams include issues by non-descript companies (1993-94), mutual fund scam (1998), market manipulation scams of Harshad Mehta (1992 and 1998), insider trading scam (1994), fraudulent share delivery scam (1995) and IT scam (2000).

Ethical dichotomy (one firm having two ethical standards) is one of the important characteristics of Indian firms. The dichotomy is both internal and external. Internally, even the same ethical firm may have some unethical frills, and the unethical firms may have some ethical appendices. Examples are abundant in India. Our categorisation of ethical and unethical firms is based on the overwhelming characteristics of the firms.

Why Some Firms are Unethical in India?

All firms are not basically unethical to begin with. But as it goes on doing the business, it is confronted with a number of problematic situations that almost compel a firm to deviate from its chartered path of honesty and scruple. These circumstances are:

- 1. Bureaucratic pressure, including delay-dally tactics, compels a firm to spend some speed money to move the file. Even after liberalization, bureaucratic tentacle has not yet been completely eliminated from India. Officials often demand bribe to perform a task.
- 2. To keep up with the Joneses, business firms often have to do the same thing as other firms are doing like benami transactions, tax evasion, accounts manipulation to record less income, reduced sales, and so on.
- 3. While point 2 discussed above is the corporate practice to **survive competition**, the idea of going ahead of Smith, compels many unscrupulous firms to devise ways and means to go a

step further to win the race. These include creative destruction, like, forgery, window dressing in the balance sheet, product adulteration (say instead of 500 mg of paracetamol as written on the label, the actual content may be 300 mg. of the real medicine), manufacturing of duplicate products (like medicines), and so on.

- 4. **Absence of strong and ethical corporate policy**. If the policy is weak and the manager does not make any strong commitment to ethical practices, a company cannot work coherently towards any ethical goal.
- 5. **Absence of ethical leadership.** This prevents many companies to draw ethical working plans and programmes. It is very often true that if the manager is ethically committed and very strong in character, the idea percolates down to the lower level and the whole company becomes ethical. A company is what its director or manager is. The **percolation effect** is a very strong factor for the ethicality or otherwise of a company. On one occasion a senior executive of a Tata company thought of saving some money on taxes. He expressed the idea and showed his accounts records to the then Chairman, JRD Tata. Mr. Tata said, "It is not illegal but is it right? It is not after all a virtue" (Lala, 2004). The executive never came to him with the same issue and request, and the ethical ambience of the company totally changed from then onwards.

Having had some inkling about the ethical practices in India and America, we can now summarise the basic differences in the Western and Indian cultural-traditional outlook in Table 14.1:

India thinks about value-based management, humanistic and socialistic pattern of society, and a type of balanced and total man who is imbued with the idea of morality and spirituality and plain living and high thinking. But the Western nations prefer to a have a system of profit-based management, rationality and materialism, and the type of man they want is a calculated economic person who always buys in the cheapest market and sells in the dearest market. Such a type of man lives on the ideals of high living and plain thinking and is endowed with a capitalistic mentality. For the Western countries, development means that you have to have more and more and but you still remain unsatisfied (like Oliver in Charles Dickens' novel, Oliver Twist), but for India, development means that you should grow accordingly with a high level of human development.

Table 14.1 summarizes basic differences between the Indian and western cultural traditions.

Table 14.1 Basic Differences between the Indian and Western Cultural Traditions

India	Western Countries
Value-based Management	Profit-based Management
 Socialistic and Holistic 	 Capitalistic
 Morality 	 Rationality
 Balanced Man 	 Economic Man
 Spiritualism 	 Materialism
 Emphasis on Ethics 	 Emphasis on Economics
 Human Development 	 Material development (Acquisition)
 Plain Living, High Thinking 	 High Living and Plain Thinking
 Cooperation 	Conflict
 Focusing on Society 	 Focusing on Self and Market

BUSINESS ETHICS IN CHINA

They say that in a country ruled by the Communist party, there may not be any big scope for religion and ethics. However, it is instructive to note that ethics, particularly business ethics, is different from religion. A person may not believe in religion but he may be ethical or moral, if he follows certain ethical codes. Thus, if the ethical codes of conduct of business are followed by China and for that matter by any other communist country, there is no problem in its being a communist regime. The fact remains that China, being a communist country, considers the forces and relations of production as more critical and valuable than the formal principles of ethics. After being wedded to the capitalist market philosophy, it has become a **post-ethical society**, far away from its ancient tradition of Buddhism and Confucianism. In the discussion that follows hereafter, it remains to be seen whether the practice of business ethics is strong in China or not.

The erstwhile communist party of China prohibited many unethical practices existing in China. The party prohibited bribery, gift, influence from outside and some payments, and so on. The use of public funds for personal gain, large ostentatious expenditure, and spending huge amount of money on tours and in offices were also prohibited by the party. All these offences were seriously punished in China.

China is a booming economy which is the second largest in the world. It aims at becoming world's number one economic power and for this many ethical practices will have to be introduced by the government. There is a pressure exerted on China to 'ethicalize' its business world. The pressure is coming from the global business partners including America. At the moment, China has been involved in the following unethical business practices as reported in the world media:

- Selling contaminated milk powder in the world market.
- Lead paint used in toys to be used by children. Lead is a dangerous metal and is a threat to health.
- Injecting water into meat to increase the weight.
- Supply of substandard, unsafe and dangerous goods.

There may be many more undetected scandals and scams. People doubt the ethicality of Chinese business particularly for two reasons. **First**, it is a big question as to how China can supply goods in the world market at such cheap rates by remaining honest? **Second**, since China's corruption index is very high, the business world cannot remain insulated from corruption. Transparency International's Corruption Perception Index shows that China ranked 79th among 163 countries in 2009 in the matter of corruption. Corruption is defined as the abuse of public office for private gains. The puzzle is, in spite of serious problems of integrity and corruption, how can its economy prosper in a continuous manner? One plausible answer to this question is that China is a big supplier of products to the largest corporate firms in the United States. These firms always insist on cost reduction. Hence, China has to find ways and means for cost reduction, and the result is unethical business practices.

Back home, China is involved in a number of unethical business practices. The following are only a few examples:

Labour is highly regimented with no workplace freedom and with only limited occupational
mobility.

- Wage is much lower than the productivity of labour and virtually there is a rampant exploitation.
- Working hours are long and arduous.
- Labourers are the most oppressed class in China. They have no outlet to address their grievances. Although their contribution is the highest in the country's economic growth, they live a miserable and dehumanized life. Trade unions are not permitted in China.
- Labour laws and rules are very strict. The Western philosophy of hiring and firing is frequently practiced by the management. There cannot be any protest.
- The **government itself is involved in various types of land scams** where it buys the land of small and poor farmers at throwaway prices, develops it and sells at a much higher price or builds houses and sells at exorbitantly high prices. This practice of government is unethical on two counts: First, the land deals are not consensual, and second, these poor farmers are not given alternative employment or means of livelihood. They are reduced to the status of proletariats.
- The Chinese labour market has been experiencing capitalist orientation since long where labour is bought and sold as a commodity.
- **Dissident groups are routinely arrested** and imprisoned without trial. Incidents of torture, forced confessions and forced labour are widely reported (Ghosh, 2009, p.78).
- The human rights record of China is already tainted since the time of Tiananmen Square incident of 1989 when about 3000 civilians died and thousands more were injured.
- Inequality of all types is very high and gradually increasing in China. For income inequality, the value of **Gini coefficient**, which is a measure of inequality, was 0.27 in 1986 but it rose to 0.44 in 2004 (Ghosh, 2009, p. 28).
- Favouritism and nepotism are widely practiced in the industrial world.

Business ethics in China is influenced by a number of factors such as the Chinese traditional ethics, the influence of the Marxist philosophy, principles of reforms and the global factors (Xiaohe, 1997). Before 1978, China was dominated by feudalism and there was hardly any scope for the use of ethics in business. Only some mistaken class consciousness was prevalent in the society. Even now, a section of the Chinese intellectuals and government spokesmen do not want to follow the western ethical codes. The Chinese government wants to develop its own code of ethics instead. However, it wants to retain some of the fundamental ethical codes of Confucius like responsibility towards family, care and compassion, and so on.

In formal terms, ethics is given low priority in the Chinese business circle, and there is **no importance of social responsibility in business**. However, in many cases, **ethical dilemmas** cannot be avoided. For instance, at the time of downsizing, who is to be retrenched, an old man or a young man? If an old man is retrenched, the business neglects justice and compassion, and if a young man is retrenched, the business loses efficiency.

Business ethics in China is influenced by the interplay of the principles of three religions: Confucianism, Buddhism and Taoism. Sometimes it is called three-in-one business negotiations. Chinese business people follow three basic rules for business negotiations. These are: trust, strategy and the principles of bureaucracy. When the trust is very high, the negotiation is done like a gentleman. When the trust is low, then a suitable strategy needs to be applied and when the political

factors are important, bureaucratic principles are to be used for negotiations. For doing business in China, it is not so much the business ethics that is important; what is more critical is the sharing of the same heritage and values.

One of the reasons why business ethics is neglected in China is that, until now, all the organizations in China are to **follow strictly the government rules and regulations**. They have no freedom to violate those instructions. However, the government is not fully a communist type, but there is a system of one party rule—the communist party. In that framework, the Chinese philosophy is basically capitalist in nature, and hence, market rules or principles are more important than ethical rules.

However, of late, since China is becoming more and more a global player, it has to reduce many unethical practices including corruption. Rather than favouring corruption, Mozia, a 5th century philosopher suggested a law of protection (Rothlin, 2004). Nobody knows how effective it would be. But in practice, corruption takes a long period of time to get eradicated in the absence of a pervasive sense of spirituality.

BUSINESS ETHICS IN THE ARAB WORLD

Some of the Arabian countries are at the **ethical stage** and perhaps their business ethics is more consistent and perfect than those of many of the developed capitalist countries. Business in the Arabian world is based on the religious ethos of Islam. Rather than using the term business ethics, Islamic scholars use the term, *halal* and *haram*. Halal is something ethical and permissible and *haram* is ethically bad and prohibited in these countries. Based on the instructions of Islam, these countries form their ethical rules in business. Since the Arab people are guided only by their religious ethos, they do not feel the need for business ethics. The private sector is neither influenced by the idea of business ethics nor do they have any such code. There is no organized effort to promote business ethics in the Arab world. There are corruptions among government officials and every country has its own Vigilance Department and Central Audit Agency.

Some of the ethical/unethical business rules are as under:

- In the area of business, like all other walks of life, **men and women are segregated**. If there is a woman manager, the contracting or negotiating part must have a woman to talk to her. The woman in Arab must use a long veil.
- One has to **respect the Arabian rules** and follow them strictly. They are all based on the Islamic culture.
- It is **not good business etiquette to** say "no" directly. Put it in a roundabout way so that the other party gets the message.
- A businessperson must have a **business card** written in English on the one side and Arabic on the other.
- During the business negotiation, **nobody is permitted to consume alcohol, smoke or even have coffee**. These are considered *haram*, although smoking through water-pipe is permitted in some countries.
- Prayer time must be observed, and there will be no negotiation during that time.

- All trade must be in halal products and no *haram* product should be traded in or out of the country. For instance, pork is a *haram* product.
- Charging of interest on loans is not permitted in Islam.
- Compromises with the religious and ethical beliefs under pressure are highly deplorable, and will be punished according to Muslim *sharia laws*.
- Padding an expense account is unethical, but offering a gift to a purchaser is ethical.
- Unlike in the United States, **bribery is permitted** in the Arabian countries. It is regarded as an incentive and a way of doing business. It is not unethical.
- Nepotism is rampant but it is not unethical.
- The idea of **corporate social responsibility is gaining ground** in the Arab world but it is still in its nascent stage.
- According to the Arabian perception, there are the following **four essential characteristics of business ethics:**
 - Loyalty: Loyalty to the religion, to authorities and culture and tradition.
 - Consistency: The behaviour pattern is uniform and there is no drastic change in the personality pattern.
 - **Predictability**: The behaviour of the negotiator and authorities is predictable. It is also related to consistency.
- Labour market gender discrimination is very conspicuous. But it is not considered to be ethically wrong.

It is to be noted that the labour market dynamics of the Arab world is a conflux of the spiritual reality of Islam and the materialistic actuality of the neo-liberal globalized world (Ghosh, 2010). Women are segregated to low-paying occupations and their unemployment rate is very high. The private sector is not much interested in employing women as they have to be given maternity benefits. However, the recent trend is that women are making an in-road to the male-dominated professions, and, thus, there are now women employees in stock exchanges and cyber clubs. However, women do not own any means of production and do not participate in the decision-making processes. But things are changing now in the Arab world.

The integrations of Western modernity with deeply-rooted religious beliefs and culture produce a unique business ambience in the Arab world. One can find a peculiar mixture of the growing trends of modernization and Islam. The introduction of **market Islam** has been responsible for the generation of Islamic capitalistic spirit and prosperity theology. All these have been instrumental for many products that are truly Islamic, like Islamic banking practices with many new products, Islamic finance, profit-sharing schemes, and their own Islamic products including non-alcoholic drinks, and so on. These are becoming popular among the Muslim countries. Sustainable development organization has already been established and it is doing good works for a sustainable development and putting the environmental issue on the top priority of the government.

All said, it must be appreciated that the Arabian people do not put any organized efforts to develop business, unlike in the western countries. They neither have the outward-looking business strategy or policy, nor do they have any business acumen and expertise. However, other people including the MNCs are doing business in their land to tap the natural resources of which oil remains very important. Thus, in order to deal with the foreign business people and MNCs, the Arab world is now

interested in knowing some form of standardized global business practices and rules. It is in this context that business ethics becomes relevant to them. However, this involves a cultural dualism in the sense that on the one hand they have to be a part of the progressive trend of Islam and on the other they have to deal with the external forces of modernization and globalization. It is indeed a big challenge to make a judicious compromise or a trade-off between these two compelling and emerging trends which are somewhat contradictory in nature.

Summary

The levels of ethicality differ mainly because of the influence of religion or spirituality. When the firm owner is guided by the dictates of spirituality, he understands the meaning and purpose of life and also the desirable objectives of his firm; whereas a religious-minded man knows only the exoteric aspect of religion which consists of many rituals and details of outward behaviour. A spiritually-inspired firm is more ethical than a firm which is guided by religious rituals. The levels of spiritual development also make a perceptible difference. Most of the western countries are at the pre-ethical stage whereas Asian countries in general are at post-ethical stage. These countries are now under the influence of liberalization and globalization. They are forgetting their religious ethos and tradition.

Japanese work culture and business ethics are influenced by religious ideas. Group ethics is very strong in Japanese industries and the code of ethics formulated by big firms is followed by small firms. Japan makes a balance between the rationalization of the West and the spiritualisation of the East. Japanese industrial ethics is based on seven important principles like, respect for ethical values, caring and sharing with environmental intimacy, mutual trust, loyalty, lifelong employment, personal integrity and hard work. But after 1990s, the spiritual value system is decaying and business is becoming more profit-oriented.

In America, there is an excess of materialism through the successful use of science and technology. The motto of America is only business. Free market philosophy and profit-maximisation principles dominate the business world. Although on paper, most of the rules and principles of corporate governance are followed, but in practice, there are dangerous violations of almost all the ethical principles. For instance, violations of accountability, information leaking, unethical business practices, discrimination, dumping, and environmental pollution, and so on. Before 1990s, American companies were much better but with the dawn of the new century most of the giant companies became extremely unethical and had to face financial stresses and strains and downfall. However, some of the companies learnt from the past mistakes and started behaving well. The Department of Commerce approved a list of business principles for making the companies more accountable, transparent and ethical.

In India, one can notice three distinct periods of industrial development and ethical leanings. During the pre-Independence period, there was not much of industrial development and corporate ethics was not elaborate. During the second period (1947–1990), India experienced many unethical business practices due to high-handed control and regulations, and in the third period (since 1991), many of the Indian firms started following international business practices in order to remain internationally competitive. There are some ethical, some unethical and some firms with ethical

dichotomy. Most of the firms are in this category. It is instructive to note that some of the competitive firms have understood the importance of ethical responsibilities but at the same time, some are indulging in unethical practices in order to get rich quick. The newly emerging big firms seem to be more ethically vulnerable and have experienced scams and scandals due to their excessive greed.

Chinese firms have been exposed to international community in many unethical cases like the sale of contaminated milk powder, supply of dangerous and unsafe goods, and so on. Evidently, there is hardly any social responsibility in business. But in the business negotiations, bureaucratic principles, trust and strategy are still depended upon. A few business practices will point to the fact that Chinese business is not based upon any strong ethical foundation—labour is regimented, wages are lower than productivity, working hours are long and arduous, labour laws and rules are very strict and human rights are rampantly violated. The government is itself involved in many types of scams and scandals. One of the reasons why business ethics is neglected in China is that firms have to follow the government rules and regulations strictly, and the government does not insist on business ethics.

In the Arab world, there is no formal recognition of business ethics. There is only the concept of *haram* and halal. Whatever is dictated by the religion is also followed in business. The integrations of western modernity with deeply-rooted religious beliefs produce a unique business ambience in the Arab world. It does not put any organizational efforts to develop business ethics. However, in the context of globalization, modernization and 'Islamization', the Arab world is facing a new type of challenge in the area of international trade and business.

Key Terms

Religion and Spirituality Universalism Karoshi Race to the Bottom Social Capital Pre-ethical and Post-ethical Stages Ethical Dichotomy Spread Effect Gini Coefficient

Percolation Effect *Halal* and *Haram* Market Islam

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Western countries are at a pre-ethical stage.
- (ii) Group ethics is very strong in the Japanese industries.
- (iii) The present civilisation in America is based materially upon an extraordinarily successful technology and contains practically nothing in spiritual terms.
- (iv) Ethical dichotomy is one of the important characteristics of the Indian firms.
- (v) Business ethics in China is influenced by the interplay of the principles of three religions, namely, Confucianism, Buddhism and Taoism.
- (vi) The private sector in the Arab world is neither influenced by the idea of business ethics nor do they have any such code.

- (vii) Halal is ethically bad and prohibited in the Arab countries.
- (viii) The introduction of "market Islam" has been responsible for the generation of Islamic capitalistic spirit and prosperity theology.
 - (ix) Consistency is the behaviour pattern which is diverse and there is no drastic change in the personality pattern.
 - (x) The labour market dynamics of the Arab world is a conflux of the spiritual reality of Islam and the materialistic actuality of the neo-liberal globalized world.

	the blanks		
(i)	business ethics is not	at a particular plane and at a	
	particular point in time.		
	Indian philosophy advises a person to "know thyself" or		
	has described several stages of development of business ethics in Japan.		
(iv)	Japan had a which has gone a long way in influencing the system of team		
	work and group practices.		
	Groups in Japanese organizations have their or	•	
(vi)	By and large, most of the American companies violate the ethical principle of		
(vii)	There are three distinct periods of industrial de	evelopment in India, namely,,	
	, and	-	
(viii)	, and In China, labour is highly w	with no workplace freedom and with only	
	limited		
(ix)	Chinese business people follow three basic	rules for business negotiations, namely,	
	,, and	·	
(x)	In the Arab world is something		
	is ethically bad and prohibited in these countries.		
3. Choos	se the correct option		
(i)	In the Arab world, compromises with the relig	gious and ethical beliefs under pressure are	
	highly deplorable, and will be punished accord	ding to the Muslim:	
	(a) Sharia laws (b) (c) Both (a) and (b) (d)	Haram	
	(c) Both (a) and (b) (d)	None of these	
(ii)	One of the measures of income inequality is:		
	(a) Correlation coefficient (b)	Gini coefficient	
	(c) Both (a) and (b) (d)		
(iii)	In Japan, many executives commit suicides and mental diseases are a normal outcome		
	of:		
		Shitsuke	
	` '	All of these	
(iv)	The Protestant Ethic and the Spirit of Capitalism was written by:		
	· /	Max Weber	
	(c) Adam Smith (d)	Karl Marx	

(v) The human rights record of China is tainted since the time of:

(a) Tiananmen Square incident

(b) Hong Kong incident

(c) Both (a) and (b)

(d) None of these

(vi) Rather than favouring corruption which philosopher of the 5th century suggested a law of protection?

(a) Mao Tse Tung

(b) Mozia

(c) Hiuen Tsang

(d) All of them

(vii) In the Arab world, products like tobacco, coffee, alcohol are otherwise known as:

(a) Halal

(b) Haram

(c) Both (a) and (b)

(d) None of these

(viii) Which is ethical in the Arab world?

(a) Haram

(b) Halal

(c) Sharia

(d) All of them

(ix) The idea of calling for material progress that is working in Japan is similar to the philosophy propagated by:

(a) Calvinism and Puritanism

(b) Imperialism and Colonialism

(c) Both (a) and (b)

(d) None of these

(x) The notion of unicity of business culture is known as:

(a) Organizational culture

(b) Universalism

(c) Imperialism

(d) All of them

Review Questions

- 1. Why do the levels of ethicality differ? Explain with suitable examples.
- 2. Compare and contrast the business ethics of India and China. Which one is better?
- 3. Why is the US called a pre-ethical country? If it has any business ethics, then why so many important corporate houses failed?
- 4. Explain fully the basic characteristics of Japan's business ethics.
- 5. Critically explain the business ethics of India. Compare it with that of the USA.
- 6. Why is China progressing so fast as a global business player in spite of its questionable business integrity?
- 7. Of all the countries that have been studied, whose business ethics has influenced you the most and why?
- 8. Arabic people are religious. Does it mean that they are ethical? Explain your views.

Web Links

1. http://web.tepper.cmu.edu/jnh/aib.pdf [Cross-Continuedu/jnh/aib.pdf]

[Cross-Cultural Issues in Business Ethics]

2. http://www.uhyadvisors-us.com/uhy/Default.aspx?tabid=917

[Reviving Business Ethics in America]

3. https://cfo.executiveboard.com/public/documents/CELC_Business_Ethics_in_China_When_Working_with_Potential_Chinese_Partners.pdf

[Business Ethics in China When Working with Potential Chinese Partners]

- 4. http://www.tradechakra.com/business-culture-india.html [Business Culture of India]
- 5. http://www.islamicperspective.net/Pictures/Essay%20File/a6s2s2.pdf

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- 6. http://www.asianperspective.org/articles/v29n1-f.pdf [Ethical Challenges Facing Japanese Business: Historical and Contemporary Observations]
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Ethical Decision-Making in **Business**

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Decision-making and types of business company
- Josephson's six pillars of character and business decision-making
- Krolick model of decision-making styles
- Stage theory of cognitive ethical development and business decision-making
- Ethical models for making business decisions
- Constraints in ethical decision-making and implementation
- A framework for making good ethical decisions in business

Introduction

The highest knowledge, said Socrates, is the knowledge of good and evil, the knowledge of the wisdom of life. But in his *Practical Reason*, Immanuel Kant, the famous German philosopher, observed that no action is good in itself. A good intention is the prerequisite for a good and ethical decision-making. If an ethical decision is made by force or by the circumstantial compulsion, much of the ethical motive or intention is lost in the process. The ethical decision-making should come from the heart and not the head. Indeed, a heart has a reason of its own which a head sometimes cannot understand. The present chapter discusses a number of relevant topics for ethical decision-making in business including the nature of the company, decision-making styles, determinants,

character traits of decision-makers, cognitive theory of moral development and business decisions, theories and basis of decision-making and the ethical tests of good decisions in business.

DECISION-MAKING AND TYPES OF BUSINESS COMPANIES

There are basically the following three types of business concerns (Weiss, 2009, p. 85):

- Morality-based management
- Immoral management
- Amoral management

Some business concerns are **based on morality**. It may not be hundred per cent moral in the strict sense of the term, but it is based on ethical premises, does not cheat anybody, and follows the dictates of morality in its actions and behaviour. It follows the policy of honesty, openness, equal and fair treatment towards the employees, suppliers, consumers and shareholders. The strategy of this type of business organization is morally managed and it gives a due consideration to follow the rules of morality in business and day-to-day decision-making process. For such a company, it is not difficult to make ethical decisions.. This is so because the whole business ambience smacks of morality.

Against the morally managed business concern, there may be **some concerns which are immoral** in nature. This is evident in their actions, pricing, dealings, distribution mechanism, marketing strategy, advertising, price fixation, treatment of employees, customers, suppliers and stakeholders. This type of business company practices lying, cheating, forgery, irresponsibility, unfair treatment, discrimination of various types, unfair and fraudulent behaviour, exploitation and secrecy of many types. It is very difficult for these companies to be ethical. They do not give much importance to the principles of morality and it cannot be expected that these companies will usually implement an ethical decision-making. If, at all an ethical decision-making is made, it may be more a matter of chance than a matter of practice.

Conceptually, there may be another type of business company which may be called amoral.

This type of concern is neither moral nor immoral. It has no basic proclivity to a particular type. The company is rather indifferent and less concerned about morality and ethics. It does not take up any immoral actions or strategy. It follows the minimalist strategy towards shareholders and stakeholders. It does not care about ethical or non-ethical business decision-making. However, it is instructive to note that it is not ant-ethical or immoral by nature. Given the orientation by a proactive manager, it can be made sensitive to ethical decision-making decisions. The only thing that is needed to make it more ethical is a strong external or internal force which may come from a new management or managerial initiative.

DETERMINANTS OF ETHICAL DECISION-MAKING IN BUSINESS

In making ethical decisions, a number of factors are involved in any business. Basically there are two sets of factors:

Organizational Individual factors

Organizational Value

It has been accepted by researchers that organizational values wield a far greater influence on the decision-making than individual factors (Ferrell and Ferrell, 2001, pp. 64–78). An organization is composed of a group of persons having different background and family circumstances. In the matter of personal life, these people may have different views on ethical or moral principles. However, whenever a group of people meets in an open space for a purpose, it is the idealistic view that predominates. In fact, group or herd psychology is different from individual psychology and the former is more pro-ethical than the latter. The group takes up an ethical decision jointly and in so doing, it is criticised less or praised more by the public and also by the community.

Whether a company will go for an ethical decision-making or not will largely depend on the **orientation or predisposition of the company** towards morality and ethics, as discussed earlier. The orientation of the company can be known from its mission and vision statements. Once these are publicly portrayed as the accepted principles, the company finds it difficult to change the orientation structure in the short-run. The **corporate culture** consisting of a set of values, principles, goals, attitudes and beliefs is more or less permanent in character, and it takes years or a revolution to change it. The corporate culture needs to be institutionalised and enforced. It is interesting to note that there is a definite interrelation between the corporate culture and ethical culture (Weber and Seger, 2002); both are cause and effect of each other and it is indeed problematic to functionally separate them, although they are conceptually separate categories.

Ethical Intensity, Base and Superstructure

In this context, the concept of ethical base or intensity is worth noting (McDevitt and Van Hise, 2002, pp. 261–74). Ethical intensity is the degree of the importance of the ethical issue related to a decision-making. If the ethical base is strong and broad, its ethical superstructure will be **sprawling and expanding.** This implies that in all its dealing, ethics will get the prominent place. The relationship between ethical base and a superstructure is indeed a very crucial one but is often neglected by ethicists while explaining ethical decision-making in business. An organization's ethical intensity will be more sensitive towards moral issues, their possible effects on the public and the priority pattern of moral decision-making in business. Moral intensity can be influenced by many factors including managerial influence, outside pressure, reward and punishment, and the legal and social factors. Managerial influence, indeed, remains very critical. If the manager is a person of strong moral or ethical background, he will be able to influence the whole team to vote for ethical decision-making. He can even use the reward and punishment technique.

Personal Predisposition

Just as an organization is influenced by *ethical issue intensity*, in the same way, an individual in a company either the employee, employer or the stakeholder is influenced by this. At the individual level, the importance of ethical issue in all decision-making will partly depend on his family situation, upbringing, parental values, social values, and so on. Many factors and forces shape the personal predisposition towards ethical decision-making by a manager. Some of these factors will be briefly discussed here:

Gender

It has been found from experience that in general women are more ethical than men (Loe et al., 2000, pp. 185–204). This means that women are more sensitive towards the ethical issues and they seem to be more concerned with them.

Age Structure

By and large, young managers are less concerned about ethical issues in business decision-making. There are, of course, exceptions but no compelling empirical finding contrary to this statement. Elderly managers are more sensitive to ethical issues and corporate social responsibilities. This is, however, not to deny the complex relation between age and morality. Some researchers have stated that older people may not be necessarily more wise (see Peterson et al., 2001).

External and Internal Factors

Ethical values in the corporate world are also influenced by many internal business dynamics and externalities. One internal factor is the amount of corporate profit. There is, generally, a positive relationship between profit and ethical decision-making. However, it may not always be true for all types of firms.

Education Level

The level of education of a manager is an important determinant of ethical values. The relationship between these is generally positive. However, education should be interpreted in a broad sense that includes both formal and informal education. For instance, a person may not have much formal education but he may be highly religious-minded and ethical in decision-making. Businesspeople are found to be more ethical than students (O'Fallon and Butterfield 2005).

Ethical Leadership

The quality of leadership is a critical factor for business decision-making. If the leader or the corporate manager has no ethical mental make-up, it cannot be expected that business decisions will be ethical. In a system of hierarchical management based on **Top-Down Principle** leadership, ethics is the first prerequisite for ethical business decision-making.

Rules vs Discretion

This is an important issue in making or not making ethical decisions in business. The rules laid down by the senior bosses will have to be obeyed in the corporate world. Hence, an ordinary manager cannot flout the rules. If the set rules are based on ethical principles, the decision-making will be ethical, otherwise not. Managerial discretion may or may not be favourable to ethical decision-making. It depends on the personal proclivity of the manager.

In this connection, **a few personal values** discussed as under remain crucial for business decision-making:

Personal Values in Decision-making

- Caring for Others
- Fairness and Justice
- Commitment to Social Responsibilities
- Sense of Trusteeship
- Sense of Duty
- Good Citizenship

The list of virtues can be extended further (see for details, Chapter 2). All the above-mentioned virtues are directly correlated with ethical business decision-making. It is now possible to state in a functional form the factors that influence ethical decision-making in business.

Ethical Business Decision-making = f (G, AS, EIF, EL, EL, R/D, PV)

Where:

[G = Gender, AS = Age structure, EIF = external-internal factors, educational level, Rule or discretion, personal values]. The general impact of these factors on ethical business decisionmaking has been discussed earlier.

JOSEPHSON'S SIX PILLARS OF CHARACTER AND BUSINESS DECISION-MAKING

Michael Josephson (www.josephsoninstitute.org) has identified six personality traits that are very favourable to ethical decision-making. These traits are characterised as six pillars, and their impact and effectiveness in ethical business decision-making will be complete if all these six attributes are taken in totality. These character traits of decision-maker are briefly discussed in the following pages.

Caring Personality

Care triumphs over all human deficiencies and transgression. The most important attribute of a person is his caring attitude. The caring and sharing can be for the family members, relatives or for the society. If one cares for the society, the business decisions will be pro-social and more human-centric. Care is the first starting point of all ethics and ethical principles worth the name. Without care and love, no principle can be developed by a person. Care advises renunciation and philanthropy. Thus, if a businessman is endowed with the attribute of caring and sharing, it is normally expected that the businessperson will make ethical decisions for the purpose of running his business. This is so because ethical decisions will ultimately benefit some people who may be needy and poor. Having said this, it is imperative to understand a note of caveat. A caring personality or attitude does not mean that a business man has to relinquish his basic business philosophy of profit maximization. Care can co-exist with business principles.

Respect

Respect for others is another cornerstone for ethical decision-making. Respect involves caring, non-injury, giving attention to somebody's needs, courtesy, avoidance of exploitation, giving equal status or even higher position to others, decency, dignity and honour. Respect is a method of paving a way for egalitarianism. Respect is reciprocal in nature. If you pay respect to somebody, he will, in turn, pay respect to you. Respect implies a negative ego-centric behaviour, which is the basic pre-condition of ethical positioning. Thus, out of respect you activate the social interdependence, connection and cooperation. All these are great virtues to any businessman, and respect is one of the pillars of ethical decision-making. If you have no respect for others, you have no right to make ethical space for others.

Responsibility

From care and respect comes the sense of responsibility. Responsibilities are basic duties that one needs to perform for sustaining care and respect. Responsibilities imply accountability, sharing the agreed burden and preparedness for every eventuality in a particular context. When a person takes a responsibility, he has to work hard to perform the work for which he has taken the responsibility. Responsibility and accountability go hand in hand. Accountability implies that a person is answerable for what has happened in that particular case or situation, and he has to bear all moral responsibility for that. In the matter of ethical business decision-making, the decision-maker takes the sole responsibility of such a decision. He is accountable for the impact of that decision whether it turns to be good or bad. Ethical decision-making, however, does not involve any bad outcome but only social welfare or public good. Needless to say, in the case of ethical business decision-making, the manager bears the responsibility and he also remains singularly accountable for his decision.

Trustworthiness

A moral responsibility on the manager or any person implies that the person is trusted by others. A trust is an important asset of all human beings. To be trustworthy is to have an additional responsibility. A person becomes trustworthy only when he possesses some special virtues and character traits like integrity, honesty, sincerity, regards from others and truthfulness. Integrity has been defined as a process of awareness and alignment of moral values, character and balanced judgment that can ensure the promotion of a sustainable moral development (Petrick and Quinn, 1997). So, a person who is trustworthy has many ethical or moral qualities. When a manager is found trustworthy by a company, he is entrusted with some autonomous managerial functions that become helpful for ethical decision-making in the business.

Trustworthiness is also related to loyalty and reliability. A person who is trustworthy has to be loyal to certain authorities or persons from whom the trust comes. It is after going through numerous tests and experiments that a person is declared trustworthy. Thus, a trustworthy person is invariably reliable. In the matter of managerial decision-making, the superior authorities delegate some power to the manager to make ethical decisions, and they believe that since the manager is trustworthy, he will not do anything wrong.

Fairness

Fairness involves justice, equal treatment of people under equal situations, impartiality, non-discrimination, openness and transparency. A fair decision is the decision that is taken without fear and favour and without pride and prejudice. A fair decision is always based upon the merit of the

case. A neutral decision is a fair decision. In a fair decision, the person, group or individuality does not matter. A fair judgement is taken dispassionately without any partiality. However, a fair ethical decision may be somewhat in favour of the poor and the deprived section of the community. In the matter of justice and fairness, John Rawls (1971) has some special concessions to offer to those people who have already been exploited and who do not have even the basic goods for survival. He calls this as the **Difference Principle**. It says that, if at all some inequality is to be permitted it must be in favour of the poor and the destitute. Fairness is a great virtue that should be practiced in making ethical decisions in business.

Citizenship

Citizenship is the recognition of a person as the legal inhabitant of a particular country for which he is accorded some rights and privileges like, right to vote, right to enjoy public goods and benefits, and so on. However, it also enjoins certain duties and responsibilities, like the obeying of laws, respect for the constitution of the country, taking part in the decision-making process, directly or indirectly, to keep up the moral strength, standard and pride of the country, and so on. A citizen enjoys certain fundamental rights like the freedom of expression, of speech, right to live, right to security and protection, right to information, right to enjoy the public goods and basic necessities of life, and so on. A good citizen has to contribute towards community development, maintenance of environmental quality, ecological balances and social development. Social responsibility is one of the important responsibilities of a good citizen. In the same way, a good corporate citizen has to perform many social responsibilities including social welfare, environmental protection, conservation of resources and sustainable development of the country. Ethical decision-making in business includes all these areas of responsibilities.

KROLICK MODEL OF DECISION-MAKING STYLES

In a famous but somewhat controversial survey, Stanley Krolick (1987) has developed a model that explains the following four modes of making individual decisions in business. These four modes are:

- Individualistic Mode
- Altruistic Mode
- Pragmatist Mode
- Idealistic Mode

The individualistic mode is based on self-interest, personal gain, progress and success. However, although many individualists speak about success, the meaning of the term success is neither uniform nor the same to everybody. Success may be calculated in terms of total profit, or name of the company, or market share, goodwill, sales maximization or assets maximization (see Ghosh, 2010, Ch.2). The decision mode is based on naïve ethical relativism.

Altruism is a philosophical and a philanthropic approach to decision-making. In this context, altruists think about the interests of the society, mankind, and the future generation. They take or recommend the policy which will maximise happiness of all or at least the maximum number of people. Sometimes, confusion is created by saying that altruists are utilitarians in disguise. This is

not so, because altruists do not make a rational calculation of costs and benefits from the project and do not recommend the one that brings the highest net benefit (total benefits minus total costs). The altruists are universalists and not at all self-interested.

Pragmatists are concerned with the practical solution of a problem at the present moment by disregarding other things. The present needs, problems and solutions are more important to pragmatists than anything else. For solving the present issue, they can adopt any ethical theory or principles and may not necessarily adhere to that theory for all the time to come. They depend more on ethical relativism. More often than not, the pragmatists use that approach which brings in more utility or advantage. Thus, it can be said that it is, in a sense, more close to the philosophy of utilitarianism. But this is not to deny the fact that it does not follow a particular rule or theory all the time.

Idealists are lovers of ideal principles or rules. Sometimes, they blindly follow those rules.

Business decisions of idealists will be based upon an ethical principle which is dear to them, and for that principle, idealists can sacrifice anything and everything. They are duty-bound people and justify their actions in terms of certain ethical norms or principles. They do not believe in ethical relativism or any sort of compromise. They believe in ethical absolutism under all situations. They are very committed, motivated and consistent in all their decision-making.

Having explained all these decision-making modes, it must be conceded that none of these modes is free from criticism. This is the reason why some people prefer to apply the rule of **ethical pluralism** in making business decisions. Ethical pluralism takes into account an admixture of a few principles at the same time, if possible, and does not believe in the uniqueness or all-time superiority of one principle over the other.

Be as it may, it has been accepted by ethical analysts that while pondering over ethical decision-making in business, the personal ethical background of the decision-makers becomes a critical factor.

The process of ethical development is a long-drawn process from childhood days to mature stage of a person. In this context, one can explain the theory by Kohlberg and others (see for details, Chapter 1). It is believed that Kohlberg's theory can be applied in the case of business decision-making. Let me elaborate on this in the following section.

STAGE THEORY OF COGNITIVE ETHICAL DEVELOPMENT AND BUSINESS DECISION-MAKING

Kohlberg has explained **six stages of development of morality in human beings**. The analysis is helpful for explaining ethical decision-making in business.

• First Stage in moral development is marked by a system of punishment and reward for doing bad things and for the overt action to good things. Although this is the childhood stage of moral development, it can be made applicable in the business world. The manager can induce other employees to do good things for rewards and can also punish the wrong-doers. However, the application of the punishment and reward principle will depend on the corporate ethical culture and ethical base and structure.

- In the Second Stage of ethical development, a person considers a rule to be right or correct if it is fair to him. In most cases of ethical decision-making in business, the theory of reciprocity or mutual fairness is translated into action. Thus, a firm will do business with another firm or supplier if the dealings are reasonable and fair, and X firm will remain fair to Y firm, if Y firm is also fair to X firm. This type of bondage can and does continue for a long time simply on the basis of mutual trust and fairness. This is especially true in the case of Japanese firms.
- The Third Stage of ethical or moral development goes beyond the theory of mutuality or reciprocal advantage. It is really the beginning of ethical or social responsibility both for individuals and for the business. The company is now out to do something good for the stakeholders, stockholders and society and undertakes ethical decision-making. This is the stage of building good relationship, maintaining it and thinking about the well-being of others. This is the stage in which corporate social responsibility starts gaining the foothold and business decisions are moulded accordingly.
- The Stage Four is marked by the consideration of duties. The firm becomes more deontological in nature and makes business decisions accordingly. Duty towards society, maintenance of social order and respect for laws and superior authorities are reflected in business decision-making. Obedience to legal instructions is marked in this stage of ethical development.
- Stage Five is the stage of upholding basic human rights and values and creating social contract. At this stage, the business company recognizes other groups and some business commitments. This stage may experience some conflict between the prevailing law of the land and some moral principles or ethics. This type of conflict can be reduced by rational evaluation of overall utility functions. The decision of the firm at this stage is based on the idea of utilitarianism. That is, it is influenced by net utility or net benefit to society (total social benefit minus total social cost). For instance, a doctor may first try to save the life of an accident victim without wasting any time to report the case to the police. This is so because the medical form thinks that life is more valuable than the amount of fines to be imposed by the police authorities for non-compliance.
- Stage Six is the stage of consolidation of certain ethical values. At this stage, a firm develops certain universal ethical values based on experience and learning.
 - The firm becomes more conscious about certain rights and duties and gives more credit to the absolute and universal moral values. These values are made operational through suitable decision-making. The firm may discard the making of the product which is injurious to human health even though it is profitable. In the same way, it will like to internalise the negative or harmful externalities like chemical effluence that pollutes the nearby river or lake. At this stage, the firm is more conscious about social and ethical issues, and is guided by universal ethical principles like justice, fairness and equality, and business decisions are taken to promote them.

These stages can of course overlap and some stages may even be skipped over. The stage theory of Kohlberg is not compelling but can throw some important light on the moral development of persons or business firms. Even if a manager is a mature person, he may not have the same exposure to moral development as another manager. There may be some **lag effect in morality development.** In fact, the ethical decision-making of a business firm depends on its stage of moral development.

ETHICAL MODELS FOR MAKING BUSINESS DECISIONS

There are **seven fundamental ethical models** or principles that can be used for ethical business decision-making. These models are discussed in Chapter 1. Readers are advised to read Chapter 1 for a detailed explanation of these principles. Sometimes, one clear-cut principle or a combination of some principles may be used for making ethical decisions in business. The basic ideas of these models are given as under:

Consequence-based Model (Utilitarianism or Consequentialist Principle)

- This principle holds that a policy or action is ethically good or correct if such an action
 produces the greatest good for the largest number of people. There are many interpretations
 of this principle.
- One interpretation says that the benefit from the policy should be higher than the cost involved. In other words, a policy is good if it produces positive net benefits.
- Another view is that a policy is morally justifiable if it brings the greatest benefit to each individual and if this benefit is higher than the net benefit of an alternative policy. This principle was made popular by Jeremy Bentham and John Stuart Mill in the nineteenth century. They are the founders of the school of utilitarianism. The principle of utilitarianism is being used since long and is still a very popular principle in public policy domain in spite of its many limitations.
- In the context of this principle, a minor moral lapse or aberration (cost) like bribery is justifiable if it brings greater benefit to the society. Suppose Mr. Martin bribes a governmental official to get a permit to continue the production of soldiers' uniform in his factory where 100 poor people are working. Is it morally wrong to bribe an official? The utilitarian principle will tell us that it is morally right to bribe the official in this case because through this action, Martin has been able to save the family of 100 workers from starving.

Consequentialism puts more emphasis on the consequences or result of an action rather than the action itself. A business decision is morally acceptable if it benefits people at large at the end of the day and that benefit is much higher than the cost. It is instructive to note that in the case of ethical business decisions, the social gain must offset the personal gain, and that the desired end must be achieved in an efficient manner (Barry, 1986).

Duty-based Model (Universalism or Kantianism)

- According to this principle, all persons should be treated with respect. It says that a person or a firm has certain universal duties to protect others whose welfare or needs are at risk. It is perfectly an ethical decision to help these individuals and provide to them their legitimate basic needs. Thus, it is a firm's right, ethical decision to protect its employees against coercion, force, abuse or any type of harm in the office.
- Another test of universalism is that the action or decision is acceptable to all concerned, and that other rational human beings will take the same decision in the same situation.
- The principle emphasises that a duty-based action is ethically correct an idea propounded by Immanuel Kant. However, as Mahatma Gandhi pointed out, the duty to be performed must be morally correct; it is morally wrong to perform unethical duties (Gandhi, March 27, 1930).

Rights-based Model

- Duties correspond to rights. According to the theory of rights, it is ethically correct to take a
 decision or make a policy that will guarantee the legitimate rights to people who do not have
 these rights. The violation of rights must be protected and legitimate rights must be established or restored.
- Rights are entitlements and some rights are fundamental in nature such as, right to live, to have freedom of speech, to security, right to property and the like.
- Kant stressed the importance of personal rights. There many types of rights including moral
 rights, legal rights, property rights, contractual rights, and so forth. While legal rights are
 protected by state, moral rights are to be protected by society. Hence, there is a need for the
 corporate sector to intervene and make suitable decisions in this regard.

Justice-based Model

The term justice is interpreted in various ways, some of which are discussed as under:

- Justice is an ethical action that treats everyone fairly and consistently in accordance with some legal or ethical standard.
- Justice also implies a policy or decision where all equals are treated equally.
- Since all people are not equal in every respect, justice demands that equity should be the correct principle and not absolute equality. Thus, for a person in the middle-income group, the rate of tax is lower than that on a rich person.
 - This is so because the marginal utility of money is different for these two groups of people.
- The concept of justice includes: distributive justice (fair distribution of benefits and burden), procedural justice (fair method of making a deal, agreement or contract), retributive justice (correct punishment in accordance with the harm or injury done) and compensatory justice (fair compensation to someone for the harm or injury done in the past).

Virtue-based Model

- Any decision or action is justified if it encourages certain virtues, like honesty, integrity, sincerity, self-control, fairness, sacrifice, trust, truthfulness and so forth.
- Virtue is a type of character trait that makes a person wise and helpful for the optimum development of his personality in such a way that he cannot only develop himself but can also contribute towards the social and humanitarian development. Virtue has many positive externalities (external effects).
- A virtuous man is an ethical man and any decision taken to develop human virtues is an ethically correct decision.
- An ethical decision needs to be consistent with certain ideals of virtue. The decision-maker must exhibit, exercise, develop or encourage a morally virtuous character. All good decisions must encourage virtues and discourage vices of any form.

Common Good Model

• A business decision that contributes positively for the maximization of social welfare or benefits for all is an ethical decision because it enhances common good and all are benefitted.

- Common goods are those goods which can be used by all, irrespective of their personal status or position. Such goods may be **public goods** like charitable hospitals, roads, street lights, public security system, and so on. For using such goods, all persons need not pay equally or some persons need not pay at all. Those who are not paying are called **free riders**, and they can also enjoy the benefits of such goods.
- Common goods are benefits that can be made available in a particular region or area or state.

Care-based Model

Care-based ethics is perhaps the best of all ethical models. It says that the interlocking social and personal relationship is the basis of all ethical actions. A decision is ethical which is based on care, compassion and love. The Bible says: mercy triumphs over all judgments. Care-based ethics can be interpreted in various ways:

- It is ethical to take care of all those persons whom we love and who need our care and compassion, love, kindness and mercy. This primarily encompasses our close relatives and family members.
- Care-based model is also extended to include the people in a society that need care and compassion. The care may be through financial support or physical care. Care based ethics is a part of corporate social responsibility.
- The model also includes caring for all those persons who are not our relatives. They may be unknown and strangers to us, yet they deserve our care and compassion.
- The ethics of care transcends the boundary of narrowly-defined relationships and teaches us to be more humane with magnanimity and catholicity of character.

Constraints in Ethical Decision-Making and Implementation

There are several obstacles in the making and implementation of ethical business decisions. Some of the major constraints are listed as under:

- 1. The ethical organizational culture may be completely absent or, the company may not be serious at all about ethical decision-making. This generally happens when the company is amoral.
- 2. The manager may not have any ethical orientation, his upbringing and family history may be contrary to ethical culture.
- 3. The business may be focused only towards the principle of profit maximization and nothing else.
- 4. Ethical dilemmas in the mind of the manager or shareholders may not have been properly addressed. Even if they are tried to be solved, every time, material considerations gain the topmost priority and the ethical issue is neglected.
- 5. The shareholders and investors may oppose the ethical culture of the company. Some of them may be in favour but majority of them may not want such a culture to grow.
- 6. The company may not have any history or precedent of ethical predisposition. When it studies the history of the company, it gets no encouragement or incentive towards ethical predilection.

- 7. The organization may be indifferent towards business ethics and there may be the absence of ethical leadership. There is no proactive attempt to make the company ethical in character.
- **8.** There may be different types of conflict at different organizational levels such as between employer-employee level, employee-employee level, investors-management level, and so on, about the desirability of ethical orientation and ethical decision-making in business. If all the people working in organizations do not have a common opinion about an issue, there may be a moral conflict. If conflicts are not resolved properly, ethical decision-making may be delayed or discontinued, or not taken up at all.
- **9.** There may be, in many cases, lack of suitable opportunities, timing or financial ability to engage in an ethical programme. The will may be there but right opportunities may be absent.

A Framework for Making Good Ethical Decisions in Business

To make a good ethical decision is a complex and convoluted matter. Different types of ethical issues and problems may need different solutions. All ethical issues are not equally critical to business management. In the same way, all ethical problems are not equally compelling. Some are short-run in character and some have only long-run implications. However, in spite of the different nature and dimension of ethical issues, it is necessary to have a framework with reference to which many types of ethical decision-making can be properly tackled. An attempt is made in this section to discuss a general framework for ethical decision-making in business. It may be useful to business managers as a guideline for making decisions. The framework detailed below assumes that the company has the moral culture and moral will to solve ethical problems. The constituent elements (points) in the framework are self-explanatory; hence, too much of rigmarole is consciously avoided. A point by point approach is used for explaining the framework. The following are the **Ten Points to make good ethical decisions**.

- Study the case carefully and seriously to get intimately acquainted with the ethical issues involved that need to be solved. The case may be with respect to internal management relating to working conditions for all the employees, or about the possibility of giving a job to a crippled person. The ethical issues in these two cases are different, and the manager should analyse each case separately to appreciate its various dimensions. It is not enough to merely read the files, but it is imperative to study the cases.
- Think about the ethical intensity of the problem, its importance for the firm and the industry, and its priority in the scheme of your business agenda. One should also analyse the company's goals and objectives (mission and vision) to contextualise the case that needs a solution. A green signal is given when there is no fundamental contradiction between the goals of the company and the ethical solution needed. It is also to be ensured that the company has the ethical culture that can accommodate this type of situation.
- The solution of the case in terms of the most appropriate ethical model (I have discussed many such models earlier in this chapter) needs to be contemplated at this stage. There may be the relevance of the model of rights, of care, or of fairness and justice. For instance, if there is unfair gender discrimination and women workers are not given the same pay as their male counterparts in spite of equal productivity, it is a clear case of injustice and discrimination.

The manager should apply the principle of justice and fairness. The model that is to be applied must be consistent with the company's ethical culture, commitment and ethical base.

- At this stage, the manager will do well to study the feasibility of the solution in terms of available resources. If the solution is within the feasibility area, he should take the case forward.
- It is now necessary to discuss the completed ethical action or decision to the senior officers and with those whose assent is necessary. The manager should impress upon them about the importance of the case and its far-reaching implications.
- At this juncture, it is imperative to clearly understand the dual implications of the case. First, what will be the consequences if this ethical issue is not solved? This may be examined in terms of legal action, damage of reputation, expenditure on litigation, and so on. Second, what will be the implications if this case is solved ethically? The manager must discuss all these factors with the Board of Management.
- It is advisable to think about all the possible and feasible alternative solutions. Some of these may be relevant in the short-run and some in the long-run. But the implications may be different. Knowledge about the alternative ways of attaining the ethical desideratum is immensely helpful for the manager to make adjustments and accommodations in the policy framework. Some of the alternative solutions may be discussed in open meetings to get the feedback and general consensus. It is also necessary to resolve the legal issues, if any, that stand in the way of ethical solution.
- Some proposed ethical solutions of a problem may involve ethical dilemmas, conflicts and contradictions. These may be internal or external. These should be resolved amicably, and many a time, a trade-off between two alternatives may be necessary. Very often, the long-run and the short-run objectives of a firm may be in conflict. A compromise or a reconciliatory approach on the basis of cooperation may be helpful in this type of situation. For instance, profit maximising objective of a firm is in conflict with welfare maximising objective. In this case, a policy trade-off that achieves something of both of these desiderata will be a welcome decision.
- When every problem is solved and the deck is clear, it is time to take a firm decision by taking into confidence all those that matters. However, once the confidence is reposed on the manager by all, and something happens by chance, he will perhaps be excused. Those who matter will not mind and those who mind will not matter.
- Once the ethical decision is made, implement it as soon as possible. Justice delayed is justice denied. More time may mean more cost and sacrifice, and also more uncertainty.

TEN GENERAL ETHICAL TESTS TO ENSURE GOOD DECISIONS

The following ten ethical tests are short tests to ascertain the ethical nature of business decisionmaking. The first six of these tests have been articulated in the Centre for Business Ethics at Bentley College (Weiss, 2009, 989). The present author has slightly modified some of the questions to make them more clear. The last four additional tests have been devised by the present author of this book. If the answer to all the test questions are positive (yes), it can be said that the business decision has been or will be good.

Test Questions

- 1. Is your decision right (as per ethical rules, legal tests and professional ethics)?
- 2. Is your decision fair (justified/non-discriminatory)?
- 3. Is your decision not harmful to anybody?
- 4. Will you be comfortable if your decision is published on the front page of the local newspaper?
- 5. Can you ask your child to take the same type of decision in future?
- 6. How should a third party feel about your decision?
- 7. Is your decision helpful to the society?
- 8. Does your *inner voice* support your decision? (**Gut-feeling Test**)
- 9. Will you like if everybody makes similar decision?
- 10. Is your decision pro-poor or pro-common people?

Points 7 and 10 are particularly important for an ethical business decision. In this context, what Mahatma Gandhi said about public policy-making is immensely relevant. Gandhi makes it clear that whenever a policy-maker is in doubt about the usefulness of his policy he should consider its possible impact on the poor and the common people of the society. Let us quote him:

Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man whom you may have seen, and ask yourself if the step you contemplate is going to be of any use to him. Will he gain anything by it? In other words, will it lead to swaraj for the hungry and spiritually starving millions?... Then you will find your doubts and your self melting away.

(Gandhi, August, 1947, Vol. 8)

Gandhi's reference to *swaraj* here should be interpreted as economic freedom. Spiritually starving millions should refer to those people who have no knowledge about the right kind of life, liberty and common code of ethics.

Summary

A good intention is the pre-requisite for ethical decision-making in business. It should come from the heart and not just from the head. It is instructive to note that some business concerns are basically moral, some immoral and some are amoral. An immoral company is neither moral nor immoral, it is just indifferent. It follows the minimalist strategy and does not bother about morality or immorality. The matters of ethical decision-making, individual factors and organizational values become immensely important. If the company has a value-oriented corporate culture and pronounced ethical stance as can be seen from its mission and vision statements, the process of ethical decision-making becomes rather easy. If the ethical base or intensity is strong, its ethical superstructure will be sprawling and expanding.

Just like the ethical intensity, personal predisposition is also an important deterministic factor in ethical decision-making. Some of the factors in this context which smoothen the work of ethical decision-making are elderly employees, female workers, education level of workers and the volume

of corporate profit are all positively correlated to ethical decision-making. If the corporate sector is based on rules that are ethically favourable, then those rules can go a long way in ethical decision-making. Personal values like the sense duty, good citizenship, love for fairness and justice and caring for others can facilitate the work of ethical decision-making without tears. In this context, Michael Josephson's six pillars of character that include responsibility, respect and so forth can be helpful for ethical decision-making. Krolick model of decision-making is based on four distinct modes. The individualistic mode is based on self-interest, altruist mode gives a philanthropic approach, and the pragmatist mode is concerned with practical solutions.

The stage of ethical development of the decision-makers is critical in the process of decision-makings. Kohlber has discussed six stages of cognitive ethical development. In this process, the first stage is based on reward and punishment and the evolution goes on changing till it settles at some universal stage of ethical development through learning and experience. The decision-makers may be influenced by end-based theory or morality, or duty-based principle, virtue-based principle, common-good principle, care-based principle, right-based principle or justice-based principle. An ethical business decision may be based on a particular principle or a combination of a few principles (ethical pluralism).

Be that as it may, there are some practical constraints in ethical decision-making. Some of these are lack of ethical orientation, amoral nature of the company, lack of ethical culture and so forth. A framework can be devised to make corporate ethical making a success. There are ten general tests to ensure good ethical decision-making by a company. These tell us that if the decisions are fair and just, rights-based, not harmful to anybody, can be universalised, should be imitated by all and can be publicised, helpful to the society, to be liked by all in general, is pro-poor and the inner voice supports it, then it is a good ethical decision.

Key Terms

Immoral and amoralCorporate CultureGut Feeling TestEthical IntensityEthical PluralismFree RiderEthical Base and SuperstructureIntegrityPublic Goods

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Justice delayed is justice denied.
- (ii) Kohlberg has developed a six-stage theory of moral development.
- (iii) The first stage of moral development in the Kohlberg model is marked as punishment and reward.
- (iv) According to Krolick, there are four modes of making decisions.
- (v) In general, women are more ethical than men.
- (vi) Ethical intensity is the degree of importance of the ethical issue related to the decision-making.

- (vii) Duties correspond to rights is upheld by the justice-based model. (viii) There are five fundamental ethical models. (ix) Pragmatists are concerned with the practical solution of a problem. (x) Idealists are lovers of rational principles or rules. 2. Fill in the blanks (i) According to _____, the highest knowledge is the knowledge of good and evil, the knowledge of the wisdom of life. (ii) There are basically the following three types of business concerns, namely, (iii) In making ethical decisions, the factors involved in any business are _____ and (iv) Just as an organization is influenced by ______, in the same way, an individual in a company, either the employee, employer or the stakeholder, is influenced by this. (v) In a system of hierarchical management based upon ______ leadership ethics is the first pre-requisite for ethical business decision-making. (vi) A has to perform many social responsibilities including social welfare, environmental protection, conservation of resources and sustainable development of the (vii) According to the Krolick model, four modes of making individual decisions in business are ______, ______and ____ . (viii) ______ is a philosophical and a philanthropic approach to decision-making. (ix) _____ principle holds that a policy or action is ethically good or correct if such an action produces the greatest good for the largest number of people. (x) Duties correspond to rights, is upheld by the _____ model. 3. Choose the correct option (i) In his *Practical Reason*, who observed that no action is good in itself? (b) Max Weber (a) Immanuel Kant (c) Aristotle (d) Plato (ii) John Rawls gives some special concessions to those people who have already been exploited and who do not have even the basic goods for survival. This is called the: (a) Capitalism (b) Difference Principle (c) Both (a) and (b) (d) None of these (iii) Who are concerned with the practical solution of a problem? (a) Altruists (b) Capitalists (d) None of these (c) Pragmatists
 - (v) In the Stage Four of moral development we have consideration of duties, where the firm becomes:

(b) Punishment and Reward

(d) None of these

- (a) Deontological in nature(b) Ontological in nature(c) Epistemological in nature(d) None of these

(iv) First stage in moral development is marked by a system of:

(a) Divide and Rule (c) Both (a) and (b)

- (vi) The principle which was made popular by Jeremy Bentham and John Stuart Mill in the nineteenth century is:
 - (a) Universalism
 - (b) Utilitarianism or Consequentialist Principle
 - (c) Both (a) and (b)
 - (d) None of these
- (vii) According to which principle all persons should be treated with respect?
 - (a) Universalism
 - (b) Utilitarianism or Consequentialist Principle
 - (c) Both (a) and (b)
 - (d) None of these
- (viii) That any decision or action is justified if it encourages certain virtues, like honesty, integrity, sincerity, self-control, fairness, sacrifice, trust, truthfulness, and so forth, has been upheld by the:
 - (a) Justice-based model

(b) Virtue-based model

(c) Rights-based model

- (d) All of them
- (ix) Those who are not paying to use the public goods are:
 - (a) Free Riders

(b) Suppliers

(c) Both (a) and (b)

- (d) None of these
- (x) That duties correspond to rights has been upheld by:
 - (a) Justice-based model

(b) Virtue-based model

(c) Duty-based model

(d) Rights-based model

Review Questions

- 1. Explain critically the four popular modes of business decision-making.
- 2. What are the basic determinants of ethical decision-making in business?
- 3. What preliminary Ethical Tests will you perform to ensure that a particular decision is ethical?
- 4. Is it possible to apply Kohlber's theory of cognitive moral development in the case of business decision-making? Explain fully your view.
- 5. Write note on Krolick's four modes of decision-making.
- 6. Decision-making depends on the corporate culture and ethical base or intensity. Do you agree with the statement? Give reasons in support of your answer.

Web Links

1. http://philosophy.lander.edu/ethics/ethics.papers.s00/paper9.html

[The Difference between the Amoral and the Immoral]

2. http://jobfunctions.bnet.com/abstract.aspx?docid=900417

[When Personal Values Conflict with Ethical Decision-making]

- 3. http://www.decision-making-confidence.com/personal-values-and-decision-making.html [Personal Values and Decision-making]
- 4. http://en.wikipedia.org/wiki/Kohlberg%27s_stages_of_moral_development

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5. http://www.ethics.org/resource/plus-decision-making-model

[Six Steps to Ethical Decision-making]

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PART THREE

Corporate Governance: Principles and Practices

CHAPTER 16

Corporate Governance: Principles, Issues and Trend

LEARNING OBJECTIVES

This chapter will help the reader to understand

- The meaning and distinction between corporate management and corporate governance
- Historical background, nature, characteristics and purposes
- Importance, theories, mechanism and principles
- Codes of practices, structure, shareholders' rights and protection
- Issues, elements of bad corporate governance, principal-agent problem
- Globalization and corporate governance, emerging trend and the OECD principles

Introduction

One of the most serious misconceptions of our times is the belief that all countries are equally ethical or unethical. It is not really so. Conceivably, there are **three types of countries**:

- Pre-ethical countries
- Ethical countries
- Post-ethical countries

One should consider UK, USA and some other developed countries as **pre-ethical** in the sense that they have never seriously embraced ethicality in business ever since the inception of corporate capitalism, though they are now becoming more aware of it. Some writers (e.g., Bob Garratt, 2003)

have mistakenly considered America in the **post-ethical category**. This is indeed misleading. These developed countries are yet to seriously think about ethics in business and they did not have any such tradition or historicity either in national life or in corporate life. Many of the Asian countries like India, China and Japan can and should be included in the post-ethical category. They had in the past a long-drawn tradition of ethics, religious ethos and morality in every walk of life but now with the advent of the philosophy of neo-liberalisation, these countries are drifting away from the tradition. It is indeed empirically difficult to designate a country as completely ethical in the true sense of the term, though conceivably such a categorisation is possible, as conceptual **noumenon** permits it. On the empirical plane, some of the Arabian countries and perhaps Malaysia are at some ethical stage of development, although there are minor aberrations. But if one is interested in locating a perfectly ethical country, perhaps one will be disillusioned, and it will be like chasing the will-o-the-wisp. So let us resist the temptation.

The present chapter aims at analysing some important ethical issues in corporate governance in general and seeks to elaborate on many other peripheral issues, problems, recent changes and trends related to corporate governance.

What is Corporate Governance?

Corporate governance is the coordination and maintenance of a set of relations that promote the interests of stockholders and stakeholders of a business corporation. A few representative definitions are given as under:

"It is a system by which companies are directed and controlled." (OECD)

"It is a set of relationships between a company's management, board, shareholders and stakeholders."

"It is a system of social institutions that influences the process of strategic investment in corporations that revolve around three decisions: investment, returns and control."

"Corporate governance is defined as holding the balance between economic and social goals and between individual and communal goals. The governance is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources" (Cadbury Committee: Choudhury, 1992).

World Bank has given two definitions of corporate governance (1999):

From public policy perspective, "it is about nurturing a company with accountability in the exercise of power and control over the company" and from the perspective of the corporation, "corporate governance is relations between owners, management board and stakeholders".

In the eyes of law, a corporation is a legal entity; it is a system or mechanism through which a relationship is maintained and promoted in such a way that leads to individual profit without corresponding individual responsibility.

DISTINCTION BETWEEN CORPORATE MANAGEMENT AND CORPORATE GOVERNANCE

At this stage, it is imperative to clearly understand the fundamental distinctions between corporate governance and corporate management. Governance is a type of exoteric directions and control over business based on the internal relationship among shareholders, board and the managerial staff. These directions are given to control the trajectory of the company so that it can move in the desired way as wanted by the owners and the shareholders. Corporate management has a limited periphery and functional areas to concentrate on those activities as suggested by the board. But corporate governance has had a broader vista and navigates around the globe. There are certain defined jobs to be done by corporate managers but in the case of corporate governance, the responsibility is multifarious. In a sense, corporate management is a static concept, but corporate governance is essentially a dynamic concept. Corporate governance is concerned with an open-ended system, but corporate management works within the periphery of a close-ended system where manipulation of any type is not permitted. After all, corporate governance aims at doing the right things but corporate management is concerned about doing the right things.

The basic distinctions between corporate management and corporate governance are shown in the following figure. S.C. Das has elaborated on this topic (Das, 2008, p.42–3). However, Table 16.1 presented here is a slightly modified version of Das's schema.

 Table 16.1
 Distinction between Corporate Management and Corporate Governance

Corporate Management Corporate Governance • Corporate management implements the order • Corporate governance gives the order • Corporate management is more esoteric • Corporate governance is more exoteric • In corporate management, power is delegated • Board is empowered in corporate governance • Corporate management is a static concept • Corporate governance is a dynamic concept • Corporate management works in a close-ended • Corporate governance works in an open-ended system system • Corporate management is job performer • Corporate governance is job designer Corporate management decides "how to go"? • Corporate governance decides "where to go"? • Corporate management need not be innovative Corporate governance has to be innovative • Corporate management is more a stereotyped Corporate governance is more challenging and function exciting job Corporate management is to do things right • Corporate governance is to do the right things

HISTORICAL BACKGROUND OF CORPORATE GOVERNANCE

The term 'corporate governance' is a recent vocabulary in the corporate world that came into being and is being increasingly relied on after a series of unfortunate events in Japan, UK, USA

and Asia. The enactment of Foreign and Corrupt Practices Act in 1977 in the United States was perhaps the embryonic beginning of the concept of corporate governance. However, many failures in the business world in the 1980s compelled the United States to be more serious in the matter of corporate management. The Treadway Commission Report (1987) made many important recommendations for the better internal management of business companies through proper auditing and control. Subsequently, the Committee of Sponsoring Organization in its report in 1992 provided a framework for the ideal functioning of corporations and their management. However, the corporate sector experienced many scams and scandals in the beginning of the new millennium, and the result was the historical enactment of Sarbanes—Oxley Act of 2002 that laid down some principles for the strict compliance of the corporate sector in America.

On the other side of the world, Japan experienced many downturns and low returns in business. The downturns were seen to be because of failures of the corporate sector. In the same way, the United Kingdom experienced many frauds and scandals in the corporate sector since the introduction of globalization in the 1980s. It was realised by corporate pundits that there was something fundamentally wrong in the corporate sector. The Asian financial crisis of 1997 also put the blame on the inefficient corporate governance in the East Asian economies. All these experiences put together suggested that poor corporate governance was the real culprit; hence, there started an organized movement in the business world to formulate certain principles and policies to put the corporate world on sound footing. The Cadbury Committee in England provided some principles in 1992, the Organization for Economic Cooperation and Development (OECD) (1999) also formulated certain ideal principles for the improvement of corporate governance. In India, the attempt to introduce and improve the corporate governance went into several directions. In 1997, the Confederation of Indian Industries (CII) prepared a code for corporate governance. Subsequently, the Kumar Mangalam Birla Committee (1999) with the auspices of the Securities and Exchange Board of India (SEBI) introduced standard listing agreement to be followed by all the listed companies in India under Clause 49. Now all the listed companies in India have to follow the (SEBI) code. It has been accepted in principles by all that corporate governance is crucial not only for the success of international business but also for bringing about uniformity in the international standard and corporate behaviour. The uniformity is the essence of a globalized system that offers a level playing field for international business interactions.

NATURE, CHARACTERISTICS AND PURPOSES OF CORPORATE GOVERNANCE

The broad structure of corporate governance consists of a four-fold interconnected system. These are, the shareholders (owners) at the top, the Board of Directors next, and then the corporate management and at the bottom end, the employees. The key elements in corporate governance are supervision and internal controls, transparency and accountability, disclosures, risk management, removal of asymmetric information system, and the maintenance of safety and product quality. Environmental protection and social responsibility are accorded special importance in recent years.

Corporations are legal entities and wield enormous political and economic power. In many instances, they have been instrumental in regime changes. In the eyes of law, corporations are personalities with many rights, power and authorities. They also influence law making that seem to have far-reaching impact on the industrial development of a country.

In a corporation type of business, there is a separation between ownership and control. The company is managed not by owners but by the Board of Directors. The Board directs the manager as to how to run the company. The most unique feature of a corporation is the **limited liability of** the owners.

There are several responsibilities and duties of a corporation. The following are the basic **respon**sibilities and duties of a corporation:

- Duties towards its own employees, suppliers, customers and shareholders. In all these cases, corporations are morally bound to further the interests of these groups of people.
- Economic duties of corporations include the earning of profits for shareholders and adequate returns on the investment made by investors. It is the duty of corporations to expand production and supply of useful commodities for the satisfaction of consumers' demand. These corporations also contribute to the general economic growth and development by creating a right kind of investment, adequate job opportunities and the growth of trade and commerce through the development of modern technology.
- Corporations have also some social duties to perform. They have to undertake and perform social responsibilities of developing social capital, social infrastructure, social institutions and social goods. All these are supposed to enhance the social welfare of a country.
- One of the important responsibilities of corporations is to protect, develop and prevent the deterioration of environment by doing and not doing certain types of activities.
- Corporations are supposed to perform certain ethical duties towards its employees and customers. These include employees' welfare schemes, improvement of working conditions and environment and allow them the fundamental corporate freedom and human rights without prejudice. The duties towards customers include supply of goods and services that are healthy, safe and hygienic.

A corporation is footloose and can function in the global market. As pointed out earlier, a business corporation is an engine of growth and is welcome for creating export surplus, saving and investment and industrial growth in a developing country.

Objectives of Corporations

There are many purposes of corporations. However, only the most crucial purposes are briefly discussed as under:

- To produce goods in a way that reduces cost through advantages of internal and external economies and also economies of scope so that it can enhance the market share and maximize profits.
- To make the **investment cost-effective** and profitable. The basic purpose of corporate governance is to run the business efficiently and effectively.
- To create employment opportunities and to develop both soft and hard skills. Corporate governance tries to create high quality manpower to run businesses efficiently.
- To encourage healthy competition in business, creation of competitive skill and technology.

- To protect environment from damage and destruction.
- To carry on some social and moral responsibilities.
- To innovate ways and means for better performance and image.

Joseph Schumpeter has shown that **innovation can be carried on in five different ways** (Ghosh, 2004, p. 88) the introduction of new goods, introduction of new methods or techniques of production, opening of new markets, exploration of new sources of raw materials and the reorganization of industry. A corporation is always engaged in newer and newer type of innovation for its survival and growth and indirectly helps the human society.

Importance of Corporate Governance

The following are the main points of importance of corporate governance:

- Accountability and transparency encouraged by corporate governance are essential for capital market development in LDCs (less developed countries). All these ensure investors' confidence and can help overall investment climate in a country. In the Harrod-Domar type model, economic growth is positively linked with investment. A developing country can gain much in terms of quantitative growth through the development of a good system of corporate governance.
- Enhanced corporate productivity and efficiency through good corporate governance ensures economic growth with social justice and development. Thus, it not only improves the economic conditions of people but also enhances social welfare.
- A disciplined and controlled corporate governance can considerably reduce financial turmoil and can ensure financial stability, both of which are crucial for economic growth and development. In the past, many corporations failed not because of their products and services but because of their bad corporate governance.
- A good corporate governance can considerably reduce corporate fraud and corruptions. In such cases, not only is public confidence raised but also the national prestige is enhanced.
- Competitive product and factor markets can be promoted and sustained by corporate governance (Meisel, 2004). This is beneficial not only for corporations but also for the society. This can ensure **allocative efficiency** in the management of scarce resources.
- A good corporate governance is necessary for successful international business as it increases confidence, product quality, prices, social responsibility and environmental protection.
- A better social responsibility generated by a good corporate governance can enhance social development, social welfare and public image and confidence. All these can help the corporations to build social capital and trust.
- A good corporate governance ensures environmental protection and a sustainable development. This not only reduces the public cost but can also ensure better human health.
- An ethically inspired CG ensures employees' welfare and consumers' welfare and is in favour of the stakeholders' interests. A good corporate governance does take into account the welfare of all the stakeholders and thereby ensures justice and fairness to all concerned.
- A good corporate citizenship is a sort of national pride and asset. It is beneficial in many ways to the society, employees, stakeholders and of course, the nation. There seems to be

a direct and positive nexus between the number of good corporate citizens and the socioeconomic development of a country.

THEORIES OF CORPORATE GOVERNANCE

Since the 1970s and until now, many theories have been proposed by scholars and specialists in the area of corporate governance (Abdullah and Valentine, 2009). Basically, these theories look at different perspectives of corporate governance and none of them is holistic. In what follows, we will briefly analyse the fundamental propositions of each of the prevailing theories. **We choose here seven important competitive theories.**

Agency Theory

This is one of the most popular theories of corporate governance which is based on economic concepts. While the shareholders are looked upon as the owners (principals), the managers and board of directors are considered as the agents of the company. Thus, it is the bounden duty of the agents to look after the interests of the owners and maximise profits on behalf of them. There is, thus, a separation of ownership from the management. However, in such a case, there is the problem of conflict of interests. The objectives of the owners are not the same as the objectives of the manager. While the managers are interested in maximizing their utility functions that include pay, power and perks, the owners are interested in getting a high return on their investment. Thus, there is an obvious principal-agent, which is discussed in detail later in this chapter.

Stewardship Theory

The theory is based on the basic ideas of psychology and sociology. It posits that the duty of a steward is to protect and maximise the stock of wealth of the shareholders, and by doing so they get their own rewards, just in the case of parable of talents in the Bible. In fact the utility function of a steward is maximised only through the maximisation of the shareholders' interest. Thus, there is a positive nexus between the interests of these types of people in the corporate governance system. There is no contradiction or conflict; rather, the two utility functions have the same point of convergence. In a corporate set-up, managers and executives are stewards. When the organization as a whole is successful, all the participants are also satisfied. This is the basic essence of this theory. As a matter of fact, when all parties works in unison, and the CEO is also the Chairman, the **transaction cost** is likely to go down. It looks forward to the Japanese model of corporate governance where there is a cordial functional relation and the convergence of all the interests.

Stakeholders' Theory

This theory is based on the perception that a corporation for its effective function has to forge a number of relations with different classes of people including suppliers, consumers, employees, government, and so on. All these different classes of people are the stakeholders of the organization.

The basic purpose of any corporate organization is to create wealth not only for the owners but also for the stakeholders. Donaldson and Preston (1995) strongly argue that, this theory focuses on managerial decision-making for the benefit of all the parties concerned. The theory derives its concept from organization theories and sociological human behaviour that seem to suggest that mutual help and cooperation enriches the community and organization in many ways.

Transaction Cost Theory

Every type of transaction has its own cost to a firm. These days, firms are so varied, diversified and large that they become substitutes for markets in the matter of allocation of resources. In many cases of corporate organization and structure, it is possible to determine the price and the volume of production. The transaction theory suggests that by varying the size of the firm, its production structure, technique and resources allocation methods, a firm can change the transaction cost. The theory implies that managers are opportunists and arrange transactions in their favour through many methods and manipulations (Williamson, 1996). However, this does not imply that they have to be selfish or they alone enjoy the benefits of a reduced transaction cost. The theory makes an important point that it is the basic purpose of corporate governance to make the cost the lowest, reap the economies of scale and make the company highly competitive and contestable.

Dependency Theory

The dependency theory looks at the possibilities of development and growth of a company. In this context, the role of board of directors can hardly be exaggerated. The directors always try to invent innovative ways and means to access new resources and make the firm more and more self-sufficient and competitive. In this context, the outside directors can impart valuable advices that may reduce the transaction cost. The directors can be business specialists, experts, economists, politicians, social workers, teachers, and so forth. The theory suggests that whatever be the nature of directorship (insider or outsider), it is the duty of these directors to gather newer and newer resources for the betterment of the company. The dependency is about the procurement of resources.

Political Theory

It explains the involvement of government in the governance of corporations. The purpose is to get the voting support from shareholders. Having this objective in mind, the government in countries and in many situations participates or directs corporate decision-making, and in such a situation, the allocation of corporate power, profit and privileges are all determined by government rules, regulations and favours. In many countries of our times, some governments exert strong pressure, power and influence in corporate governance. Perhaps the best example is the corporate governance in China. An authoritarian government is more powerful than a democratic government in the matter of corporate governance.

Ethical Theory of Corporate Governance

Theory, as the name suggests, is concerned with that type of governance which is ethically justified and is based upon fairness and justice for all the parties. Ethical corporate governance distinguishes between right and wrong and concentrates on the right type of governance without hate and harm. It tries to eliminate all types of discrimination on the basis of caste, colour and creed. The governance is clean, accountable and transparent. It is a system of value and virtue-based management. It follows an ethically justified code of governance. The mission and vision of the company fully manifests the importance of ethics and morality in the management of the company. The post-modernist theory in this regard also depends considerably on the inner voice and gut feeling while confronted with dilemmas and challenging situations.

While concluding this part of the discussion, it needs to be pointed out that none of the theories mentioned here is complete and that every theory has its own perspective and limitations. Hence, a holistic theory must take into account all the points of view and considerations.

MECHANISM OF CORPORATE GOVERNANCE

The mechanism of corporate governance works in two ways: control and promotion. The mechanism, therefore, can be called the mechanism of controlled expansion. The mechanism of control aims at reducing various types of inefficiencies and irregularities. The **control mechanism works in the following ways:**

- Control of executives. In order to make such controls effective, the controlling authority (may be Board of Directors) has to have access to all the necessary information stock.
- The monitoring by the Board of Directors can be made effective through regular meetings
 of the Board of Directors to identify the areas of potential conflicts, mismanagement and
 problems. Once the problems are identified, they can be solved by discussions and appropriate
 actions.
- The control mechanism encompasses both internal and external controls. The internal control mechanism works through the Board of Directors', internal audit committee and other personnel who can provide intelligence about the operational efficiency or otherwise of the company, and the level of compliance with laws and regulations. Internal auditing is an important controlling mechanism to look into the veracity of financial reporting and the financial status of the firm.
- The provision of eternal and independent auditing is also an important mechanism to authenticate the reports of internal auditing system. Sometimes, the internal auditing system may be engaged in window dressing without caring for the actual status of the company. In such a case, independent external auditing is very helpful. Statutory auditing is a good controlling mechanism for checking the corporate financial mismanagement.
- Another mechanism of control over inefficiency is to introduce the system of efficiencybased remuneration for executives and employees. It should combine a system of incentive and punishment for the assigned work.

- Overall, a **system of checks and balances** at all the levels of the company is what is urgently needed for the success of a company. For this purpose, a committee may be constituted by indicting some honest insiders and outsiders. The basic duty of such a committee will be to observe study and report against certain abnormalities and irregularities.
- In any country, government regulations can be a good mechanism for controlling many odd practices and aberrations.
- In India, Companies Act (1956) and SEBI (1992) form an important part of controlling mechanism.
- A proper code of conduct for the managers and directors of a company can indeed go a long way as a controlling mechanism. A code of conduct is both principle of corporate governance and also of corporate mechanism to guide all the activities and duties.

Having said all this, it needs to be mentioned that a fool-proof corporate mechanism is necessary to control all those inefficiencies which also arise out of **moral hazards and adverse selection.**Moral hazards occur when the agent becomes too much dependent on a particular person (may be his boss or supervisor). Since he thinks that his boss will do everything, he becomes inactive and inefficient. A wrong or adverse selection may occur when a person has been selected wrongly because he might have suppressed any relevant information. In both these cases, there may be a corporate inefficiency that needs to be eliminated. Corporate governance mechanism, in order to be effective, must be made free from political interference and control. In particular, inefficiency due to adverse selection is very likely to emerge because of political pressure to accommodate sub-standard people in the corporate sector.

PRINCIPLES OF CORPORATE GOVERNANCE

Principles of corporate governance consist of those guidelines which are formulated to make the governance more efficient, competitive and socially acceptable too. The following are some of the major principles of corporate governance:

- The first and foremost principle of corporate governance is to have a system which is performance oriented. It must perform well in terms of economy and efficiency.
- It must be **based on a comprehensive code of conduct** for the participants. Such a code should have ethical basis, and should address the issues relating to work ethics, performance, duties and responsibilities.
- Corporate governance should remain, at all cost, free from political interference.
- **Honesty and integrity** on the part of all concerned should be the cornerstone of corporate governance.
- Corporate governance should be based on all types of **disclosures and transparency**. There should be no information asymmetry.
- Accountability and responsibility both individually and severally need to be the basis of corporate governance. Proper punishment must be there for every type of aberration.
- There should be proper **recognition of the rights of every type of shareholders**, both large and small, and they should be treated on the basis of equality.

- The Board of Directors should be properly constituted keeping a balance between the directors coming from both inside and outside. The directors should be properly qualified, experienced, skilled and committed. They must know their roles, duties and responsibilities.
- The external auditors should be independent and must be selected on the basis of their experience, qualifications, impartiality, honesty and integrity.
- It is necessary to have a clear dividend policy. It should be based on some type of market logic and the prevalent competitive condition.
- Corporate governance principles these days cannot remain silent about safety and environment. Social safety and environmental sustainability or promotion should be ensured by the governance system.

The aforesaid principles should be read with the following ten suggested principles of good corporate governance. The reader is also advised to get acquainted with the OECD principles discussed at the end of this chapter and also the Caux Principles analysed in Chapter 20].

Ten Principles of a Good Corporation

A good corporate company works on the basis of the following ten principles:

- It maintains a balance between economic efficiency and social responsibility.
- It is considerate and ethical to its employees, stakeholders including customers and suppliers. Its products are safe and it creates no negative externality.
- Its ethical norms and codes are incorporated in its missions and visions.
- Its policies are environment-friendly. It also protects the environment.
- It proves to be excellent in achieving all those objectives for which it is established. All its dealings are based on justice and fairness.
- It makes socially responsive works and investment.
- It makes a compromise or trade-off between profit and the social welfare.
- It works in the best interest of the shareholders who are its owners. It observes all relevant rules and regulations.
- It is not involved in any scam or scandal, and enjoys good social reputation.
- It is based on timely disclosures of all information and practices, accountability and transparency.

It has been found from experience that a good corporate company follows all the common principles which are prescribed by international organizations and committees like OECD and Cadbury Committee, among others.

CORPORATE GOVERNANCE CODES AND PRACTICES

Corporate governance codes and principles are used synonymously, and we have discussed the principles adequately in this chapter. However, to discuss the practices of these principles or codes, we need to briefly mention these codes once again at the cost of repetition. In the following discussion, an attempt is made to present some important corporate governance codes and realworld empirical practices. It is found from experience that there is a gap between the precept and the practice.

• Board of Directors should be constituted in a balanced manner by bringing in outside and independent directors. The Board should also appoint competent non-executive directors. The function and duties of the board will contribute to the company's strategic plans and to staff the key committees. The board should have frequent meetings, preferably four times a year. The board is responsible and accountable for the actions it performs. The board should also manage three important committees. These are audit committee, nomination committee and remuneration committee. If necessary, the board will seek for independent professional advice.

Practice: The board is not often balanced and the members do not function in responsible manners. The so-called independent members are not often independent. The number of board members is also not specified and often some of the members are not skilled or experienced enough. The board meeting is not very frequent and advice, in many cases, is not taken from independent experts.

• Every shareholder should have the voting right and all types of shareholders should be equally treated.

Practice: Although shareholders are given the right to vote, they are not always treated equally. In many instances, minority shareholders are discriminated against.

• Financial reporting, disclosure of information should be at the optimum level.

Practice: It is not so and information asymmetry persists at all levels. The quality of information is also not up to the standard.

• Accountability and transparency should be exemplary.

Practice: Both these areas are hazy and deficient.

• Audit and remuneration committees should be independent and efficient.

Practice: The internal audit system more often than not is engaged in window dressing. The remuneration system is often not based on performance and productivity.

• Corporate governance should recognise the importance of an implicit social contract and must discharge corporate social responsibility.

Practice: This is not often done by all companies; even if they do, their performance remains inadequate and insignificant.

• Shareholders' returns should be maximised.

Practice: In many companies, because of separation of ownership and management, the managers do not always work in the best interest of the shareholders.

STRUCTURE AND PROCESSES OF CORPORATE GOVERNANCE

Corporate governance may have different structures and processes depending on the political, economic, social, institutional and the stage of development of a country. Corporate governance needs many participants including the shareholders, investors, suppliers, banks, and many committees to function. But the role of Board of Directors is pivotal. It manages the whole show

and it is appointed by the shareholders of the company. Since the role of the board is central, it is necessary to give it a closer look.

Board of Directors and its Committees

Several issues are involved in the case of Board of Directors. Some of these will be discussed in the next section. However, it is necessary to understand a few common provisions:

- The board will appoint a managing director or CEO.
- The board will consist of executive and non-executive directors. Executive directors will hold management positions.
- Some directors are independent, some are outsiders and some are insiders.
- In any system of all-executive board, there is no separation between ownership and management. But this is being replaced gradually by the majority executive board where there is such a separation.

Duties and Responsibilities of Board of Directors

Since the Board of Directors is the heart and soul of corporate governance, it is empowered with many duties and responsibilities of which the following are crucial:

- It works as a friend, philosopher and guide for the whole company. It gives direction, defines the company's strategy and plans and ensures that management translates those plans into action.
- It appoints independent directors.
- One of the important responsibilities of the board is to ensure that shareholders' interest is given the top priority.
- It gives direction and supervises the critical activities of the company.
- It is responsible for the maintenance of accountability and transparency.
- Monitoring the overall activities of the company (and also that of the CEO) is an important function of the board.
- The fiduciary duties need to be performed with loyalty and good faith, and care and circumspection.
- It has been pointed out by many experts that the Chairman and the CEO should not be the same person, as there may be a concentration of power, and it is argued that power corrupts itself. However, there is no denying the fact that for the best functioning of the company their roles should be complementary and not competitive.
- The board has to ensure that for the smooth functioning of the organization, the flow of information is optimum and there is no asymmetry anywhere. There should be a maximum flow of information for all concerned.
- The board draws critical action plans and programs and formulates policies for fulfilling corporate social responsibilities which are now regarded as an essential corporate objective.
- The Board ensures the availability of financial resources.
- It approves annual budgets.

- It fixes up salaries and compensation.
- The board is obviously involved in all types of crucial decision-making processes. The board conducts frequent meetings and makes plans and resolves issues.
- The board makes sure that the company is based on ethical principles and it is supposed to give ethical leadership at different levels.
- The board appoints various critical committees and functions through them. The major committees are: audit committee, remuneration committee and nomination committee. These will be discussed at some length in the following section.

Governance Committees

In standard corporate governance practices, there the following three Committees which are helpful to carry out the functions of the Board of Directors:

Audit Committee

This is one of the most crucial committees of Board of Directors. It generally consists of three independent and non-executive members. The committee meets regularly, not less than twice a year. It is appointed by the board and is responsible to it. The audit committee has a number of functions and recommendations to make, including the scope, the method and the procedure of auditing, resolving conflicts in financial matters, audit fees and change or reappointment of members, systemic review of the financial system, interim and final accounts, and so forth. It is an independent committee and has considerable **leverage** in maintaining checks and balances. The committee is supposed to settle disputes that arise between the team of external auditors and the management. The committee takes a neutral stand. It is supposed make important financial disclosures which are helpful for the company to understand its financial strength and for the investors to know about the real worth of the company. In some cases, it is a practice to engage both internal and external auditors to evaluate the financial position of a company.

Remuneration Committee

This committee has to frame policies regarding all classes of people working in the company. It should be an independent committee that will assess the material contribution of people before fixing up the remuneration. It is a very important committee that may bring loss or gain to the company. Hence, it is of much interest to the shareholders. It is accepted on all hands that remuneration should be based on performance or productivity. But since some types of corporate performances are not amenable to accurate measurements, there may remain a gap. A system of incentive or bonus may go a long way in the improvement of performance scale. It has been the tradition in many companies that non-executive directors are paid a fixed amount every month. In most cases, remuneration is based on the existing rule plus the change in the cost of living index. Apart from this, it needs to be appreciated that there should be a clear-cut policy of reward and incentive to attract best talents in the company. Gary Becker, Nobel laureate in Economics, has rightly pointed out that people work because of incentives and if the incentive is not adequate, the work cannot be satisfactory.

Nomination Committee

The committee selects non-executive directors. It works on an ad-hoc basis. The committee is usually chaired by the CEO. The selection process is supposed to be based on merit through a proper interview. Some independent search firms help to find out competent persons. Basically, they are professional people and, if utilised properly, they can perform the value-added role. In many cases, the shareholders take some interest in the selection of right persons. Many of the independent members do not get sufficient opportunities to show their worth and expertise.

SHAREHOLDERS' RIGHTS AND PROTECTION

Many international committees in their guidelines and recommendations have emphasised the importance of shareholders' rights and also of their protection. The following discussion is based on the outlines of OECD Committee's guidelines and also some general opinions expressed by experts. Shareholders have the right to:

- Participate and be informed about some fundamental changes in the corporate governance, such as amendment in the statute, sale of corporation and the like
- Right to secure ways of registering ownership and transfer of shares
- Obtain timely information about important meetings. Right to information has been statutorily accepted by the government in many countries
- Since some important communication about the functioning of the company reaches the shareholders very late, they have the right to ask the company about its communication policy
- Voting in general meeting
- Elect board members
- Have a fair share in profit
- To be informed about the capital structure and other vital information so that their degrees of control can be made effective
- Know the rules for the acquisition of corporate control in capital market and also mergers
- All shareholders have equal rights to be treated equally. They are not to be discriminated against
- Remove directors
- To sue for the wrongful acts of the company
- Know about dividend policy and the time of their declaration
- Inspect annual reports, investment registers, books or records and many other critical documents
- Preferential rights to purchase shares
- Appeal to the Company Law Board, if necessary
- To get information about the remuneration of directors. In this context, it is the right of shareholders to know about the company's policy of remuneration
- Get information about auditing, and financial and non-financial disclosure by the company

The shareholders are the owners of the company and they have the legal property rights in all cases. They have the statutory rights to know about the decisions on their assets and investment, the policy decisions in the matter of investment, problems encountered, if any, and the future prospects.

Shareholders' Protection

The interest of the shareholders can be protected in many ways. One of the most pragmatic ways is to appoint the Board of Directors which is reasonable, controllable and follows corporate ethics. The methods are generally suggested for the protection of shareholders.

- Institutional shareholders are usually more protected than the small or ordinary shareholders. The problem for the small shareholders is **information asymmetry.** So, if the governance system can ensure that information will be easily available for all types of shareholders, then small shareholders can get a good degree of protection.
- The legal system can be of much help in ensuring shareholders' protection. In many countries, legal reforms have been undertaken for this purpose. The security laws may complement corporate laws and laws of torts.
- **Strict disclosers** at all levels will enable the shareholders to know many things in advance and they can, therefore, be armored with types of protective practices.
- The **accounting and auditing system** must be based on transparency and accountability. Any type of window dressing must be severely punished and rooted out.
- The government may introduce many types of public enforcement systems and control at the corporate level. This may include the financial position of the company, its liability and assets structure, outstanding debt, market goodwill, and so on. Certain crucial disclosures may be made legally mandatory.
- Legal enactment may also reduce or completely eliminate the expropriation by insiders. This may be made a punishable/non-bailable offence.
- Many researchers have analysed the importance of making and publishing an *anti-director index* to show the trajectory of company performance. This can be linked with the removal action/clause of directors.
- It is necessary to have shareholders' control on the trading of shares, its method and impact. Some sort of hedging activities, if wisely done, can protect the financial interest of the shareholders to some extent.
- The agency cost (discussed later in this chapter in detail) is a constant source of stress for the shareholders. Their interest can be enhanced by controlling the agency cost. There are many ways of controlling such a cost. First, to introduce more stringent legal rules. Second, the Board of Directors can be entrusted with the duties of suggesting ways and means to control such costs. Third, effective incentive system or compensatory rules may be framed with the consent of shareholders.
- It is suggested by us that the **shareholders should institute a cell**, like the **Company Intelligence Bureau** to collect and disseminate all information critical to the interest of share holders and their protection.

In many countries, because of the separation of ownership and control in the corporate sector, whatever is happening inside the company may not be known forthwith by the shareholders, and

therefore, they cannot get a clear picture of the company's activities. On paper, the company may look hunky dory, but in actual practice, it may be on the verge of collapse, as the cases of corporate crisis in the United States reveal. Many such calamities may be averted through the company intelligence bureau and the interests of the shareholders may be protected to a great extent at the same time.

Issues in Corporate Governance

There are hosts of issues in corporate governance. These issues are broadly divided into two categories: structural and ethical issues. The following discussion will address both these issues.

Structural Issues

- One such structural issue is the **composition of Board of Directors.** The proportion of executive and non-executive directors has remained an important issue in corporate governance.
- What should be the **proportion of independent Directors** in the Board? J.J. Irani Committee thinks that one-third of the directors can be independent. But the SEBI recommends that 50 per cent of the directors should be independent. It is not really the quantity but the quality of directors which matters most.
- Should there be a **few big shareholders or a large number of small shareholders** scattered over the whole country? No concrete answer is yet available on this issue.
- Should there be more insider or outsider ownership? There is no consensus over this issue.
- Should a corporation depend on more on small or on large creditors? No agreement is arrived at on this issue.
- Who should be given more priority? Should there be a priority given to the interests of shareholders (Anglo-American model)? A coordinated model gives more priority to workers, managers, suppliers and customers (Continental Europe and Japanese model).
- Another interesting issue is the gender issue. Empirically, women Directors are found to be less in number and it is tantamount to gender discrimination in corporate governance. The issue has not been settled in a unique way to be acceptable to all the corporations.
- Remuneration of Directors is another debatable issue. Some will favour high remuneration and some low. What is fair is a reasonable package of remuneration depending on the qualifications, experience and value-added of the Director. All Directors should not be paid an equal amount of remuneration.
- An issue concerning the role of the CEOs. In the face of corporate scandals and scams, many people think that the days of celebrity CEOs are over. Some experts go as far as to suggest that the post of CEOs should be abolished, and an experienced and qualified manager can be an important alternative for better corporate governance.
- Another **issue is the degree of government control** that is desirable. Opinion differs on this issue, and many are in favour of minimal control. It should be instructive to note that in the

case of India, after the introduction of liberalization, the role of the government has become minimal, although in some matters, legal tentacles are still strong.

The proper answer and settlement of all the above issues are difficult in actual practice.

Corporations are of different types and nature, and hence, they should not follow the same structure or administrative model.

Ethical Issues

There are basically four ethical issues in corporations and depending on these issues, they can be classified into the following types:

- 1. Overly Unethical Corporations
- 2. Half-heartedly Ethical Corporations
- 3. Ethically Indifferent Corporations
- 4. Ethically Constrained Corporations
- The first type of corporations does not bother about ethical core values and perhaps they have none. Even if on papers they have some core values, they do not follow these values and more often than not are engaged in unethical activities. The unethical corporate practices are very well-known today and are connected with the failures of many corporate houses in America. Some of these unethical practices can be briefly discussed as under:
 - Making fraudulent investment, falsification of accounts, insider trading, corruption and bribery, showing inflated profits to attract investors, drying up the company by claiming high salary, incidental expenses, entertainment and hotel bills, personal medical expenses, false travel documents, breach of company's trust, dishonesty of different types, fictitious transactions, non-disclosures of many material facts and figures, manipulating facts and figures, financial irregularities, embezzlement of company funds, breach of confidential information, misappropriation and malpractices, grant of heavy compensation, and so on. More often than not, such corporate houses do not practice the General Accepted Accounting Principles (GAAP), although they are advised to do so.
 - The list above is a very conservative one and many more malpractices can be added to this. The corporate world in the USA, UK, Japan, Korea and many other countries has been experiencing serious scams and scandals since long. For instance, the non-disclosure of vital financial information was instrumental in the case of Enron failure. Corporate scandals were the basic reason for the failure of many corporate houses in recent years in the United States. The US administration was ultimately forced to enact the Sarbanes-Oxley Act (2002) to investigate into the problems of auditing in the country.
- India also does not lag behind in corporate scandals. A few examples will make the statement clear. The Harshad Mehta scam and the case of ITC are well-known to every Indian. About 50 per cent of the listed companies in the Bombay Stock Exchange have recently been suspended for trading due to non-compliance of the requirements for legal listing. There are other wellknown scams like land scams, sand scam, cooperative bank scams, cooperative sugar factory scams, capital market scam and the like. The insider trading scam is a very old story in India that dates back to 1950s. These scams are perpetrated with the connivance of insiders and

outsiders who are professional con men. However, the travesty is that Indian financial institutions, unlike their foreign counterparts, are not interested in protecting the rights of investors in the face of scams and scandals. They remain monastically aloof. Bob Garratt believes that the 1980s and 1990s witnessed a continuous decline in the corporate value system in India too (2003). Indian business values are being influenced by the American corporate values and there is a strong **demonstration effect**. What is true is that it is very easy and tempting to imitate the bad values and the internalisation of good ethics always takes a much longer time. But once a particular ethical choice is made by a person of authority its effect spreads a long distance. Thus, we can have a positive ethical multiplier effect or a negative ethical multiplier effect. A corporation is ethically bad from head to foot when its manager or CEO is unethical. Both these effects percolate or trickle down the whole organization. Neoliberal globalization that encourages corporate capitalism does not seem to be sustainable any more in the long run; it has become unstable, unethical and unpopular. It spreads the market philosophy of valuation that justifies anything in the name of ethical relativity. Many of the developing countries including India which are in the process of capitalism integrated in the era of globalization are likely to experience more of these unethical corporate dynamics in the near future, unless such trends are kept under control through good corporate governance.

- The ethical corporations combine both the worlds of good and bad ethics half-heartedly. Most of the corporations in our times are of this type. Thus, we find many good works of Coca Cola, Hindustan Unilever Pvt. Ltd., Reliance Industries, Polaroid, Dr. Reddy's Laboratories Ltd., Wockhardt Ltd., Ranbaxy Ltd., Honda Motorcycles and Scooters India Ltd., and so on. But at the same time, they are not free from some criticism either for not doing adequate or for doing something which may not be beneficial for the society or the customers. Their approach is not ethical commitment or regularity in behaviour. Sporadically, they do some good work and also some questionable works too. However, the motivation remains important, and as per the utilitarian principle, if they have done greater benefits to a larger number of people than they have harmed, their works will still be considered as ethical by many experts.
- Ethically indifferent corporations do not have any compelling ethical value premise. Even if they have some ethical codes or values accepted officially, they do not follow such codes of ethical behaviour. They remain indifferent. Perhaps they do not have enough ethical motivation or culture in the organization.
- Ethically constrained or challenged corporate bodies are many in number in developing companies. They have the mind to do something good for the society and the country. However, they have many practical constraints and limitations. These limitations arise out of financial constraints, lack of proper ethical guidance and lack of experience, unresolved ethical dilemmas, organizational conflicts and family feuds. The family feud in the Reliance Group of Industries in India was instrumental in their stock value crash in 2005.

WHY SOME CORPORATIONS OVERLOOK ETHICS?

Ethical aloofness or ethically bad companies are so due to several reasons. Some of these are:

• Managerial persona is not ethical.

- Some are compelled to be unethical due to a bureaucratic pressure for bribery/corruption.
- Some of the companies have no ethical codes or core values to follow.
- Some do not like to have transparency or accountability for some ulterior motive.
- Some corporate managers do not know that ethical or social responsibilities bring more benefits in the long run that exceed the short-run cost.
- Some are motivated by short-term gains, and crash competition in many unethical ways, cheat consumers by putting the burden wholly on them (caveat emptor), produce shoddy and adulterated goods, cheat investors by giving wrong information. They are ignorant about the fact that ethical investment is a trust and builds social capital that may sustain corporate relations for a long time to the best advantage of the corporate house. The basic reason for all the ethically bad business corporations stems from greed and rapacity.
- Ethical dualism or dichotomy is sometimes responsible for many unethical practices. There is always a tug-of-war in the human mind about the good self and bad. When the bad (may be extreme greed) overpowers the good self (like benevolence and common good), the company does bad works, although it may not always a bad concern ethically.
- The principal-agent problem is a structural feature of corporate governance and it is often
 related to many undesirable and unethical issues in corporate. Let us have a close look at the
 issue.

THE PRINCIPAL-AGENT PROBLEM (PAP)

In the case of corporate governance, which covers essentially a complicated and vast area of governance, the shareholders (principals or owners) cannot look after the day-to-day administration, management and policy making. This type of work is entrusted to hired managers (agents). There are basically two reasons for hiring agents for corporate/business management. **First**, the corporate owners (shareholders) may not have the time to manage the corporation and they might not have the necessary information. **Information asymmetry** is one of the crucial reasons for the appointment of agents. **Second,** the owners may not have the expertise to run the business in a very effective manner. Thus, corporate governance is done by a delegated authority.

There are several benefits of having the agents (managers):

- The business can run efficiently with expert guidance and management. The managers are supposed to be experts in their fields. They manage financial assets on behalf of investors and manage companies on behalf of shareholders.
- This may lead to cost reduction and more profits.

However, the PAP system is **not free from demerits**. The following are the **major problems of the PAP** (Ghosh, 2001, 271):

- The agents are posted with more updated information, which, depending on the motive of the agent, may or may not be shared with the owners (principals). So the information asymmetry always persists.
- The objectives of the principal may be different from that of the agent. The agent may like
 to maximize his own pay and perk and may want to encourage nepotism and favouritism. He
 may like to maximise his own utility functions at the cost of the company and the society. This

- may increase cost. This is sometimes known as the **Agency Cost**. The agent may not bother much about the true interest of the owner.
- Given the fixed pay, the agent may practice **rent-seeking** (to earn some extra bucks by unethical and illegal means).
- PAP system ultimately may develop what is called the **moral hazard problem**. In such a case, because of information asymmetry, the principal has to depend too much on the agent and may lose all controls over the company and its strategic matters. He becomes a dependent personality.

PAP problem persists because it is difficult to know whether or not the hired agent is doing the work in the best interest of the principal. **Monitoring may be expensive**, and the cost may be more than the benefits.

How Can the PAP be Minimised?

The following suggestions, if carried out properly, may reduce the PAP:

- **Performance evaluation** of the agent is necessary. It may be in terms of hours of work or the result obtained.
- Extra pay may be granted for extra performance. It is necessary to have an incentive system.
- A scheme of **profit-sharing** may be introduced.
- The manager may not be given extra cash **but some shares** of the company so that he feels that he is also the owner.
- It is a better to have a **contracting system** of payment rather than fixed pays. The **piece rate** system of pay is suggested by many experts.
- It is imperative to resort to financial and non-financial disclosures, and the company accounts must be audited by independent statutory auditors.

It has been noted that the Agency problem has been the pivot of all financial scams and failure in many advanced and developing countries including India. Thus, in corporate governance, the PAP assumes a critical role.

Globalization and Corporate Governance

Globalization which started in the 1980s has, in many ways, affected the nature of corporate governance in all types of economies both developed and developing. Some of the effects of globalization and the new directions that it gives to corporate governance will be discussed in this section.

• Never before in the history of corporate governance, factors like environment, social and governmental matters were as critical as they are now during the period of globalization. Many recent surveys at the international level come out with the observation that these factors are critical to investment performance across the world. In particular, environment policy is exerting a considerable influence on the government policy and corporate strategy. In international business, many host countries do not allow those MNCs which are polluting the atmosphere and making the development unsustainable in character.

- People are becoming more conscious about corporate liabilities and undesirable conduct
 by MNCs and other business houses in the host country as well. There are many examples
 of corporate liabilities including the violation of environmental laws and human rights. All
 these send the signals to foreign business corporations to improve the image and behave
 properly through suitable changes in corporate governance strategy and behaviour.
- Globalization affects both insiders and outsiders, and outsiders are more significant as a new capitalist class in the development of poor LDCs. This class benefits more from the removal of cross-border restrictions on the movement of capital. However, the full dose of benefits can be realised only by those companies which have efficient corporate governance.
- The Global Sullivan Principles (1999) advised eight crucial changes in the behaviour of the international companies to accept the social responsibilities and all these have been incorporated in the corporate governance strategies of those companies which have subscribed to the Sullivan Principles (see Chapter Twenty for the Sullivan Principles). These principles have given stress on human rights, social justice, environmental protection, and economic opportunities for all the workers. In the age of globalization, these are becoming increasingly critical for corporate governance in all countries.
- The Tripartite Declaration by the International Labour Organization (ILO) has given a clear picture of international laws, employment practices, the impact of MNCs on the domestic governance and also various effects produced by MNCs on the wages, working conditions, safety and health status of workers in developing countries. It has also suggested various ways to improve the labour market practices during the period of globalization. All these suggestions are necessary to be incorporated in corporate governance in our times to improve the image of corporate governance.
- Less developed countries are deprived of full flow of capital abroad. Capital is flowing more from the less developed countries to developed countries than the other way round (Lucas, 1990). This is a paradox but true. One of the reasons why LDCs cannot get the full flow of financial resources is because of poor corporate governance in such countries. In fact, bad investment also leads to poor returns. Thus, globalization compels these countries to have better corporate governance.
- Corporate governance during globalization is being influenced by both external and internal investment dynamics, but external factors, depending upon the degree of globalization of the country, seem to play a more important role. There is a positive correlation between the degree of globalization and the importance of the external factors and, to some extent, changes in corporate governance is imperative.
- Financial integration brought about by globalization will yield higher output in the LDCs. But the full capitalist market integration will be reaped only when the corporate governance is efficiently implemented. The salutary effect of globalization will not be realised by badly managed international corporations that have no good governance.
- There are definite corporate liabilities with regard to inappropriate conduct by corporations working abroad. For instance, many local governments have enacted laws for dealing with and punishing those foreign companies which violate human rights and environmental laws. These laws have become more stringent in the late stage of globalization.
- Corporate governance in the wake of globalization has necessitated and put more emphasis on different types of corporate disclosures. There is no doubt that disclosure has

reduced investment risks and increased returns. But financial disclosures have also increased the cost on insiders in the form of liability for improper or misleading disclosures. Therefore, obviously, insiders oppose any law that encourages disclosures but outsiders fully support such laws. Thus, globalization, which accompanies capital mobility, is seen to have upset the relative balance of power relations between the insiders and the outsiders within the domestic political economy of corporate governance.

THE EMERGING TREND IN CORPORATE GOVERNANCE

- Globalization has increased both the opportunities and the risk of international business. They are now more vulnerable to external pressure and circumstances. Recurrent international financial crises, recession and scams have made the corporate sector more cautious and careful. It is now the time to concentrate on two types of corporate governance strategies, viz., to keep an eye on the coffer of the company and also to be very vigilant in the matter of company management.
- In many countries including India, the role of the Board has been made more elaborate by making management more accountable through the **Audit Committee.**
- Another recent trend in the area of corporate governance is the increasing use of newer and newer technology and communication system. This has considerably reduced the problem of information asymmetry.
- There is now a growing trend of more external candidates becoming CEOs. These CEOs will have a shorter tenure than internal CEOs.
- There is now a trend to give greater compensation to CEO. However, some expert committees have recommended the abolition of the post of CEO. So, regarding the position of CEOs, things are yet in a fluid stage.
- Following many international business scams and scandals, many authorities are insisting
 upon the promulgation of corporate governance codes in both private and public sector
 organizations.
- In spite of RTI (Right to Information) Act in India in 2005, informers and whistle blowers are being harassed. Recent recommendations are in favour of protecting the whistle blowers to make the corporate governance more streamlined and trouble free.
- All forms of corporate disclosures are now the trend. Disclosures will make things more transparent. In the list of disclosures, there are also disclosures of executive remuneration and compenzation.
- A recent trend in corporate governance is to make Audit, Nomination and Remuneration Committees more neutral by bringing in independent directors. This will, perhaps, make business activities more transparent and increase accountability.
- Many corporations are now looking for a market for corporate governance services. Such services are going to be outsourced in the near future. This may decrease cost and increase efficiency.
- To trade the outstanding common stocks, corporations are resorting to a shift towards free float indexes.

- All countries, especially India, are engaged in reforming company laws and tax laws
 in accordance with the requirements of industrial growth and new responsibilities towards
 corporate governance.
- Corporate social responsibility (CSR) has now been accepted as one of the most important activities of all types of corporations and is one of the agreed tasks of corporate governance all over the world.
- The growth of socially responsible investment is a new trend in corporate governance. This leads to a more organized control and desirable investment opportunities.
- One of the most important emerging trends in the corporate governance now is **the acceptance of a globalized standard of** corporate governance. These standards as norms are already set by the OECD. Many of the world countries have opted for this standard in recent years.

OECD PRINCIPLES OF CORPORATE GOVERNANCE

These principles were codified in 1999 and further revised in 2004. The six fundamental principles (shown in Table 16.2) were all agreed upon by the members of OECD. These principles are accepted by all member countries and also by some non-member countries.

Table 16.2 OECD Principles of Corporate Governance

- 1. There should be a strong basis for an effective corporate government [Rule of law and division of responsibilities are important]
- 2. Rights of shareholders and key ownership functions
 [It is necessary to always protect the rights of the shareholders]
- 3. Equal treatment of all shareholders
 [National and foreign shareholders should be treated equally and there should be a forum to address
 the violation of their rights]
- 4. Role of shareholders in corporate governance [They should have active cooperation in maintaining sound enterprises, in job creation and in promoting financial sustainability]
- Disclosure and transparency
 [There should be timely and accurate disclosures on all important matters like financial situation, ownership and governance]
- Responsibilities of the Board
 [Include strategic guidance of the company, effective monitoring of management and Board's access to shareholders]

Source: Adapted from www.oecd.org

Summary

Corporate governance is the coordination and maintenance of a set of relations that promote interests of the shareholders and stakeholders of a business corporation. Corporate governance is an open-ended system of governance where there is a separation between ownership and control.

Perhaps the enactment of the Foreign and Corrupt Practices Act in 1977 in the United States is the beginning of corporate governance. Under corporate governance, a company is managed by the Board of Directors. The most unique feature of a corporation is the limited liability of owners. The purpose of corporate governance is to enhance the productivity of the company, create more employment opportunities and increase the returns on shareholders' investment. Accountability and transparency encouraged by corporate governance are essential for the capital market development. Good corporate governance tries to keep a balance between economic efficiency and social responsibility, and it works in the best interest of the shareholders who are its owners.

Corporate governance is based on a number of theories like agency theory, stewardship theory, political theory, transaction theory, stakeholders' theory, dependency theory and ethical theory. Each of these theories gives attention to a particular dimension of corporate governance. The mechanism of corporate governance works in two ways: control and promotion. The mechanism, therefore, can be called the mechanism of controlled expansion. The mechanism of control aims at reducing various types of inefficiencies and irregularities. Many international committees in their guidelines and recommendations have emphasised the importance of shareholders' rights and also of their protection. The interest of the shareholders can be protected in many ways. One of the most pragmatic ways is to appoint the Board of Directors which is reasonable, controllable and follows corporate ethics.

Principles of corporate governance consist of those guidelines which are formulated to make the governance more efficient, competitive and socially acceptable. Corporate governance codes and principles are used synonymously.

Corporate governance may have different structures and processes depending on the political, economic, social, institutional and the stage of development of a country. Corporate governance needs many participants including the shareholders, investors, suppliers, banks, and many committees to function. But the role of the Board of Directors is pivotal. It manages the whole show and it is appointed by the shareholders of the company. It works as a friend, philosopher and guide for the whole company. It gives direction, defines the company's strategy and plans and ensures that the management translates those plans into action.

There are many issues in corporate governance. These are basically structural and ethical issues. The structural issues are concerned with the Board of Directors, its composition, proportion of independent members, functions, and so on. Ethical issues are related to different types of ethically stationed companies. Some are overtly unethical corporations, some are half-heartedly ethical and some are ethically indifferent corporations whereas some are ethically constrained. Some corporations are ethically conscious but cannot perform ethical acts because of many constraints like lack of ethical orientation, lack of funds, lack of commitments on the part of employees or manager, and so forth. Principal-agent problem is one of the serious problems in corporate governance. The manager, who is an agent, has his own utility functions which may be against those of the owners of the company.

Globalization has, in many ways, affected the nature of corporate governance in all types of economies, both developed and developing. Never before in the history of corporate governance, factors like environment, social and governmental matters were as critical as they are now during the period of globalization. Corporate governance in the wake of globalization has necessitated and put more emphasis on different types of corporate disclosures. Globalization, which accompanies capital mobility, is known to upset the relative balance of power relations between the insiders and the outsiders within the domestic political economy of corporate governance.

Globalization has increased both the opportunities and also the risks of international business. They are now more vulnerable to external pressure and circumstances. Recurrent international financial crises, recession and scams have made the corporate sector more cautious and careful. It is now the time to concentrate on two types of corporate governance strategies, namely, to keep an eye on the coffer of the company and also to be very cautious in the matter of management of the company.

Key Terms

Pre- and Post-Ethical **Export Surplus** Allocative Efficiency Societies **OECD** Principles of Social Capital Corporate Governance **Export Surplus** Corporate Capitalism **Negative Externality** External and Internal Sarbanes-Oxley Act of 2002 **Economies Demonstration Effect** Economies of Scope Caveat Emptor

Moral Hazard Problem Agency Cost Rent-seeking Transaction Cost Checks and Balances Moral Hazards

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Corporate governance works in an open-ended system.
- (ii) Foreign and Corrupt Practices Act in the USA (1977) marks the beginning of corporate governance.
- (iii) In corporate governance, there is a separation of ownership and control.
- (iv) In practice, the Board is often not balanced and does not work in a responsible manner.
- (v) There is no agency cost in corporate governance.
- (vi) Globalization, which accompanies capital mobility, has never upset the relative balance of power relations between the insiders and the outsiders within the domestic political economy of corporate governance.
- (vii) Corporate Governance is only concerned with the top level management, primarily the Board of Directors.
- (viii) The growth of socially responsible investment is a new trend in corporate governance.
 - (ix) There is now a trend to give a greater compensation to the sales executives.
 - (x) It is a better to have a contracting system of payment rather than fixed pays.

2. Fill in the blanks

i)	As per the OECD principles,	corporate gover	mance is a syste	em by which	ch companies are
	and				

(ii)	Corporate governance works in an		system.			
(iii)	In a corporation type of business, th	ere is a	separation between	and		
(iv)	Corporations must perform social resp	onsibiliti	les to develop	capital.		
	(v) In the model, economic growth is positively linked with investm					
(vi) When all parties work in unison, and the CEO is also the Chairman, the						
· /	is likely to go down.		,			
(vii) The theory explains the involvement of gover of corporations.				the governance		
(viii)	One of the mechanisms of control	over ine	fficiency is to introduce	the system of		
(1111)	for executives and em		inciency is to introduce	the system of		
(ix)	(ix) Corporate governance mechanism, in order to be effective, must be made free interference and control.					
(x)	In standard corporate governance practices, there the following three Committees which					
are helpful to carry out the functions of Board of Directors, namely,						
2 Chass	and					
	se the correct option Which are of these is the arresis!	n for the	amaintment of acousta?			
(1)	Which one of these is the crucial reaso		Absenteeism			
	(a) Bribery	. ,				
(ii)	(c) Information Asymmetry Given the fixed pay, the agent may pro-			w unathical and		
(11)	illegal means?	iactice to	earn some extra bucks t	by uneumear and		
	(a) Bribes	(b)	Rent-seeking			
	(c) Both (a) and (b)		None of these			
(iii)	i) As per SEBI recommendations, what percentage of Directors must be independent?					
	(a) 50%		55%	•		
	(c) 49%	(d)	51%			
(iv)	The Sarbanes-Oxley Act was passed in	:				
	(a) 2001	(b)	2000			
	(c) 1999	(d)	2002			
(v)	The Indian Companies Act was passed	l in the ye	ear:			
	(a) 1956	(b)	1955			
	(c) 1954	(d)	1957			
(vi)	Which theory looks at the possibilities	of devel	opment and growth of a c	ompany?		
	(a) Principal-Agent theory		Dependency theory			
	(c) Transaction Cost theory	. ,	None of these			
(vii)	Which theory is based on the percepti		_			
	to forge a number of relations with	different	classes including suppli	ers, consumers,		
	employees, government, and so on?					
	(a) Principal-Agent theory	(b)	Dependency theory			
	(c) Stakeholder's theory	(d)	Transaction Cost theory			

(viii) Who has shown that innovation can be carried on in five different ways?

(a) Karl Marx

(b) Joseph Schumpeter

(c) Adam Smith

(d) Max Weber

(ix) As per SEBI, which clause introduced standard listing agreement to be followed by all the listed companies in India?

(a) Clause 28

(b) Clause 40

(c) Clause 49

(d) Clause 48

(x) The enactment of which Act in the US was perhaps the embryonic beginning of the concept of corporate governance (CG)?

(a) The Oxley Act

(b) Foreign and Corrupt Practices Act

(c) Both (a) and (b)

(d) None of these

Review Questions

1. Elaborate on the major OECD principles for corporate governance.

- 2. Discuss the emerging trend in the corporate government.
- 3. What do you think is the impact of globalization on corporate governance?
- 4. Distinguish between corporate management and corporate governance.
- 5. What are the major issues in corporate government in the world today?
- 6. Why is corporate government important in a country?
- 7. What are the essential features of a good corporate government? Elaborate your answer.
- 8. In corporate governance, there is always a gap between the precept and the practice. Explain your point of view.
- 9. Explain the basic theories of corporate governance. Which one is the best theory, according to you, and why?
- 10. Explain the basic mechanism of corporate governance.

Web Links

1. http://en.wikipedia.org/wiki/Corporate governance

[Corporate Governance]

2. http://www.eurojournals.com/mefe_4_07.pdf

[Fundamental and Ethics Theories of Corporate Governance]

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[OECD Principle of Corporate Governance]

5. http://www.scu.edu/ethics/publications/submitted/hurst/comparitive_study.pdf

[Corporate Ethics, Governance and Social Responsibility: Comparing European Business Practices to those in the United States]

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CHAPTER 17

Corporate Social Responsibility

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Corporate social reporting
- Meaning, types of corporate social responsibility (CSR) and the role of CSR towards society, employees, government
- Stakeholders and consumers
- Nature of CSR, CSR principles and strategies, and models of CSR
- Best practices of CSR
- Need for CSR and the debate
- CSR: the Indian perspective
- Sachar Committee report
- CSR programmes of some Indian companies

INTRODUCTION

We start off the discussion of this crucial chapter on business ethics with the following two observations of Adam Smith's magnum opus, the *Wealth of Nations*:

"It is not from the benevolence of the butcher and brewer that we get our food and drink, but because of their selfishness." and "When the people of the same trade meet, the conversation ends in conspiracy against the public, or in some contrivance to raise prices."

It is interesting to note that Adam Smith, who was a strong supporter of free market mechanism for the growth of capitalism, himself accepted the fact that business people are selfish in nature and they hatch conspiracy against the public to maximize profits by raising prices. These two facts put together, generate the need for some social responsibilities of business. The amassing of wealth through sheer greed by exploiting the public makes a strong case for corporate social responsibility (CSR). The idea of CSR is not very old. It started as an organized movement and a code of business conduct in the 1960s in the United States. In the 1970s, the code was formally approved and accepted. It was an overall reaction against corporate dishonesty and scandals in many countries including both developing and the developed ones. The present chapter will discuss various issues connected with CSR and will make an attempt to illustrate the Indian scenario with reference to the Sachar Committee Report.

Corporate social responsibility is a gesture of showing the company's concern and commitment towards society's sustainability and development. Corporate social reporting is a method of communication to the society about the company's desired action or the action actually performed by it. The reporting can be done in many ways, through public media, website and television network. The reporting is done for the purpose of public awareness and also for getting the feedback. On the basis of such feedbacks, the company can mould, change or partially or wholly modify its contemplated CSR plan. The reporting has **triple bottom lines** that can be expressed by the **three Ps** (profit, people and planet). **Firstly,** the reporting may be about profit and its share in the social work. **Secondly,** the reporting may be about the people being helped or the workforce being engaged in the social work, and **thirdly**, the reporting may be about the planet or environment, its protection and sustainable development that can be facilitated by the contemplated social work or the work that has actually been undertaken. Social reporting can go hand in hand with CSR or can be done just before the contemplated social work.

WHAT IS CORPORATE SOCIAL RESPONSIBILITY (CSR)?

CSR is the responsibility of the corporate sector to contribute to some activities that increase social welfare. The following are a few important definitions of CSR.

CSR "refers to the obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of actions which are desirable in terms of the objectives and value of our society". (Bowen, p. 6).

CSR "is the ethical behaviour of a company towards society".

CSR "is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".

CSR "is understood as the obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interests".

The Research and Policy Committee of the United States defined CSR in the following way:

"Private business functions by public consent, and its basic purpose is to serve constructively the needs of society to the satisfaction of the society" (Webb, Ch. 28).

Types and Nature of Social Responsibilities

CSR can be understood in both **micro and macro perspectives**. In the micro perspective, it is the responsibility of one business unit or company; in the macro perspective, CSR encompasses the whole gamut of corporate social activities where the entire corporate sector is engaged, and also in some cases, the involvement of government is ensured.

There are the following three basic constituents of CSR:

- 1. One part of CSR is to supply socially necessary products, create employment opportunities and contribute towards a sustainable economic development.
- 2. To make the desirable social changes and respond to the changing values and priority patterns of the society.
- 3. Actively contribute towards the improvement of social environment and discontinue or internalise all the negative externalities (harmful impact).

There are basically the following five types of social responsibilities:

- 1. Responsibilities towards the Society
- 2. Responsibilities towards the Government
- 3. Responsibilities towards Employees
- 4. Responsibilities towards Shareholders
- 5. Responsibilities towards Consumers

Table 17.1 highlights the various types of social responsibilities.

Apart from the aforesaid five basic areas of CSR, some minor areas are also taken note of by many authorities. For instance, Joseph W. Weiss (2009, pp.126-140) considers **ethical advertising** as a part of corporate social responsibility. As a matter of fact, unethical advertising has become so problematic for consumers that they feel cheated by the business houses (for a detailed discussion on unethical advertisement, see Chapter 11).

Nature of Social Responsibility

CSR is an ethical issue and, therefore, is normative in character. CSR will be different for different types of business institutions and also for different levels of society. There is no straightjacket formula for CSR. In a sense, CSR is a relative concept.

Table 17.1 Types of Social Responsibilites

Responsibilities towards	Obey rules and regulations		
Government:	 Regular payment of taxes 		
	 Cooperating with the Govt. to promote social values 		
	 Resisting bribery and corrupt practices 		
	• Cooperating with the Govt. for economic growth and		
	development		
	 Cooperating with the Govt. for promoting R and D 		
	 Not to take advantage of loopholes in business laws 		
Responsibilities towards Society as a	Carrying on business with moral values and ethical		
whole:	standards		
	 Prevention of environmental pollution 		
	Minimizing ecological imbalance		
	 Implementing the strategy of sustainable development 		
	Making the use of appropriate technology		
	• Contributing towards the development of social health,		
	education and cultural milieu		
Responsibilities towards Consumer:	Supplying socially harmless products		
1	 Supplying the quality, standard, as promised. 		
	 Providing good and services at reasonable prices 		
	 Providing efficient timely after-sales services 		
	 Resisting black-marketing and profiteering 		
	 Maintaining consumers' grievance cell 		
	• Trying to improve the quality of products and reduce		
	prices over time through competition		
Responsibilities towards Shareholders:	To work for the survival and the growth of the concern		
•	 To build reputation and goodwill of the company 		
	To ensure a reasonable rate of return over time		
	 To remain transparent and accountable 		
Responsibilities towards Employees:	To provide a healthy working environment		
1 1 3	To grant regular and fair wages		
	To provide regular welfare services		
	 To provide training and promotion facilities 		
	 To provide reasonable working standard and norms 		
	• To provide efficient mechanism to redress workers'		
	grievances		
	 Proper recognition of efficiency and hard work 		

All firms do not follow the same pattern of CSR. Much will depend on the circumstantial matrix of the firm. There are basically four types of situational positions of CSR, and depending on the internal and external pressure points, a firm may select one of the following options relating to CSR:

1. Legal and socially responsible

- 2. Legal but socially irresponsible
- 3. Illegal but socially responsible
- 4. Illegal and socially irresponsible

The behavioural pattern that a business firm will follow is a function of many factors, both internal and external (Dalton and Cosier, 1982, pp. 19–27). CSR may be started as a proactive or a reactive situation. When CSR is the practice or the firms are compelled to do it, then there is a natural tendency to finance that by raising the prices or following many other unethical ways. This method of collecting money for CSR is often described as the **Reverse Robinhood Effect.** Thus, when a firm is taking CSR, it does not follow that it is basically ethical in all its approaches.

Very often, there seems to be a **trade-off between ethical CSR** and unethical business practices. It is a common knowledge for many in recent years that a business firm performing many ethical functions is also the firm which is engaged in many types of anti-social activities and scandals.

There is a definite continuum based on the different stages of performance of CSR by business firms. At every stage or phase of this continuum, there is an inner urge on the part of the firm to remain ethical as far as possible. Thus, we have the following stages of the continuum of CSR:

Ethical Responsibility → Legal Responsibility → Economic Responsibility → Communitarian Responsibility → Humanitarian Responsibility

Needless to add that there is a continuum of CSR, and the stages may not be followed in the same sequence as given above. One type of responsibility may not follow the other exactly in the same way, one may precede the other. For instance, communitarian responsibility may precede the economic responsibility. But on an empirical plane, the five-stage continuum is the general rule rather an exception.

From the concept of continuum of CSR, one transcends to the models of CSR.

CSR Principles and Strategies

There are, indeed, many CSR principles and strategies. In this section, some of the important principles and strategies will be briefly explained as under:

- One of the best principles for discharging corporate social responsibility is to have **respect for human rights.** This respect should be explicitly shown in the public.
- It is necessary to have **respect for the differences of views** on CSR subject, methods, time, and so on. The final decision is to be based on merit of the case and the temper of the time.
- Diversity and non-discrimination should be the guiding principle. Discrimination based on caste, class, colour, creed and gender in the CSR has to be avoided at all cost.
- The CSR activities should **make some social contribution** and create some social utilities which are liked by the local people and which will be useful for them.
- It is always better to **enter into a dialogue** with the society/community before undertaking any CSR activity. This can give some important insights regarding the contemplated project, its use and implementation.
- The CSR project should be **based on creativity and self-realisation** both for the corporate sector and the local community. The involvement of the community must be ensured.

- Fair dealings and collaboration with the participants in the CSR project should be an important principle at all times.
- The initial impact of the project needs to be evaluated on the basis of **feedback from the** community. This will help the feed-forward process while continuing the project.
- The CSR strategy should be **proactive** and it should try to replace the bad environment by a better alternative. The project must make some positive value-added.
- The basic strategy of any successful SCR project will be the long-run economic and social **development** of the community where the project is to be located.

Models of Corporate Social Responsibility

There are a few models available on CSR. In this section, these will be discussed and the outline for a new model will be provided.

- 1. Friedman Model
- 2. Ackerman Model
- 3. Carroll Model
- 4. Environmental Integrity and Community Health Model
- 5. Corporate Citizenship Model
- 6. Stockholders and Stakeholders Model
- 7. Towards a New Model of CSR

Friedman Model

Milton Friedman, a renowned economist, is of the view that to ask a businessman to contribute towards social development is to ask him to steal from the shareholder's money to perform social responsibility. According to Friedman, a businessman has no duty other than developing his business. If he looks after his business well, he is performing a social as well as a moral duty. Friedman, perhaps, develops the idea of Kantian deontic philosophy by saying that one should perform his duty well as is required by his profession. So, a businessman has no other social responsibility to perform except to serve his shareholders and stockholders. This view has been made clear by him at many places (1962 & 1973).

Ackerman Model

Robert Ackerman and Robert Bauer developed a model in 1976. The model has emphasised on the internal policy goals and their relation to the CSR. This model depicts four critical stages to arrive at the evaluation of the social performance audit stage. The four stages involved in CSR are briefly explained below:

The first stage is marked by the identification of the project that will be chosen for social delivery. It also formulates strategies for the project. The top managers of the company get to know the most common social problem and then express a willingness to take a particular project which will solve some social problems.

The second stage is devoted to the intensive study of the problem by hiring experts and getting their suggestions to make it operational. Till this stage, the company does not declare the adoption of the project. It is not made public. The intention to take up the project remains only internal to the firm.

The third Stage is very critical for the project as it is not only made public but is also implemented. However, at the initial stage, the work for the social project goes on very slowly until the company gets advised by the public body (government). Ackerman advises the managers to take up the project actively and work hard at the early stage so that managerial discretion can play its proper role over the entire period of the social project.

The fourth Stage is the stage of evaluation. In this stage the needs of the society are considered vey minutely and problems and issues are addressed.

In the Ackerman model, there is an explicit recognition of various types of learning strategies for the fulfillment of the project. There are specialized learning, administrative learning, organizational commitment and institutionalisation of the project philosophy, and also a systematic evaluation of the firm's performance of the social responsibility.

There are basically six strategies in the adoption of CSR:

First, the firm shows reluctance to adopt any social work or project (**rejection strategy**).

Second, the firm vehemently opposes any CSR based project unless and until the pressure comes from external sources. This strategy is called adversary strategy.

Third, in the case of **resistance strategy**, the firm works slowly and tries to show that it cannot carry on corporate social responsibility due to a lack of certain factors. However, if the firm is pressurized by the government, then it yields and accepts the project.

Fourth, once the CSR is accepted the firm follows the compliance strategy and tries to finish the project.

Fifth is the accommodation strategy. This strategy helps the firm to accommodate the requests of the shareholders or Government agencies to work in certain ways for the fulfillment of CSR.

Sixth, is the **proactive strategy** to go ahead with the project and complete it according to the priority pattern of the firm.

Carroll Model

It is one of the most popular models developed by A.B. Carroll in 1991. The mode is based on the idea that there are four levels of social responsibility. These are:

- Philanthropic
- Economic
- Legal
- Ethical

The **philanthropic requirement** necessitates good works including donation, gifts, helping the poor and so on, so that the goodwill of the company is spread out in the community. These activities are not required by the business but it promotes social welfare and goodwill. Ethical responsibility requires that the firm is following certain moral standards and ethical values to deal with its stakeholders including the employees, customers, suppliers and the like. At the very basic level, each firm has an **economic responsibility** to maximise net profits so that it can pay reasonably well to provide returns on the investment, to pay the shareholders and other investors. This is an essential social responsibility. Another social responsibility is to remain legal by **abiding the laws of the land.** Every firm needs to obey the government rules and regulations relating to their business activities.

Environmental Integrity and Community Health Model

This model has been recommended by corporate firms in recent years in the United States (Redman, 2005). There is a hidden business agenda inbuilt in this model. Business people believe that if the corporate sector can positively contribute to the environmental integrity and human health, there will be greater opportunities for the expansion of business in general and this will, in turn, maximise profits. Healthy people can work more and earn more. So, consumers' spending will increase and so will the profit. Therefore, in the same form CSR is beneficial for the corporate sector. What then is required is the socially responsible investment portfolio, and a good relationship with the community which is always beneficial for the business. Thus, CSR in a particular form is welcome.

Corporate Citizenship Model

The model posits that when a business behaves in a way that satisfies philanthropic, legal and economic responsibilities well in the corporate world, it is entitled to **corporate citizenship** (Maignan et al. 1999, p. 457). To be a corporate citizen, a corporate firm has to satisfy **four conditions:** consistently satisfactory and sustainable economic performance, ethical actions and behaviour beyond the minimum requirements of law of the land, and voluntary social actions that enhance the reputation of the company. A particular firm's commitment to corporate citizenship requires the fulfillment of certain social responsibilities. Such a citizenship stems from a particular type of philosophy, and depending on the extent to which it is followed by a firm, it may or may not qualify to have a corporate citizenship.

Stockholders and Stakeholders Model

The model (see Figure 17.1) discusses (Buono and Nichols, 1990) two types of social orientations of a firm towards its economic stockholders and social stakeholders. There are two types of motives

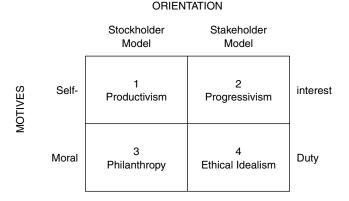


Figure 17.1

that underlie these two orientations. These motives are: self-interest and moral duty. Productivism and philanthropy are the two orientations of the stockholders. Progressivism and ethical idealism are the orientations of stakeholders. Productivists believe that the only mission of a corporation is to maximise the self-interest (profit). They are motivated by the idea of free market ethics and it is argued that free market generates many important social advantages, as was the view of Adam Smith.

Philanthropists who entertain stockholders' views propose that helping the poor and the needy can be justified in terms of morality. However, their motive towards CSR is dominated by moral obligations and not self-interest. But, they believe that the primary social duty of a corporation is to obtain profits.

In the stakeholder's model the dominant ideas are progressivism and ethical idealism. To ethical idealists, the line of demarcation between business and society is rather thin, and they believe in the sharing of corporate profits for humanitarian activities. According to ethical idealists, CSR is justified when business corporations support stakeholders' interests. Progressivists are of the opinion that although corporate behaviour is basically motivated by self-interest, yet there should some scope for a social change that can transform the society towards becoming more humanistic. Progressivists are in favour of enlightened self-interest where, in spite of self-interest, socially good works can be undertaken. It is interesting to note that each of the four modes of the model (see Fig. 19.1) explain social responsibilities in terms of different systems of beliefs.

Towards a New Model of CSR

An outline of a model of CSR will be discussed here. This model will concentrate on two critical factors that make the undertaking of CSR possible or impossible. These two factors are: a company's financial capability and its ethical rooting or its absence. Obviously, the financial prowess of a company is a positive function of its net profit such that the higher the net profit, the higher is the financial capability of a company to undertake CSR. However, it is not alone the financial capability that makes the undertaking of CSR a reality. There is another factor, the ethical rooting.

If the company is ethically rooted and it is explicitly recognised in its mission/vision statements, the organization can and does undertake CSR.

Precisely, there are five stages in an organizational continuum that determines the time span of CSR, if at all undertaken. These five stages (processes) are:

- ethical rooting,
- identification of CSR project,
- policy design and
- decisions.
- implementation of the project and, ethical/social auditing (evaluation).

In order to decide whether or not a CSR will be undertaken, the interaction between two factors will be decisive: the ethical rooting and the financial capability of the company. If the ethical rooting and financial capabilities are strong, most probably, the corporation will undertake CSR. One must assume in this case the absence any negative externality influencing the decision about the project. If one arranges the information in a matrix form (shown in Fig. 17.2), one can get the following four situations:

1. CASE I: Ethical Rooting Strong + Financial Capability Strong: CSR Undertaken (+)

Figure 17.2

2. CASE II: Ethical Rooting Strong but Financial Capability Poor: CSR Not Undertaken (–)

ETHICAL ROOTING

- 3. CASE III: Ethical Rooting Poor but Financial Capability Strong: CSR Not Undertaken (–)
- 4. CASE IV: Rooting Poor + Financial Capability Poor: CSR Not Undertaken (–)

BEST PRACTICES OF CSR

There is no unique and ideal practice of CSR. It is conditioned by many political, social, institutional, economic and cultural issues. It is a type of community investment and a process of creating **social capital**. Social capital is the sum of social goods relations that a society generates in the course of its development. Social capital depends on social institutions and their interactions. It is a critical dimension of non-human wealth and social trust. The best type of CSR will create and augment the social stock of capital and relations. The best CSR practices should have the following characteristics:

- First of all, it is necessary to set a **feasible**, **viable and measurable goal**. Limit the CSR project according to resource availability. Initially it should be a short-term project. The wastage should be minimised.
- It should build a lasting relationship with the community. This can be done by cooperation, partnership and understanding. Cooperation with NGOs can also be very helpful in this direction.
- That CSR practice is the ideal which **retains the community core values** and yet makes social progress at a perceptible rate.
- The impact of the CSR needs to be assessed from time to time through discussion and opinion survey. It is better to undertake a life cycle assessment of the product that is created.
- **Reporting the impact** through the media and publicity is essential for a good CSR project. The report can be pasted on the website and feedback can be requested.
- The project should **create community awareness** and the community itself should be motivated in various ways to undertake similar future projects. In many instances, the corporate sector can share with the community, the technology needed in such cases.

- It is one of the best practices to **engage the shareholders in the project**. They must be taken into confidence and their suggestions and advices should be followed.
- The best practice is to have a **project which is sustainable**. In this context, one can study the sustainability management system by making a framework to ensure that all the social, political and economic issues are simultaneously addressed. There can be the use of *sustainability issues mapping system* whereby it is possible to know which factors go together and which do not. This knowledge can go a long way in the successful implementation of the project.

NEED FOR CORPORATE SOCIAL RESPONSIBILITY

CSR has been accepted as one of the basic responsibilities of businesses throughout the world. The need for CSR has been felt by different sections of society like the consumers, employees, government, suppliers and stakeholders. Some of the major CSRs are briefly discussed below:

- Socially safe and clean type of investment **can reduce the social cost** and, therefore can help in the generation of some savings. CSR is helpful for building up a trouble-free business which will not harm the interest of the social classes. Socially responsible companies are favoured by customers, investors and government.
- Socially responsible corporate sector **can enhance the performance of employees** and can create innovative people by treating them well and by introducing many schemes of proper incentives for the employees who are efficient and more productive.
- Social responsibility is a type of investment that will yield fruits in the long run. It should be appreciated that there is no contradiction between CSR and long-run profitability of a business concern.
- CSR can lead to industrial peace through cooperation between capital and labour and peaceful negotiation of industrial disputes. In this way, it can save a lot of trouble, resources and energy in the area of industrial management. CSR can also enhance the productivity of the employees by different schemes of rewards and incentives. The economy of high wages is now accepted as one of the methods of increasing corporate productivity.
- The most important argument in favour of CSR is that **it improves the public image** of the company, which is the social goal of the corporate sector. In the corporate world, image is everything and that image can be made brighter and brighter by carefully chosen CSR programmes.
- There is **some moral justification** for the adoption of CSR by the corporate sector. Such responsibilities create a better world which is indirectly helpful for the growth of the corporate sector. The corporate sector works in social environment, so it is the moral duty of the sector to perform some social responsibilities.
- It has been empirically found to be true that the companies performing social responsibilities and maintaining ethical behaviour in business **can generate more profit** than those who are unethical and anti-social. Profiteering and black-marketing do not pay in the long run for creating goodwill and sustainability of the company.

- The adoption of CSR satisfies the stakeholders, employees, stockholders, suppliers and consumers.
- By taking up CSR projects, a company can avoid government regulations and control and legal complications. Every year many unethical companies have to pay a large amount of money as fines for adopting certain unethical practices. A company which is ethically motivated can avoid monetary loss.
- CSR programmes can reduce pollution, enhance health status of the people by producing and selling quality products which are made by techniques that are not harmful to people and environment. In this way, the social welfare of the people can be maximised by the CSR programmes. Many companies nowadays have the practice of internalising the (negative) externalities.

CORPORATE SOCIAL RESPONSIBILITY: THE DEBATE

Whether CSR is good or bad for a company is not evaluated by people in the same way. Some experts argue that CSR is not necessary for the corporate sector. It will do more harm than good if the business people are asked to implement it. That view is the classical view adopted by, among others, Adam Smith and Milton Friedman, both of whom are renowned economists. However, on the other end of this spectrum, there are experts who observed that CSR is a reality in modern times, and it cannot be neglected anymore by the corporate sector. In the discussion hereafter, we will present briefly the views of both these groups.

ARGUMENTS AGAINST CSR

- The basic responsibility of any business concern is to maximise profit and to ensure a good return on the investment made by shareholders. So, if CSR is introduced, the **fundamental principle of business gets violated**. Business and ethics cannot go together.
- The adoption of **CSR programmes will be expensive for business houses**, and if money is dissipated in this way, the allocation of scarce resources cannot be done in an economically efficient way. So, the efficiency of businesses may be jeopardised. The pursuit of social responsibility cannot be a goal of business houses because it will dilute the economic efficiency and productivity of the corporate sector.
- Business people are not efficient and trained experts in carrying on CSR projects which are basically related to social issues. Therefore, **the projects will not be successful.**
- Legally or morally, the corporate sector cannot be held accountable for the non-performance of CSR.
- CSR involves ethical and social responsibility. These are not the special areas of any business.
- Managers are different from shareholders (owners). So, to ask managers to perform CSR is to induce them to steal away the shareholders' money. Managers are not empowered by the owners to spend any money for social development.

Arguments in Favour of CSR

- Corporate houses are social institutions. Therefore, they have got some moral and social **obligations** to undertake some welfare-oriented programmes.
- Social classes and stakeholders expect profit-making business houses to do something for the society. They have the resources, capability and competence.
- The **expenditure on CSR is a sort of investment** and it becomes profitable in the long run. It is a common knowledge that the companies which are socially and ethically motivated are also good companies in terms of profits. In India, there are many such companies which are well-respected in the corporate world, such as Tata, Birla, Reliance, Hindustan Unilever, and so on. These companies are not only very well-established and profitable but are renowned for their CSR programmes.
- There is no contradiction between CSR and profit-maximisation hypothesis, as we have already discussed earlier. It has been found that for the survival of a company in a meaningful way depends, to a great extent, on its honesty, sincerity, social contribution and ethical behaviour.
- By adopting CSR programmes, a company can avoid many legal complications. A company which is regularly paying taxes and obeying other rules and regulations can work peacefully without any loss of money on many unwanted legal problems.
- CSR projects **create a better impression** in the minds of not only the stakeholders but also the people in the society. This better image can be helpful for the growth of the company in the future.
- The corporate sector should return a part of the wealth that it has earned from the society through business. According to Gandhi, the capitalists are the trustees and they should distribute a part of the wealth for social development and welfare.
- It can be said against the conservative arguments put forward by Milton Friedman that even if the basic duty of a business man is to look after his business, he cannot remain aloof from many necessary ethical, moral and legal issues which are involved in day-to-day businesses. Thus, indirectly Friedman agrees that knowingly and unknowingly a business man does perform some social responsibilities.

CSR: THE INDIAN PERSPECTIVE

While discussing the Indian scenario of CSR, we will concentrate only on the Sachar Committee Report and also on the brief accounts of CSR programmes of some Indian companies.

Sachar Committee Report

The Sachar Committee was a High-Powered committee appointed in 1978 to look into many issues concerning Indian companies, and one of these issues was the Corporate Social Responsibility. The committee made many important observations and suggestions on the issue of CSR. It observed that "in the development of corporate ethics, we have reached a stage where the question of the social responsibility of (private) business can no longer be scoffed at or taken lightly". It adds, "The company must behave and function as a responsible member of society... The company must accept its obligation to be socially responsible and to work for the large benefit of the community".

The Committee exemplified many instances of responsible and irresponsible corporate social behaviour. In this context, the committee suggested that it is not only the profit which should give a good social image of a company but it will have to pass many tests for proving that it is a socially responsible company. In order to be a socially responsible company, the Committee suggested **openness in corporate affairs and behaviour**. This means that each company must show accountability and adequate disclosure of vital information to the stakeholders of the company including the workers, shareholders, consumers and creditors.

As for the ethical responsibility of Indian companies, the Committee observed that the situation is complex and no clear-cut conclusion can be drawn because the scenario presents many types of company activities and attitudes. For instance, the attitude of some big companies is different from that of small and medium companies. The attitude of big companies seems to be better. Many big companies have been spending regularly towards the social welfare activities and secondly, the private profit is partly spent out for the welfare of the workers of those corporate houses. These companies are aware of CSR projects and do regularly carry on some projects. Thus, many business houses in India have established social institutions like schools, colleges, charitable hospitals, research and technology institutes, and infrastructure and institutes of higher learning. However, in the context of a vast country like India, whatever has been done appears to be inadequate.

In India, there are many social areas in which the corporate sector has not made significant contributions. These areas are environmental pollution, water pollution and safety of the working class inside the factory. In this connection, one should not forget about the Bhopal Gas tragedy which cost thousands of innocent human lives not only inside the factory but also polluted the social environment outside in a severe manner. Many more social problems can be cited to prove the socially irresponsible behaviour of many business houses. These include rampant exploitation of labour, racial and gender discrimination at the working place, unsafe working conditions and inhuman working atmosphere including long hours of work without any fans or air-conditioner, without proper sanitation, and so on.

Another tendency in the corporate world is the **use of money power** to buy favours from bureaucrats and politicians. Corruption and bribery are the natural channels for getting things done for the sake of the business. **India is the third most corrupt nation in the world**. However, it should be noted that the business houses are not alone responsible for the escalating corruption index in India.

While some of the large corporations are involved in immoral and unethical practices to promote their businesses, the medium and small-scale industries are engaged in adulteration, fraud like weighing scale cheating, imitating the brand names and mixing uneatable things with the products they sell. Thus, water, milk, and many types of spices and some medicines are all contaminated. Many people occasionally die by taking illicit liquor and many children become sick by drinking adulterated milk or taking contaminated or expired medicines. This is a very common scenario in India. Since people are very poor, the victims cannot take legal actions against the businesspeople who are involved in this type of heinous crime. In the name of business, in many cases, people earn money through social crimes. However, there are still some business houses which are ethically motivated in India.

Many suggestions have been offered by the Sachar Committee for making the business houses more socially responsible. **Some of these suggestions are** discussed below:

- It is necessary to introduce **social accountability** of the business houses towards the public.
- It is necessary to **establish business firms in rural areas** in a socially responsible way.
- The social responsibility can also be judged by the **employment policy** of the company towards the physically challenged and the weaker sections of the population.
- It is necessary for companies to **submit regularly social reports** regarding the social responsibilities that they have performed during a particular period of time. The social report should be made mandatory.
- The social responsibility of a company is also to be judged by the interest it takes for the **social** welfare of its employees, social welfare of the people involved in the area where the company is located and many other welfare enhancing programmes like adult literacy programme, road building programmes, public works programmes, and so on.

The Committee is of the opinion that the **Company Act should be amended** in a suitable manner so that every company will be compelled to send a **social report** along with the director's report to indicate all the CSR activities carried out by it every year.

It is gratifying to note that in the 1980s, a significant trend was noticeable in the area of CSR in India. Among others, the TISCO invited many experts to prepare a **social audit** for the company and the findings were made public. In recent years, it is observed that many established Indian companies are motivated by philanthropic considerations and regularly spend a significant amount of their earnings on CSR. A brief discussion on CSR activities of some well-established companies in India will be given in the following section.

CSR Programmes of some Indian Companies

Many Indian companies are motivated by CSR programme. Perhaps the foremost in the area of CSR in India are the Tatas. It has many types of social activities and programmes. In the year 2007, the company was awarded Andrew Carnegie Medal of Philanthropy by the Carnegie Corporation of the Unites States. From the very outset, the Tatas mixed philanthropy and human relations in the conduct of business and the same trend has been continuing over the years. TISCO has been a pioneer in discharging CSR and has been increasing social welfare in various areas including rural development, social welfare of the tribal people and agricultural development. The company is making sustained efforts in this direction.

Hindustan Unilever Ltd. has been actively involved in various types of CSR programmes. These programmes include social development and community welfare, promotion of basic education, infrastructural development and the creation of educational and health institutions. It gives basic care to HIV-infected patients on a regular basis, provides shelter and education for abandoned handicapped children and terminally ill patients. The programme HUL also involves *Asha Daan* which provides homes for infants, destitute, men and women, and HIV-infected patients. The programme named *Ankur* teaches many children the income-generation skills including cookery and painting. The programme at Coimbatore named *Kappagam* provides shelters to mentally and physically challenged children. HUL is also involved in the purchase of diagnostic equipments for Shankara Eye Society which provides free eye care for the poor people of Coimbatore. Apart from all these,

HUL is also involved in the development of many village areas in U.P., Gujarat and Tamil Nadu. It has many community development projects at various places in India. Also, the rural education programme is one of the important CSR programmes of HUL. It has also taken up projects on energy conservation, water management and afforestation. It was awarded the good corporate citizenship award in the year 2000–01 by the Bombay Chamber of Commerce and Industry. The award was for the holistic approach to CSR activities taken up HUL.

In the same way, many other companies in India like Asian Paints, Colgate Palmolive, the Gas Authority of India, ICICI Bank, Gujarat Ambuja Cement, Orchid Chemicals and Pharmaceuticals, ASAIL company, Raymonds, TVS Groups, Wipro, Satyam Computers, NTPC Ltd., Infosys, BHEL, Dr.Reddy's Laboratories, TITAN Industries, MRF Tyre, Godrej Group, Ford India, Birla Group of Industries, Escorts Ltd., ITC and Times of India, to name a few, are engaged in CSR projects of various types for social welfare in India on a regular basis.

Summary

The idea of CSR is rather new. It started as an organized movement and a code of business conduct in the 1960s in the United States. In the 1970s, the code was formally approved and accepted. It was an overall reaction against corporate dishonesty and scandals in many countries including both developing and the developed ones. CSR is a gesture of showing the company's concern and commitment towards a society's sustainability and development. CSR reporting is a method of communicating with the society of the company's desired action or the action actually performed by it. On the basis of such feedbacks, the company can mould, change or partially or wholly modify its contemplated CSR plan. The reporting has triple bottom lines that can be expressed by three Ps (profit, people and planet).

CSR is an ethical issue and, therefore, is normative in character. CSR will be different for different types of business institutions and also for different levels of society. There is no straight-jacket formula for CSR. In a sense, CSR is a relative concept.

There are, indeed, many CSR principles, strategies and models. One of the best principles for discharging corporate social responsibility is to have respect for human rights. This respect should be explicitly shown in the public. There should also be non-discrimination and social capital formation. Most of the models (except the Friedman model) emphasise on the commitment and ethicality of the company. The model presented by the present author lays more stress on the ethical rooting and the financial prowess of the company. There is no unique and ideal practice of CSR. It is conditioned by many political, social, institutional, economic and cultural issues. It is a type of community investment and a process of creating social capital. CSR has been accepted as one of the basic responsibilities of businesses throughout the world. The need for CSR has been felt by different sections of society like consumers, employees, government, suppliers and stakeholders.

The Sachar Committee is of the opinion that the Company Act should be amended in a suitable manner so that every company will be compelled to send a social report along with the director's report to indicate all the CSR activities carried out by it every year.

It is gratifying to note that in the 1980s, a significant trend was noticeable in the area of CSR in India. Among others, the TISCO invited many experts to prepare a social audit for the company

and the findings were made public. In recent years, it is observed that many established Indian companies are motivated by philanthropic considerations and regularly spend a significant amount of their earnings on CSR.

Key Terms

Social Responsibilities of Business Reverse Robinhood Effect Sachar Committee Report Corporate Citizenship Model Social Report Social Audit Corporate Social Reporting Principles and Strategies of CSR Best Practices of CSR Social Capital

Test Your Knowledge

1. State whether the following statements are True or False

- (i) According to Adam Smith, human beings are essentially selfish in nature.
- (ii) Smith says that when people of the same trade meet, the conversation ends in conspiracy against the public.
- (iii) CSR started as an organized movement in the 1960s.
- (iv) Corporate social reporting has four bottom lines: profit, people, planet and price.
- (v) CSR is not an ethical issue.
- (vi) The CSR practices create and augment social stock of capital and relations.
- (vii) The Sachar Committee Report suggested openness in corporate affairs and behaviour.
- (viii) The programme named Ankur teaches many children the income-generation skills including cookery and painting.
 - (ix) India is the most corrupt nation in the world.
 - (x) The Sachar Committee suggested closeness in corporate affairs and behaviour.

2. Fill in the blanks

(1)	Corporate Social Responsibility can be understood in both and
	perspectives.
(ii)	is of the view that to ask a businessman to contribute towards social
	development is to ask him to steal from a shareholder's money to perform social respon-
	sibility.
(iii)	In the strategy, the firm vehemently opposes any CSR based project
	unless and until some pressure comes from external sources.
(iv)	are of the opinion that, although corporate behaviour is basically motivated
	by self-interest, yet there should some scope for social change that can transform the
	society to be more humanistic.
(v)	CSR is a type of community investment and a process of creating
(vi)	The economy of is now accepted as one of the methods of increasing
	corporate productivity.

(vii)	The Committee was a H	_			
	look into many issues concerning Indian companies, and one of these issues was the				
, ····	Corporate Social Responsibility. India is the most corrupt in	,.			
(1X)	The TISCO invited many experts to prepare audit for the company and				
()	the findings were made public.				
(X)	In the year 2007, the TATA group was a	ıwarc	led the by the Carnegie		
	Corporation, US.				
Choos	se the correct option				
(i) Which programme in Coimbatore provides shelters to the mentally			shelters to the mentally and physically		
	challenged children ?				
	(a) Ankur	(b)	Asha		
	(c) Kappagam	(d)	Asha Daan		
(ii)	The Wealth of Nations was written by:				
	(a) Karl Marx		Adam Smith		
	(c) Theodore Roosevelt	(d)	None of them		
(iii)	According to which Committee should an	_	-		
	(a) Sachar Committee(c) Both (a) and (b)		Kumaramangalam Birla Report		
		. ,	None of these		
(iv)	Which capital is the sum of social goods r	elatio	ons that society generates in the course of		
its development?					
	(a) Labour Capital(c) Money Capital	(b)	Social Capital		
(v) How many stages are there in an organizational continuum that		continuum that determines the time span			
	of CSR?				
	(a) 5	(b)			
	(c) 6	(d)			
(vi)	Who entertains the stockholders' views pr	opos	e that helping the poor and the needy can		
	be justified in terms of morality?	<i>a</i> \	T. I.		
	(a) Progressivism		Philanthropy		
	(c) Ethical Idealism	()	None of these		
(vii) In the Ackerman Model, which stage is marked		ed by the identification of the project that			
	will be chosen for social delivery?	(1.)	TOTAL TOTAL		
	(a) The first stage		Third stage		
, ····	(c) Both (a) and (b)		None of these		
(viii)	The method of collecting money for CSR by raising prices or following many other				
	unethical ways is often described as the:	(1.)	D D 1: 1 1ECC /		
	(a) Reverse Effect		Reverse Robinhood Effect		
(:)	(c) Boomerang Effect The Taiple Pottern Line aggregate of	(d)	All of them		
(1X)	The Triple Bottom Line consists of:	(b)	Durafit Danca Dana		
	(a) Profit, People, Planet(c) Pace, Profit, People		Profit, Peace, Pace None of these		
	(C) I aCC, FIUIII, FCUDIC	(u)	INOTIC OF HIESE		

3.

(x) The Carroll Model was developed in the year:

(a) 1992

(b) 1900

(c) 1993

(d) 1991

Review Questions

- 1. What is corporate social responsibility? Who determines that responsibility?
- 2. Is corporate social responsibility a legal issue or an ethical issue? Explain your view.
- 3. Why should business people have social responsibilities?
- 4. What is the need for CSR?
- 5. Write a note on CSR in India.
- 6. Write note on the Corporate Citizenship Model.
- 7. Write a note on the CSR programmes of Indian companies.

Web Links

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[Corporate Social Responsibility]

- 2. http://www.sesec.org/pdf/7/SESEC7_Grodman.pdf [Corporate Social Responsibility]
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- 5. http://www.qfinance.com/contentFiles/QF02/g1xtn5q6/12/0/best-practices-in-corporate-social-responsibility.pdf [Best Practices in Corporate Social Responsibility]
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Corporate Governance in India

LEARNING OBJECTIVES

This chapter will help the reader to understand

- History and evolution of corporate governance in India
- Basic features, structure and standards of corporate governance in India
- Defects of corporate governance system in India
- Corporate governance reforms in India on the basis of recommendations of various committees
- World Bank on the corporate governance in India
- Role of government to ensure corporate ethics in India
- Contemporary issues in corporate governance in India

Introduction

Immanuel Kant once spoke about the possibility of monkeys becoming men, Goethe wrote about the metamorphosis of plants, Erasmus Darwin and Lamarck had also propounded the theory that species had evolved from the simpler and lower forms to a more mature and higher form (Durant, 1961). In fact, the middle of the nineteenth century was permeated with the spirit of evolution and metamorphosis. In the 1850s, Herbert Spencer made a seminal contribution to the origin of species

Note: Ms. Sumana Shome, Lecturer at George College of Management, Kolkata, has written a few sub-topics including Committees of the Board, the SEBI, the Birla Committee Report and the Companies Act of 1956.

through his explanation of the theory of evolution, and that made him one of the most popular figures of his time. Evolution has remained a powerful explanation of the origin and growth of all species. Science has provided pretty convincing pieces of evidence from various fields of study, to substantiate and sustain this point of view. The most critical idea of Spencer was the suggestion that the theory of evolution could be applied to every field of epistemology and study, including organizational and institutional changes. It is indeed so. The growth of corporate governance in India is a case in point. Corporate governance in India is the outcome of a long process of evolution, metamorphosis and refinement. This is clear from the history of corporate governance in India.

In the wake of failures of many corporate houses in the United States, UK and other countries, and also with the liberalization of the Indian economy in 1991, Indian government and corporate houses became more concerned with the need for strong corporate governance. It was realized that such a type of corporate governance will enable the Indian companies to be more international and that the capitalist integration during the period of globalization will necessitate strong corporate governance. Several committees and institutions felt the immediate need to refurbish the system of corporate governance in India to make it more powerful. The contributions of the Confederation of Indian Industries (CII), the Securities and Exchange Board of India (SEBI) and the Kumarmangalam Birla Committee Report (2000), among others, are noteworthy in this context. The Government had also set up a National Foundation for Corporate Governance (2003). It is looking after the problems that stand in the way of good corporate governance in India (*The Hindu*, 2003). In what follows, is an attempt will be made to present the historical evolution of corporate governance in India in a brief manner.

HISTORY AND EVOLUTION OF CORPORATE GOVERNANCE IN INDIA

The evolution of corporate governance in India has a long history that dates back to the days of the British era. Basically, the period of development of corporate governance in India can be decomposed into the following four distinct periods:

- 1. British Period (1850–1955)
- 2. Period of Controlled Development (1956–1990)
- 3. Liberalization Period: the First Phase (1991–1999)
- 4. Modern Period (2000 till date)

The aforesaid periodization is based on the temporal progress of corporate governance. The ancient period (British period) is marked by the working of the Managing Agency System (MAS). It was, perhaps, suitable for a family based system of corporate businesses.

British Period

The MAS was the embryonic beginning of corporate governance in India. It had several characteristics:

- It was a system of providing managerial and financial prowess.
- It was a contractual system of management that very often led to the success of the
- It provided expertise, financial advice and advice for company growth.

- The system of interlocutory directorship was helpful to some extent for many types of interlinkages among companies.
- It created an atmosphere where, in spite of the absence of high quality managerial talents, companies could work successfully and could attract investors and all types of shareholders.

However, although the system was successful in its own way, it had many serious limitations. The system was not very progressive and was much dependent on the state policy and rules. It suffered from lack of transparency and accountability. As a result of all these, the MAS had low efficiency and lack of dynamism (Goswami, 2002). But it was instrumental for the expansion of the industrial base during the British period. This is evident from the growth of private business enterprises in different parts of India and also the growth of different region-wise business classes. The MAS had the following three serious limitations towards the growth of corporate governance in India:

- The MAS did not make any attempt to protect the shareholders' rights.
- It did not make any serious attempt to maximise the shareholders' returns or values.
- It led to a concentration of the managerial and economic power.

After the independence of India, an attempt was systematically made to develop the industrial sector through the Industrial Policy Resolution Act of 1948. This was indeed an attempt to develop a system of partnership capitalism between the state and the private sector. The Industrial Development Regulation Act of 1951 was a new development that provided a legal basis for the formal development of the method of licensing system in India. It is instructive to note that from 1951 onwards, the country imposed many types of rules and regulations for the growth of the private sector industries.

Period of Controlled Development

The Industrial Policy Resolution of 1956 and the Company Law of 1956 were in favour of creating a regime of controlled growth of the private sector. But they hastened the demise of the MAS and imposed many restrictions on import and export. But for the first time, investors' interest was sought to be protected. The stock market was not developed in India. In the absence of a developed stock market, three all-India development finance institutions, namely, the IFC, IDBI and ICICI became the main sources of finance for companies (Chakravorty, 2005). Different types of protectionism developed, licensing system became more complicated, tax belt was made more tightened, bureaucratic red tapism gained upper hand and corruption started appearing in various ugly forms. The accounting morality was relegated to the background and the growth of corporate governance received a heavy jolt. The directors were merely rubber-stamping bodies devoid of any efficiency or dynamism.

Period of Liberalization

In this period, the Securities and Exchange Board of India (SEBI) (1992) made a number of provisions to encourage the growth of corporate governance in India by protecting investors' rights and creating the ground rules for corporate governance. The attempt to introduce and improve the corporate governance went into several directions. In 1997, the Confederation of Indian

Industries (CII) prepared a code for corporate governance. Subsequently, the Kumar Mangalam Birla Committee (1999) with the auspices of the SEBI introduced a standard listing agreement to be followed by all the listed companies in India under Clause 49. Now all the listed companies in India have to follow the SEBI code. It has been accepted in principle by all that corporate governance is crucial not only for the success of international business but also for bringing about uniformity in the international standard and corporate behaviour. The uniformity is the essence of a globalized system that offers a level playing field for international business interactions.

But many types of ethical deficits or failures, since the past several years and their aftermaths, had an adverse impact upon the trustworthiness and goodwill of the organizations. Prior to such events, the credo of corporate governance, per se, never was so important an area. The corporate scenario in India had been stagnant till the early 90's. With the opening of the doors, i.e., liberalization in 1991, the goals and positions of the Indian organizations had changed a lot. The reform programme in the Indian economy started to make a steady progress since 1994. India is one of the largest emerging markets with respect to market capitalisation. India instituted the Anglo-American type of corporate governance with a one-tier system having a board composed of both the inside and outside directors that include a CEO as the chairman to manage the company. Thus, this period witnessed the formal installation of corporate governance in India with responsibility and transparency which became essential in the wake of liberalization and globalization of the Indian economy.

In today's world, there has been a growing dialogue between the different stakeholders about corporate governance as a result of which there is a growing concern as to how it must evolve to cope up with the dynamic and global nature of the Indian capital markets—the principal stakeholders being the shareholders, the Board of Directors, suppliers, customers, employees of the organization, the creditors and the community at large.

In India, the ambit of corporate governance has faced a paradigm shift, owing to some big institutions laying emphasis on how corporate bodies should be run and thereby laying down regulations for fulfilling the same. In the year 1996, the Confederation of Indian Industries (CII) took a special initiative, with the core objective of developing corporate governance, which would be adopted and followed by the Indian companies – be it the private sectors, or the public sector, other financial institutions and banks and every other corporate entities. This initiative from CII had its roots in the public concerns with a special reference to the interests of the investors (emphasising upon the small investors) as well as towards the promotion of transparency amongst the businesses and the industries. Keeping such noble ambitions and viewpoints in mind, a National Task Force was set up during April 1997 with the primary objective of presenting the draft, which would highlight on the guidelines, the codes and directives of corporate governance. It is essential to achieve global standards of corporate governance to help converge the interests of the stakeholders and rebuild investor confidence in big corporate houses. With the Independent Directors Dialogue (IDD), a first of its kind initiative in India, there exists a network of the Independent Directors, with the primary objective to develop insights and suggestions into the foray of the functioning of the Indian as well as global financial markets, which would further help in strengthening relationships amongst the leading companies of the world and their directors. The internal factors within an organization rely

largely upon the external macro environment comprising the legislatures and the overall market commitments, along with a strong organizational culture that promotes and safeguards organizational policies and processes.

Modern Period

The modern period is marked by several fundamental changes in the area of corporate governance. It is not difficult to appreciate that most of the far-reaching changes in the CORPORATE GOVER-NANCE started in the first few years of the present century (2000 onwards). For instance, the SEBI amendments took place in 2000, 2001, 2003 and 2004. The amendment in 2004 is perhaps the most important amendment as it superseded all the earlier circulars in some important respects. Since the year 2000, the SEBI has been enunciating various new principles of corporate governance based on the recommendations of different committees appointed for this purpose. The SEBI amendments were made to improve on the standard of CORPORATE GOVERNANCE in India by changing many issues relating to the composition, strength and the size of the board, remunerations, disclosures, financial reporting, accounting standards, board meetings, performance evaluation, code of conduct, ethical issues and transparency. In the same way, many company amendment acts were also introduced in India since 2000. For instance, the Company Amendment Act of 2004 permits the passing of resolutions by the postal ballot system.

SALIENT FEATURES, STRUCTURE AND STANDARDS OF CORPORATE GOVERNANCE IN INDIA

Some of the basic issues connected with the structure and standard of corporate governance in India are as under:

- As pointed out earlier, India follows a **single-tier majority inside board system as a corporate governance rule**. The system is similar to that of UK and Japan and unlike Germany.
- India mainly follows the family-based **insider system of ownership**. Majority of equity shareholdings (about 40 per cent) are with the family controlled large business houses.
- Regarding **the sources of finance**, India depends more on the internal capital market than on the external sources.
- The capital market and stock exchanges in India are not as well-developed as in other developed capitalist countries.
- Commercial banks in India make insignificant contribution in the area of corporate governance.
- In India, the **minority investor's rights** and creditor's rights are not as well-protected as in many other advanced countries.
- The SEBI came out with some crucial provisions and preconditions for the listing of the companies under **clause 49**. The compliance of this clause will make a lot of improvement in the standard of performance of the listed companies.
- While the holdings by the small investors are negligible, there are significant cross-holdings among different companies.

- The appointment of independent directors is mandatory. The proportion of such directors may be 50% or one-third of the total board members of the listed companies.
- Shareholders have the right to seek redressal for the violation of their rights.
- The performance of the state-owned enterprises is discouraging.
- The Audit Committee must have a majority of independent directors and it should function as per the rules laid down by SEBI and the Companies Act.
- Lack of transparency in reporting and disclosures.
- There is a high degree of concentration of control rights as given by the ownership system.
- The possibility of a hostile take-over by the big business houses is present.
- Liberalization of rules and restrictions, relaxation of licensing rules, increased competition and reduction in import tariffs and the opening of the economy as per the rules of globalization have created new incentives for both domestic and foreign companies. All these have also triggered expansion of the capital market in India.
- The SEBI has also, through various amendments, introduced many development-oriented features in corporate governance which are comparable with the standards of corporate governance in developed countries. However, the progress is on the way and Indian corporate governance has a long way to go to catch up with the ideal standard.

The following committees are important in the Indian corporate governance system:

Committees of the Board

Audit Committee

- The Board would meet at least twice a year and must comprise minimum 3 directors who are non-executives.
- Financial reporting must be done in a transparent manner to review the interim and final
- Impartial discharge and redressal of disputes between the management and the external auditors. There must be a proper auditor work plan.

Remuneration Committee

- A reward policy to retain and motivate talent.
- The performance packages to be linked with the shareholder's interest.
- Executive remuneration to be closely monitored.
- The annual reports must reflect the clear objectives of the company.

Nomination Committee

• It is to be addressed by the chairman of the organization where the non-executive directors are appointed.

It is revealed that many of the principles of OECD code have been used in India such as banning of insider trading, appointment of a grievance committee to look into shareholders' discrimination, redressal for the violation of shareholders' rights, provision of annual independent audit and special requirement of objective decisions of board members, and so on (Sen, 2005). However, India has a long way to go to catch up with the Western countries in the matter of corporate governance.

Figure 18.1 depicts a schematic diagram of corporate governance.

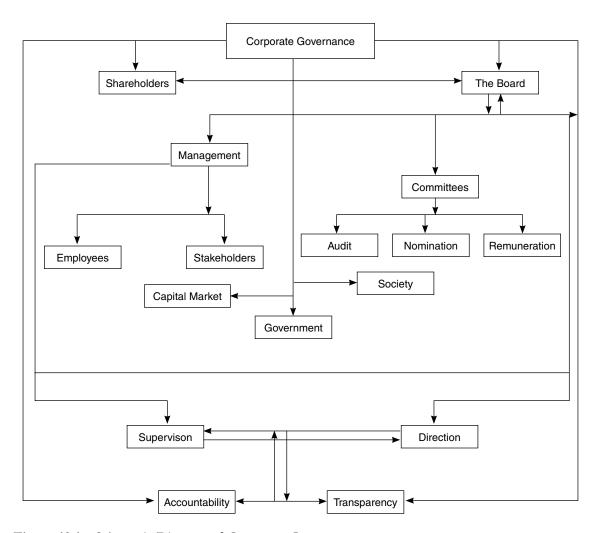


Figure 18.1 Schematic Diagram of Corporate Governance

Major Defects of Corporate Governance in India

The major defects of corporate governance in India are:

- Lack of professionalism on the part of directors.
- Institutional investors are not active.
- Independent directors are not really independent.
- Accounting practices are not free from criticism.

- Shareholders' participation is poor.
- Indian bond market and stock markets are not well-developed.
- The practice of whistle blowing is not yet a norm in India. The SEBI proposed it, yet many of the corporate houses did not pay any attention to it.

IMPROVEMENT IN CORPORATE GOVERNANCE IN INDIA

Many attempts have been made to improve the corporate governance system in India from time to time. In the following discussion, some of these improvements will be highlighted.

Corporate Governance Reforms: The SEBI and its Role

The Securities and Exchange Board of India (SEBI) was established on April 12, 1988 which became fully autonomous in 1992. The sole responsibility encompasses the wide arena of the development and regulation of financial markets. It is the country's surveillance mechanism to keep an eye over the securities and financial markets reign. To keep a harness over the company's functioning within the vast macro environment, SEBI has introduced strict measures and guidelines towards corporate governance norms and codes for publicly listed companies in India. The 'closed' economy of India was liberalised in the year 1991 to achieve and enhance the full potential of Indian stock markets in order to attract huge investments from foreign institutional investors (FII). Hence, it became mandatory for the regulatory body to introduce a series of stock market reforms in our country. SEBI had a dual objective: that of promoting as well as protecting the interests of small time investors and to regulate and develop the overall Indian stock markets. In 1992, the Bombay Stock Exchange (BSE), the leading stock exchange in India, witnessed the largest scams of the decade, the Harshad Mehta scam, was an eye-opener of its kind. It had been felt unanimously by the market and financial analysts that had the SEBI given powers to control the investors and the investing norms, then perhaps such a scam would not have had happened. Hence, it became the duty of the Government of India to introduce the SEBI Act, 1992, and confer special powers to it so as to create an iron-hand in regulating the financial markets. From April 1, 2001 onwards, SEBI has asked the entire Group (A) companies to submit a corporate governance report in addition to their annual reports. This has been incorporated as one of the recommendations of the Kumar Mangalam Birla Committee Report on Corporate Governance.

Keeping this in mind, SEBI constituted a Committee on Corporate Governance under the Chairmanship of Mr. N.R. Narayana Murthy. The Committee comprised representatives from the investor associations, chambers of commerce and industry and stock exchanges. They laid down some basic recommendations as given below:

- The audit committees of the publicly listed companies must furnish half yearly and quarterly financial statements as relating to statement of compliance with the governing laws.
- The companies must disclose the methodology of the accounting standards followed by it.
- The policies laid down must be prepared with the primary objective to assess and manage risks.
- Every member of the Board must be trained on the business model followed.

- There must be a written code of conduct for the executive management which would be posted at the company website for public view.
- There should not be any nominee directors, and if any, must be appointed by the share-holders.
- The compensation paid to the non-executive directors of the company must be approved by the shareholders in general meetings.
- Any unethical practice observed by any personnel must be communicated to the audit committee directly, without necessarily informing their superiors.
- The companies must make an affirmation that they have provided protective measures to 'whistle blowers' from any sort of unfair employment practices.

Clause 49 of the SEBI

- The clause 49 of SEBI has been introduced with a view to enhance and strengthen the power of the independent directors who are the members of the Board.
- The clause 49 of SEBI was amended on the August 26, 2003, which had made it mandatory for every public company listed on an Indian stock exchange to sign.
- It has been pronounced that every company is required to comply with the requirements of corporate governance, and that this should be primarily done through increasing powers and responsibilities of the Board members, making them more accountable and also by consolidating the powers of the Audit Committee.
- The aim of such changes is to make the Indian companies more strong in the light of rapid globalization and industrialization.

The primary concerns of the amended Clause 49 can be summed up as follows:

- **Board of Directors** The board of directors is required to frame a code of conduct for all the board members and senior management and each of them have to annually affirm and establish an overall compliance with the code.
- **Independent Directors** shall be 1/3 to 1/2 depending upon whether the Chairman of the board is at a non-executive or an executive position.
- **Non-Executive Directors** The total tenure of the office of non-executive directors is now limited to three terms of three years each.
- Audit Committee shall be responsible for the financial statements and the draft audit report of management discussion and analysis of financial condition and the result of operations. Also for the reports of compliance with laws and risk management, as well as management letters and letters of weaknesses in internal controls issued by statutory and internal auditors/ appointment, removal and terms of remuneration of the chief internal auditor.
- **Subsidiary Companies** shall comprise of 50% non-executive directors and ½ and ½ of independent directors depending on whether the chairman is non-executive or executive.
- **Disclosures.** The issues to be disclosed are contingent liabilities, the basis of related party transactions, risk management matters and also the proceeds from initial public offering as well as the remuneration of directors.
- Certifications. Any certification would be inclusive of the review of the necessary financial statements and director's report, the overall established and maintained internal controls.

Every matter must be disclosed to the audit committee, regarding the accounting policies and standards that are followed by the company during a financial year.

• Whistle Blower Policy must be communicated to every employee and whistle blowers should be protected from unfair treatment and termination.

Birla Committee Report

The crucial context of the Birla Committee Report's relevance is a fact that the issue of corporate governance has been given importance by the public in the recent past since it is one of the yardsticks that shape the growth and the future of our capital markets and our economy. The financial crisis in emerging markets has been a growing concern. Though some progressive firms have laid down the principles of corporate governance in their organization, there have been certain high-profile financial statements reporting failures even by the firms in the developed economies. Thus, the issues relating to corporate governance are an inevitable outcome, which emphasise on the fact that the financial markets are a pre-eminent source of capital. This has led to the belief that corporate governance is a pre-requisite for efficient market discipline. Many short- and long-term investors have suffered the wrath of unscrupulous management decisions. Also, not much was done to redress the grievances of the investors (such as delay in transfer of shares, delay in the dispatch of share certificates, etc.) and the SEBI received a large number of investor complaints. Every knowledgeable and well-informed investor keeps the faith on well-managed companies and responds positively to them. One of the merits of such an organization is that every process is systematized, which allows the Board and the top management take decisions independently, be innovate and creative to nurture their business, while remaining in an environment of accountability. Thus, corporate governance maintains high prioritisation in times of highly fluctuating capital markets and hence becomes an inevitable mechanism of investor protection. There are many models of corporate governance which have been in practice. But there is not a single feasible framework of corporate governance which would fit all organizations. To solve and protect investor's interests, SEBI appointed a Committee on corporate governance on May 7, 1999, under the chairmanship of Mr. Kumara Mangalam Birla (member of the SEBI board) to set and raise the standards of corporate governance with the following primary objectives:

- To improve the standard of corporate governance in the listed companies, relating to transparency of the exact information and the duties and responsibilities of the independent and outside directors.
- To prepare the draft of the best corporate practices.
- Surveillance measures within companies to safeguard insider trading.
- The recommendations of the Birla Committee Report have been specially laid down keeping
 in mind the Indian organizations. The basic premise is to ensure the commitment of the Board
 members in managing the body corporate transparently in order to maximise long-term shareholder value.

The areas that have been highlighted for standardising the principles of corporate governance are:

• The Committee has looked upon the importance of the issue of corporate governance from the macro point of view of the stakeholders, which is also one of the prime concerns of

SEBI. They both echo the demand for 'good' corporate governance in organizations by prospective investors, which would enable them to know about the companies in which they have invested.

- Every company must reflect, in their annual reports, the sequence in which they have incorporated corporate governance overall in line with the Committee's recommendations. Powers have been given to SEBI to write to the regulatory and government bodies to incorporate such recommendations in their framework.
- Intimation of information in the Director's reports about the utilisation of funds, the variance in the projected and actual use, including the cash/fund flow statements, as well as providing the quarterly financial results and also dispatching balance sheets to every house and an abridged version to the shareholders.
- Compliance to rules and regulations as a measure to monitor share transfer issues and also the allotment of preference shares at market prices and also providing the exact information and disclosure of price sensitive information.
- The Board requires setting up independent Audit committee for a more credible disclosure of financial information.
- Consolidated statements must be provided on behalf of the subsidiaries wherein they have 51% or more of the share capital.
- There must be interest on the part of the shareholders in the appointment of directors or auditors.
- The norms laid down by SEBI must be strictly followed.

Government Machinery: Companies Act (1956)

- The centre has full powers to enforce the Act through the Department of Company Affairs, established under the Ministry of Finance.
- Basically, it is a quasi judicial body which exercises its powers with government.
- The members shall not be more than 9 and must be represented by the GOI with one Chairman.
- Members shall have all the powers of the civil court in handling and enforcing inspection.
- The appeals are laid before the High Court whose jurisdiction is binding.
- The Registrar of Companies must be furnished with all the information for records and documentation—the Advisory Committee must advise the Company Law Board.
- The High Court has full powers to sanction amalgamations and allow investigation into company affair.

Department of Company Affairs

For the improvement in the corporate governance, the Department of Company Affairs (DCA) proposed the following changes in 2000, among others:

- A code of behavior for the public sector companies
- Proper disclosures
- Greater role of non-executive, independent directors

- More transparency in accounting and reporting.
- Highest and toughest standard of corporate governance from the listed companies.

THE WORLD BANK ON THE CORPORATE GOVERNANCE IN INDIA

Interest of the World Bank in the development of corporate governance became evident after the financial crisis of 1997. From the experience of the East Asian financial crisis, it became apparent that the quality of corporate governance is an important determinant of financial strength and viability. In fact, researchers found an inverse correlation between the quality of corporate governance and the currency depreciation (see, Johnson et al., 2000). The crisis in these miracle economies manifested itself first in the form of currency depreciation. The economies of the south east Asia could not properly manage the huge surge of capital inflow. Although capital inflow is conducive to economic growth, it may evidently generate the problem of macroeconomic vulnerability and unsustainability, and in such a situation, the occurrence of financial crisis is not an uncommon possibility (Ghosh, 2003).

Corporate governance is inextricably related to corporate macroeconomic fundamentals. A proper analysis of the corporate macroeconomic fundamentals of the East Asian economies will show that, in many ways, these fundamentals were rather weak (see Ghosh, 2000). A few examples will make the statement clear.

- Heavy borrowing by these countries to expand exports and upgrade their technology created high leverage (debt/equity ratio).
- The profitability (returns) on investment also declined.
- Poor corporate governance allowed poorly performing firms to have a high share of finance.
- The ratio of private sector credit to Gross Domestic Product was explosively high.
- Wages exceeded productivity.
- Capital-output ratio started going up meaningless efficient use of capital.
- Most of these economies experienced over-heating (actual growth rate exceeding the warranted growth rate).
- Short-term Debt/Reserve ratio was abnormally high.
- The real exchange rate appreciated considerably and the export slowed down.
- The current account deficits were outrageously high and there was significant outflow of capital.
- The banking crisis and the currency crisis went hand in hand. The lent out of huge amount of money to the political bosses or their cronies without adequate collateral, ultimately lead to the non-performing loans getting considerably increased. The banks encountered moral hazards and adverse selection problems.

From the aforesaid factors, it is rather safe to conclude that the performance of the corporate sector was not at all satisfactory and blame squarely rests on the poor corporate governance. The East Asian crisis was, in the teleological sense, a **crisis of confidence**. The investors lost confidence in the corporate governance, banks lost confidence in the promise given by the government to them, people lost confidence in the government and the domestic currency and the international lenders lost confidence in the domestic banking system.

The financial crisis taught the lesson of vulnerability of the market system, of corporate governance and the fact that unless the corporate macro fundamentals and governance are strong, the economy becomes vulnerable to crisis and **speculative attacks**. The assurances given by the governments, the blind faith in the automatic adjustment power of the market are all big hoaxes. The random failures and bankruptcies of well-known corporate houses brought to the surface the grim fact that corporate business practices were based on a shaky foundation, and the main reason was the lack of strong corporate governance. The banks did not even know the sterilization practices necessary in the context of a large inflow of foreign capital.

The World Bank made a timely reminder in the G7 Meeting in 1998 that unless the standard of corporate governance is improved, financial crises may be recurring phenomena. The World Bank suggested a number of measures including granting of loans, technical advice and assistance and formulated a code of corporate governance. The World Bank endorsed the OECD principles of corporate governance and asked every developing country to implement those principles. It also laid down that unless these principles are strictly followed, no financial help will be granted either from the International Monetary Fund or the World Bank. This was evident in the cases of World Bank loans to Malaysia, South Korea and Thailand (Vittal, 1997). Many developing countries engaged themselves in structural and institutional reforms and some even went so far as to develop their own corporate codes for better corporate governance. All of them were influenced by the empirical fact that, in the days of globalization, unless the standards of corporate governance are improved, they cannot expect to attract a substantial amount of FDI for their economic growth and development.

James Wolfensohn's address (1998) to World Bank-IMF Annual Meeting indicated that sustainable development in India needs good governance, competitive market, sound financial sector and internationally accepted accounting and auditing standards among others. According to the World Bank, for a country like India, governance issue remains important because it is related to poverty reduction and development-enhancing factors.

While evaluating the performance of India in the area of corporate governance, the World Bank observed that India could do better in some areas, although it mostly followed the OECD principles (World Bank, 2004). The contribution of the nominee directors from financial institutions is one such area. The Bank was critical about the enforcement of laws and regulations, pertaining to stock listing in major exchanges in India, and also about insider trading problem and violations of many contracts. The Bank asserts that there have been thefts of investors' funds in some cases, and the Board of Directors has been largely ineffective in India in monitoring the actions of the management. It is observed that while norms have been developed for listed companies, the problems of other private business concerns have remained mostly neglected. The bigger challenge for India is the proper and effective implementation of these normative rules, as most prudent norms can be hoodwinked by corrupt practices (Reddy, 2002). This is, indeed, a serious concern for the success of corporate governance in India because in both depth and range, corporate scandals and scams are rising at an alarming proportion both in the private and the public sectors.

In this context, it is pertinent to reflect on the Corruption Perception Index of 2010. A few years ago, India and China's positions were the same in the corruption index. However, the latest figure shows that India is now more corrupt than China. Needless to add, corporate corruption in India is on the rise and that may impinge on the performance of corporate governance unless some drastic actions are in the offing.

Role of Government in Ensuring Corporate Ethics

The role of the government in ensuring corporate ethics has now become more challenging and complicated. This is especially because of two compelling reasons. First, many of the Indian industries are participating in the global scenario, and second, corporate governance scams and scandals are on the rise. These factors are themselves contradictory in nature in the sense that globalization needs a more stable, ethical and standardised business practices and governance, and scandals and scams are sure to corrode the international business of the country. Many analysts observe that the neo-colonialist market-based system of globalization that many developing countries are practicing is incrementally becoming a source of instability, inequality and uncertainties. For instance, the Indian capital market is suffering from different types of uncertainties. Capitalism has its own evils and limitations.

However, in spite of the inherent limitations of the market-based system, attempts are being made in India to improve the performance of the corporate governance through various ways some of which will be briefly discussed in this section. Some of the measures taken in India have been outlined in the Prime Minister of India's address at the inauguration of the Corporate Week in India (December 14, 2010). The following are the major highlights of the actions being taken by the government to ensure corporate ethics in India:

- The **blacklisting** of non-performing and corrupt corporate organizations has been identified and appropriate legal actions are in the offing.
- The Vigilance Commission is very active in instituting actions against all types of corporate corruptions.
- The important ways to ensure ethicality of corporate organizations, including transparency, accountability and disclosures have been formally ensured through various laws, and practices. On paper it seems that the whole process is hunky dory.
- The appointment of appropriate corporate committees and their statutory functions are ensured by corporate laws and regulations like SEBI, Companies Laws, and so on.
- The government is ensuring widespread investors' education programmes to ensure that they know their rights and duties and contribute to the ethical development of corporations.
- For the solution of environmental issues, the government has circulated various guidelines for their implementation at the desired level.
- The motto that the corporate governance should be based on good means with good ends has been propagated at the national level.
- The government has a gamut of enabling regulatory framework to guide corporate governance in India. The updating of company laws, introduction of limited liability partnership and capital market regulations are cases in point.
- The government has also provided guidelines for the internal financial reporting standard.
- The appointment and functions of **auditors** have been standardised and measures to eliminate window-dressing have been put in order.
- An important step in the direction of ethical functioning of the corporate system is the legal recognition of the importance of human rights at all levels.
- The importance of **whistle blowing** has been formally recognized and the whistle blowers are being given legal protections.

• An important step in the direction of ethical corporate governance is the introduction of the enactment of **right to information** at all levels. This is sure to eliminate information asymmetry which is supposed to be the main cause of corporate scams and scandals.

At the governmental level, there is an active attempt to provide an enabling environment for better corporate governance. It provides a level playing field to the private sector free from fear and favour. It is also encouraging firms to remain engaged in corporate social responsibilities. The government rules, regulations and laws are all in favour of improving the ethical standards of corporate houses. However, much will depend on the implementation of these rules. Moreover, it is instructive to note in this context that corporate ethics essentially depends to a significant extent on the ethical culture and ethical intensity, and these cannot always be ensured by legislations and mandatory compulsions.

CONTEMPORARY ISSUES IN CORPORATE GOVERNANCE IN INDIA

Some major general issues in corporate governance have been explained in Chapter 16. The present discussion needs to be supplemented by the explanation given in Chapter 16.

- Perhaps the most serious issue in the corporate governance in India is the issue of ethicality.
 Corporate scams and scandals are increasing day by day in both depth and range. There is no simple solution to this growing menace. Unless the corporate sector is ethically conscious and concerned, the ethical deficit cannot easily be tackled.
- Related to the aforesaid issue is the question of the nature of corporate governance. Should it be **ethical governance or effective governance**? These two things are different. Corporate houses measure their success and efficiency in terms of the amount of profit they earn at the end of the year. This quantitative and acquisitive mindset is difficult to change. Perhaps it will be more meaningful to induct some directors from the philanthropic organizations like the Ramakrishna Mission and Bharat Sevashram Sangha, and so forth. A proportion of directors should be women as they are considered to be less selfish and more objective.
- One of the sources of unethical practices is the information asymmetry and lack of communication among the decision-makers. This leads to sub-optimal level of disclosures, hiding of critical information, lack of transparency and accountability. The board must be supplied with all necessary information, and once the directors are empowered to know the in and out of the company functioning in all details, they can be made responsible for the debts and bad debts of the company and the financial vulnerabilities of the company, if any. This can save a company from the impending financial turmoil.
- The model of corporate governance that is best suited to India is still a matter of debate. No model is proved to be flawless. A mixture of good points of different types of models and an amalgam of the eastern and the western models may be tried. The crucial point is the suitability of the model for the Indian milieu.
- Many questions are raised about the board of directors. What should be the number of
 directors? What should be the proportion between the inside and outside directors and how
 many independent directors should be the ideal? Many of these questions are meaningless.

Perhaps the number is not so important as the quality and capability of directors. As a matter of fact, there is nothing like a fully independent director for all time to come. After a period of time, the independent director does not remain independent. He may have a party affiliation, an ideology and a personal bias. What matters is the international level expertise and professional integrity of the director and his decision on merit and objectivity. The whole issue is a pseudo issue. The question of having 50 per cent or 30 per cent independent directors is more question-begging than problem solving. However, some sort of numerical balance should be maintained.

• A clear-cut separation of powers is not specified in many cases of corporate governance in India, and, therefore, there are unnecessary power struggle and showdowns. Let us take a couple of examples. The authority of SEBI and that of the Ministry of Company Affairs (MCA) are not well-defined. What appears to be appropriate is that while the SEBI will look into the market-related matters of the listed companies and the issues connected with compliance, the MCA must be given the power to legislate. At present, the SEBI assumes some of the legislative authorities of company management. This needs to be changed for better corporate governance. Another example will show that the banking sector (RBI) does not have any compelling authority over the auditors. The RBI does not possess the penal power. It is necessary to demarcate the power to either the Department of Company Affairs or the Reserve Bank of India.

Summary

Corporate governance in India is the outcome of a long process of evolution, metamorphosis and refinement. The evolution of corporate governance in India has a long history that dates back from the days of the British period. Basically, the period of development of corporate governance in India can be decomposed into four distinct periods: The British Period (1850–1955); the Period of Controlled Development (1956–1990); the Liberalization Period: the First Phase (1991–1999) and the Modern Period that started since 2000. This periodisation is based on the temporal progress of corporate governance. The ancient period (British period) is marked by the working of the Managing Agency System (MAS). It was not a progressive period. Since the 1950s, through industrial regulations and controlled development, attempts were made to develop corporate governance in India. However, the growth of corporate governance was stifled by different types of controls and restrictions. However, with the advent of globalization and in the wake of failures of many corporate houses in the United States, UK and other countries, and also with the liberalization of the Indian economy in 1991, Indian government and corporate houses became more concerned with the need for strong corporate governance. It was realised that such a type of corporate governance will enable the Indian companies to have more international presence and the capitalist integration during the period of globalization will necessitate strong corporate governance. Several committees and institutions felt the immediate need to refurbish the system of corporate governance in India to make it more powerful. The contributions of the Confederation of Indian Industries (CII), the Securities and Exchange Board of India (SEBI) and the Kumarmangalam Birla Committee Report (2000), among others, are noteworthy in this context. The Government also set up a National Foundation

for Corporate Governance (2003). It is looking after the problems that stand in the way of good corporate governance in India. India has been following the Anglo-American system having a single tier model buttressed by the OECD principles of corporate governance.

The SEBI has, through various amendments, introduced many development-oriented features in corporate governance, which are comparable with the standards of corporate governance in developed countries. However, the progress is on the way and the Indian corporate governance has a long way to go to catch up with the ideal standard. Still there are many defects in the CORPORATE GOVERNANCE system, such as lack of professionalism, lack of transparency and accountability, and so forth. While evaluating the performance of India in the area of corporate governance, the World Bank observed that India could do better in some areas, although it mostly followed the OECD principles. There are many disconcerting issues in the corporate governance of India like unethical practices, power struggle, information asymmetry, and so forth.

At the governmental level, there is an active attempt to provide an enabling environment for better corporate governance. It provides a level playing field to the private sector free from fear and favour. It is also encouraging firms to be engaged in corporate social responsibilities. The government rules, regulations and laws are all in favour of improving the ethical standards of corporate houses. However, the bigger challenge for India is the proper and effective implementation of the normative rules, as most prudent norms can be hoodwinked by corrupt practices.

Key'	Terms
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SEBI Birla Committee Report Corporate Ethics Company Affairs Managing Agency System Clause 49 of SEBI Companies Act of 1956 World Bank on Indian Corporate Governance Moral Hazards

Adverse Selection Non-performing Loans Crisis of Confidence

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Indian capital market is highly developed.
- (ii) Indian financial system is equally good as that of any developed country.
- (iii) Indian corporate governance system is based on a two-tier system.
- (iv) The practice of whistle blowing has not been formally recognized in India.
- (v) Indian corporate governance system is similar to that of Japan and UK in many ways, and unlike that of Germany.
- (vi) The Indian Companies Act was passed in the year 1955.
- (vii) The evolution of corporate governance in India has a long history that dates back from the days of the British period.
- (viii) No women shall be nominated as members of the Board of Directors.
 - (ix) The importance of whistle blowing has been formally recognised and the whistle blowers are being given legal protections.

	eliminate window-dressing have been put	in or	der.						
2. Fill in	the blanks								
(i)	The clause of SEBI had	beei	n introduced with a view to enhance and						
	strengthen the power of the independent directors who are the members of the Board.								
(ii)	(ii) As per the SEBI Report, the total tenure of the office of non-executive directors is								
	limited to terms of three years each.								
(iii)	(iii) As per the Birla Committee Report, consolidated statements must be provided on behat of the subsidiaries wherein they have								
(iv)	The East Asian crisis, was in a teleological sense, a crisis of								
(v)	address (1998) to World Bank-IMF Annual Meeting indicated tha								
	sustainable development in India needs good governance, competitive market, sound								
	financial sector and internationally accepted accounting and auditing standards, amor								
	others.								
(vi)	(vi) Some of the measures taken in India have been outlined in the Prime Minister of India's address at the inauguration of the in India.								
(vii)	An important step in the direction of ethical Corporate Governance is the introduction of								
	the enactment of at all lev								
	One of the sources of unethical practices i								
	The British Period spanned from								
(x)	The ancient period (British period) is mark	ed by	y the working of MAS or otherwise known						
2 (7)	as								
	se the correct option								
(1)	The Corporate Week in India was held on:		D 1 14 2000						
	(a) December 14, 2010		December 14, 2008						
(::)	(c) January 4, 2010 (d) October 6, 2006								
(11)	· · · · · · · · · · · · · · · · · · ·	Bank made a timely reminder in the:							
	(a) G8 meeting		SAARC meet						
(;;;)	(c) G10 meeting The DCA can be otherwise known as:	(u)	G7 meeting						
(111)	(a) District Council Association	(b)	Democratic Council Association						
	(c) Department of Company Affairs		None of these.						
(iv)	The Clause 49 of SEBI was amended on:	(u)	None of these.						
(11)	() 151 A	(h)	26th August, 2003						
	(a) 15th August, 2000 (c) 26th January, 2007		14th February, 2008						
(v)	From which date onwards did SERI ask								
(*)	(v) From which date onwards did SEBI ask the entire Group (A) companies to sub- corporate governance report in addition to their annual reports?								
	(a) April 1, 2001		March 1, 2000						
	(c) Both (a) and (b)		None of these						
(vi)	Kumar Mangalam Birla Committee was so	. ,							
(• 1)	(a) 2000		1999						
	(c) 1998		2001						

(x) The appointment and functions of auditors have been personalised and measures to

(vii) The Period of Controlled Development was between:

(a) 1956-1990

(b) 2000-2010

(c) 1900-1947

(d) None of these

(viii) Who in the 1850s made a seminal contribution on the origin of species through his explanation of the theory of evolution, and that made him the most popular figure of his time?

(a) Erasmus Darwin

(b) Herbert Spencer

(c) Both (a) and (b)

(d) None of these

(ix) Industrial Policy Resolution Act in India was developed in:

(a) 1948

(b) 1949

(c) 1950

(d) 1947

(x) The Industrial Development Regulation Act was passed in:

(a) 1948

(b) 1951

(c) 1947

(d) 1950

Review Questions

1. Elaborate on the main features of corporate governance in India.

- 2. Discuss the guidelines laid down by SEBI to enhance the issues relating to corporate governance.
- 3. What do you think are the major defects of corporate governance in India?
- 4. What are the major issues in corporate government in India today?
- 5. Why is corporate government important in a country like India?
- 6. In corporate governance, there is always a gap between the precept and the practice. Explain your point of view by citing examples from India.
- 7. What does the Birla Committee Report emphasise on the various aspects of corporate governance?

Web Links

 $1. \ http://www.cfr-cologne.de/download/workingpaper/cfr-08-02.pdf$

[Corporate Governance in India]

 $2. \ http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/20024.pdf.$

[Corporate Governance in India: Current Status & Recommendations]

3. http://www.oecd.org/dataoecd/6/47/1931364.pdf

[Decreasing divide between Corporate Governance and Corporate Social Disclosure]

4. http://www.law.virginia.edu/pdf/olin/conf07/event_study.pdf

[Can Corporate Governance Reforms Increase Firms' Market Values?: Evidence from India]

5. http://www.jains.com/Company/financial/bs07/corporate%20goveranance%20report.pdf [Corporate Governance Report]

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CHAPTER 19

Models of Corporate Governance: A Global Perspective

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Anglo-American model of corporate governance
- The Anglo-American vis-à-vis the Franco-German model
- Corporate governance in America
- Corporate governance in Japan
- Corporate governance in Germany
- Corporate governance in transitional and developing economies

Introduction

When Socrates was sentenced to death and was given a cup of hemlock to drink, he told his friends and admirers, "I am going to die and you are to live; only God knows which one is better". This statement, though uttered altogether in a different context, does, still, make a sense in the case of the models of corporate governance. Some models are dying out and some new models are going to appear on the surface, and no one knows which one is really better.

Indeed, there are bewildering varieties of models of corporate governance. Some of these models are based on single-tier system, some on two-tier system; some models give more importance to the banking system and some do not; some models are market-oriented and some are based more

on interpersonal relations; some models are more traditionalistic and some are more liberal; some take more care about the shareholders, some do not pamper them; some depend too much on crossshareholdings, some remain indifferent; some encourage individual shareholdings, some do not; some are based on more of institutional holdings and some are not. But the adoption of LPG model of development (liberalization, globalization and privatization) has made different models to be rather uniform in a way: all of them are conscious about their global impact and interaction.

In the present chapter, only a few models will be analysed briefly taking into account their salient features, recent challenges and changes that are in the offing. To be precise, we will discuss five different models which encompass the perspectives of some transitional and some developed countries.

Anglo-American Model of Corporate Governance

The Anglo-American model is perhaps as old as the history of capitalism. However, it never so aggressively introduced but earlier than 1980s. As a matter of fact, the Anglo-American model does not always carry the same connotation everywhere. The actual shape of the model depends on the intensity and nature of capitalism. It is basically a capitalist model of corporate governance. The coordinated or hybrid model of corporate governance has been adopted by Europe and also by Japan. It mixes up some classic elements of the Anglo-American model with a better consideration for the people who are associated with corporate governance. These people are workers, suppliers, managers, customers and community. It may be called an **enlightened** Anglo-American model. In fact, there are as many types of the Anglo-American model as there are varieties of capitalism. The adoption of the model is based on the regional and historical conditions of the country and its stage of capitalist development. These two factors can also determine the precise nature of the model and intensity of capitalism that needs to be fused with the model. A classic variety of the Anglo-American model is embedded with pure capitalistic principles of governance.

The Anglo-American model of governance became more prominent in the 1980s when neo-liberal globalization started capturing the whole world with its market-based policy of unification. It was the time that witnessed the end of geography and the beginning of a new history of capitalist expansion with the policy of liberalization, privatization and globalization. The LPG model has been well-publicised by America and the international organizations, including the World Bank and the IMF. Many developing and transitional economies adopted this policy and were integrated with the capitalist world in order to accelerate their quantitative rate of growth. In a bid to do so, they adopted the Anglo-American model of governance.

A few important features of the Anglo-American model can now be briefly enumerated as under:

Salient Features of the Anglo-American Model

• The model gives a topmost priority to the interest of the shareholders. Its objective is to increase shareholders' value and wealth.

- The model is based on the philosophy of the separation of ownership and control.
- It adopts a single-tier governance system.
- A system of corporate governance that adopts the Anglo-American model is **governed by the Board of Directors (BOD).** The Board chooses the manager or CEO. The CEO can also serve as the Chairman.
- The Chief Executive Officer (CEO) in this type of model becomes extremely powerful, although he needs the approval of the Board for all his official actions and policies.
- The BOD is selected by the shareholders and its members are responsible to them.
- The BOD can be a mixture of both, the inside and outside directors.
- The BOD has the responsibility to govern while the Managing Director has the responsibility to carry on the routine management functions.
- Both the BOD and the CEO are to act according to the satisfaction of the shareholders.
- The maximisation of shareholders' value implies professional management with utmost integrity, transparency and accountability by all concerned.
- This model of governance is a disclosure-based system. All types of disclosures related to the business including information and data are given a crucial importance.
- The model is based on market logic with its emphasis on the principle of profit maximization
- It emphasizes the role of capital market in disciplining the company. Market-orientation also
 implies capabilities and contestability to withstand any competition and win the competitive
 battle.

Advantages of the Anglo-American System of Governance

The following are the main advantages of this model of corporate governance:

- It is a clear-cut market-base model where everything is calculated by the **criterion of profit** which a businessman adores. The terms are very clear and conspicuous and objective.
- It is believed that this type of corporate governance increases efficiency and productivity of the company and there is no diversion.
- It is growth-oriented and stands for the expansion of income, output and employment. Therefore, it contributes to positive **macroeconomic fundamentals.**
- Since it is a disclosure-based system, theoretically, there is little chance of things to go wrong. There is no **information asymmetry.**
- It leads to more of innovation and cost reduction. These are made possible by profit incentives. As Gary Becker, the Nobel Laureate, says that people work because of incentives.

Does the Anglo-American Model Work?

It is pointed out by many critics that the Anglo-American model does not properly work in all types of economies and under all institutional systems. It is not a universal panacea or the most desirable form of corporate governance. It has a number of constraints and limitations (see for details, Clarke, 2009). Some of these limitations are singled out as under:

- It is a **selfish type of profit-maximising model**. It does not consider any philanthropic or social responsibilities in its agenda. It is alienated from the society, workers, suppliers, customers and so forth and their interest.
- The separation of ownership and management does create a serious problem of clash or conflict which may not be on surface but in a covert form, and this robs the model much of its claimed advantages. The principal-agent problem created by this model remains a source of a potential undercurrent of conflict.
 - Under this system, it is possible for the CEO to be enormously powerful and he can play ducks and drakes with the company. He can build his own empire for increasing his power, prestige, pay and perks.
 - The consequence of the adoption of the Anglo-American model has been egregiously bad in many economies that adopted this model. It has excessively increased income inequalities (Clarke, 2009).
 - The model has a proclivity to **depend too much on the equity markets**. In such a case, as the experience shows, the impact of any financial shock may be very damaging. Most of the countries that were using this model could not save themselves from the **financial crisis** that hit the East Asian economies in 1997.
 - It is now realised that a market-based model is not, for many reasons, an ideal model of corporate governance. Market has no power of automatic adjustment and correction. It needs guidance and direction. It was wrongly believed earlier by the neoclassical economist that a market always adjusts itself. It is, therefore, an ideal caretaker. But in Joan Robinson's words: who takes care of the caretaker?

Anglo-American vis-à-vis Franco-German Model

In view of the aforesaid demerits of the Anglo-American model of governance, many countries are in the favour of adopting the Franco-German Model in lieu of the Anglo-American model. The Franco-German model is based on the philosophy of industrial partnership of all the people who are associated with governance mechanism. This model also gives importance to non-shareholders, banks and community welfare. In future, the Franco-German model has the potentiality of being used as a viable and sustainable model of Corporate Governance.

What then is the status of the Anglo-American model? There was once a craze for the adoption of the Anglo-American model among the developing countries during the new testament of globalization in the middle of the 1980s. However, after the global financial crisis of 1997, the US financial crisis of 2008, and the collapse of many corporate giants as an aftermath of financial and accounting scams and scandals in the western world in 2000s, some countries are becoming hesitant to adopt the model in total. The model has, in many ways, become counterproductive. However, the countries which have already opted for the model cannot back out now. There is, thus, a tussle between the two opposing forces—the one adopting the AA model which is based on the new liberalization, privatization and globalization philosophy and the other which opposes the neocolonialist market-oriented approach to internationalisation. Probably, sooner or later a more enlightened model of Corporate Governance based on a trade-off between the Anglo-American model and the Franco-German model may be worked out.

Finally, it needs to be pointed out that the Anglo-American model of corporate governance has seen the best of times, it has also seen the worst of times; it has witnessed the height of popularity, it has also witnessed the period of dejection; it has experienced the era of success, it has also experienced the era of failures; it has remained the spring of hope, it has also remained the winter of despair. In fact, history has shown mysterious ways of bypassing many narrow convictions about corporate governance.

CORPORATE GOVERNANCE IN AMERICA

Historical Perspective

The interest and concern with the corporate governance in America go back to the nineteenth century. This observation is made by Sarbanes-Oxley Act of 2002. As a matter of fact, after the **Wall Street Crash of 1929**, the business people of America became more interested in understanding the nitty-gritty of corporate governance. The Great Depression of the Thirties was a worldwide phenomenon and it taught people many lessons about the fragility of business organization and culture, and especially of the free market capitalism. Then many changes were made in the corporate structure in America to rebuild the confidence in corporate governance and culture.

However, since the late 1970s, corporate governance has been a subject of intense debate (Hamilton, 2005). These debates concentrate on the following major issues:

- Rule vs. discretion of the Board of Governors.
- Corporate social responsibility: its need and extent.
- The protection of rights of the shareholders.

The shareholders want to exercise their legal rights of corporate ownership and increase the value of their wealth. But even now, these rights have not become absolute.

In the 1990s, the dismissal of CEOs in many corporate business houses by the Board of Directors created consternation in America and once again the subject of corporate governance became more interesting and challenging.

In 2000s, the massive bankruptcies of many well-established corporate houses including Word Com, Enron and Tyco International, among others, shook the confidence of the people in corporate governance and corporate scholars have been trying to identify the causes and fix up the responsibility of such failures. It is the general notion that the callousness of the BOD is the fundamental cause of corporate failures in America.

Sarbanes-Oxley Act (2002)

The year 2002 saw the passing of a historic act known as the Sarbanes-Oxley Act (SOA). The fundamental objective of SOA is to control malpractices in the corporate governance. The SOA provides the **following important provisions** to control and improve corporate governance in the United States:

• Accounting firms are prohibited from providing consultancy services to their client firms.

- Corporate penalty has been increased up to twenty years of imprisonment for a corporate fraud.
- The CEOs who certify false accounts are liable to be punished for a maximum period of 20 years along with fines that go up to \$5 million.
- Accounting profession will be under strict scrutiny by an independent five-member private sector board which will have both disciplinary and legal power.
- In order to highlight the conflict of interest, new rules will be framed for financial analysts by the Security Exchange Commission.
- The Act has also extended the time period for engaging in law suits by defrauded investors.

The SOA has been a welcome act by the American corporate world in mitigating many of the troubles that the corporate sector experiences. The Act is very broad. It even makes provisions for the ideal ethical practices of a corporate house (Tipgos and Keefe, 2004). As a matter of fact, in the United States, the basic problem is the conflict of interest between the widely-dispersed shareholders and the powerful managers. The BOD is independent; but it has mostly failed to maintain the shareholders' interest. The shareholders cannot elect the BOD of their choice.

Salient Features of Corporate Governance in America

The following are the major important features of the US model of corporate governance:

- Capitalist principles and free-market mechanism are explicitly recognised.
- Accountability and transparency are practiced in corporate governance.
- Minority shareholders' interests are protected by laws.
- Proxy voting system by mail is an important feature in the corporate governance.
- One share, one vote is the established rule.
- Shareholders appoint the Board members and CEOs.
- Professional managers control the company. There is a separation between the management and ownership.
- Audit companies have independent directors.
- Disclosure of important corporate information and data are encouraged. This reduces information asymmetry.
- Large shareholders are also actively and regularly monitored.
- Role of banks in corporate governance is not crucial as the capital market remains very
- **Single tier system** prevails (with significant majority of outside directors).
- The Board has three important committees, namely audit committee, compensation committee and nomination committee.
- The Board has the following functions to perform:
 - Oversee the management and control activities.
 - Compliance of laws.
 - Oversee corporate social responsibilities
 - Review company's financial performance and allocation of resources
 - Approve company's business plans

- Institutional shareholders hold major shares in US corporations
 - Management takeover of a company in the United States is a common phenomenon in the corporate world. This is supposed to be a good sign as the company is taken over by that type of management which is more competent.
 - An important feature of the US corporate governance is the freedom granted to the entrepreneurs to perform best in a competitive environment, and in this context, the laws of the country are not at all harmful but, on the contrary, helpful in many ways. The entrepreneurs have many opportunities to be dynamic and innovate in the corporate world of the United States.
 - The **two most critical challenges of the American Corporate Governance** are (Das, 2009, p.86): (1) How to make the Directors more efficient, effective and independent? (2) Should the CEO also work as the Chairman?

Although no consensus is achieved on these two (1 & 2) important issues, many analysts feel that it is better to separate the functions of CEO from those of the Chairperson (see Cadbury Report, discussed earlier in another chapter). As for the first issue posed above, there are recommendations by many committees and the Sarbanes-Oxley Act of 2002 is also relevant. The Cadbury Committee Report (1992) has also made some specific recommendations on both these issues.

CORPORATE GOVERNANCE IN JAPAN

Corporate governance model in Japan is different in many ways from the western models practiced in the United States. The point will be clear from the discussion of the salient features of the corporate governance model in Japan. For instance, unlike in America, profit is not the final word in the Japanese model. Not that profit is loved less but that growth and the size of the company are loved more. Japan can boast of its special and unique system of corporate governance (Monks and Minow, 2001).

Salient Features

The Japanese model of corporate governance is based on a number of traditional ethico-moral and cultural considerations. In such a context, the following features become crucial as the sustainable basis of corporate governance:

- Companies are based on family type relationship and ties. Such a relationship permeates among the management and the workers, among the workers themselves and with other companies.
- Every decision is based on a **consensus and a general approval**.
- The concept of **obligatory relation** and performance play an important role in corporate governance.
- Japan has a culture of tolerance and respect for the traditional values and methods of settling disputes.
- While in the United States, capitalist principles and market calculus guide all corporate actions and reactions, in Japan, **communitarian calculus** is given more importance.

- The concept of profit is less important but the **concept of market share is more** important.
- Government has an important role to perform in the matter of corporate regulation and controls.
- The process of decision-making is dominated by the "bottom up consensus procedure". In such a case, the decision is virtually influenced by the grass roots level people and organizations.
- The control of the market mechanism is almost conspicuous by its absence.
- The corporate governance scenario does not experience much of hostile take-over unlike in the United States.
- Many companies are seen to agree on mergers for mutual benefits.
- The Japanese system of corporate cross-shareholding (known as Keiretsu) by banks and affiliated companies minimises the risk of hostile take-over which is so very common in America.
- Industrial activities and capital flows are controlled by the government, and capital market does not have any crucial role to play, although the Japanese capital market is broad and resilient. The stock market is active but it has a limited role in the allocation of funds.
- The rights of both the shareholders and the creditors are protected in Japan.
- Although institutional shareholders constitute 60 to 80 per cent of the shareholder, their influence on corporate governance and management is minimal.
- The Board of Directors is elected by the shareholders. The Board gives directions, makes policies, appoints company executives and oversees the implementation of policies.
- The Directors are mostly "insiders" and they are primarily interested in the growth of the company and the interest of the employees, not basically the interest of the shareholders. The corporate governance is based on a single-tier system.
- The statutory auditors are appointed by the shareholders.
- Short-term trading of shares for temporary gains is very unusual in Japan.

Factors Contributing to the Effectiveness of the Japanese Corporate Governance

The Japanese model of corporate governance is marked by a fairly good standard of performance and operational efficiency. The following few factors can be said as responsible for the practical effectiveness of the Japanese corporate governance:

First, the internal networking system is highly coordinated.

Second, the whole system of corporate governance, though based on a formal standard, is guided and protected by many informal consideration and institutional linkages.

Third, the inter-linkages among families, corporate institutions, bank, and the unity between the employers and the employees based on mutual respect and gratitude go a long way in upholding the corporate values and virtues.

Fourth, the cordial relationship between the government and the corporate sector has proved to be a beneficial shock-absorber for the corporate sector in Japan.

Fifth, the ethics of care and compassion with communitarian welfare and consideration has made the Japanese corporate governance system more meaningful socially. That is why the corporate social responsibility has been very fruitful and effective in Japan.

Recent Challenges and Trend in the Corporate Governance in Japan

A few challenges and changes are noticeable in the corporate governance system of Japan. Some of these are highlighted as under:

- Capital market deregulation has enormously changed the financial structure of Japan. Since the days of globalization in the 1980s, Japan has been experiencing a substantial amount of capital inflow, and the corporate financing, therefore, does not have to depend on the domestic banking system. Equity financing rather than debt financing from banks has become prominent.
- Since the 1990s, legal reforms have put more emphasis on the shareholders' rights and their indirect or direct liaison with the corporate sector. This has made possible the importance of shareholders in corporate activities. It is felt that from now onwards, there will be a welcome nexus between the shareholders and corporate governance.
- In many ways, corporate social responsibilities have enormously increased for the maintenance of environmental integrity and ecological balance. Public health is another area of growing importance to which the corporate sector is becoming more and more committed.
- To make the corporate governance more transparent and accountable, the appointment of a three-member Audit Committee has been made mandatory for every company. These three members will consist of internal auditor, statutory auditor and a full-time auditor.
- Many attempts are being made to wipe out corruption in the area of corporate governance. One of the sources of potential corruption is the dangerous link between politicians/bureaucrats and the company. Legal reforms have now made possible to curb bureaucratic tentacles.
- Information asymmetry has been wiped out in the corporate governance of Japan. Thanks to globalization, for the availability of all types information for a better corporate governance.
- With the help of experts, Japan was able to formulate corporate governance codes in May 1998. These codes give more importance to progress with social harmony, formation of independent committees and inclusion of more outside Directors. The Japanese corporate governance is now poised to be more holistic and inclusive unlike the western models.

CORPORATE GOVERNANCE IN GERMANY

There are many distinct commonalities and also differences between the corporate governance systems in Japan and Germany. Both the countries were battered by the devastating impact of the Second World war, and both of them were engaged in economic reconstruction works aiming at achieving long-run stability and growth of their economies, and in this endeavour, it was necessary to have an efficient system of corporate governance. Just the concept of familial relationship is the basis of everything in Japan, in the same way, the concept of industrial peace and harmony is the building block of the German system. Many points of similarities and differences in corporate governance will be apparent as we proceed to discuss the salient features of the German system of corporate governance.

Salient Features of German Corporate Governance

- German corporate governance system is a two-tier system. There is a supervisory board (called *Aufsichtstrat*) and also an executive board (called *Vorstand*). For all public limited companies (AG) and private limited companies (Gmbh) having more than 500 workers, it is mandatory to have both the Supervisory Board (SB) and the Executive Board (EB). The members of the supervisory board are elected by the shareholder and partly by the employees. The SB consists of professional people and it also appoints the EB. Thus, in practice, SB is a more powerful and dominating board, although EB is entrusted with all managerial functions and enjoys a high degree of autonomy. The SB monitors the functioning of the EB.
- There are possibilities of clash of interests and conflicts between the SB and EB in the German system. However, actual confrontation is much reduced in practice by the veto power of each board member.
- Important decisions are arrived by the joint discussions of both EB and SB.
- Directors of **Boards can access information** from the internal as well as external sources. chamber of commerce, academic institutions and trade and investment associations.
- The German institutional set-up does not generally approve of a high turnover rate of **Directors** because that may lead to instability and many other operational obstacles.
- There is, in every firm employing more than 5 workers, a **Work Council** which works as a consultative machinery.
- While individual persons are not much encouraged to hold stocks and buy shares, corporate cross-holding of shares is a common feature in Germany. This is similar to Japan. This prevents hostile take-over in many cases. There are of course anti-takeover laws in Germany.
- Commercial banks holding a large proportion of shares on behalf of the private shareholders along with their own shares become a source of domination, and controlling power. Banks plays an important role in purchasing, selling and underwriting of shares. Banks also render professional advice to many large organizations on market-related strategic issues.
- There is a strong personalized relationship between the corporate sector and the banking sector in the German set-up.
- Systemic protection is extended to lenders, shareholders and employees in the area of corporate governance.
- Unlike in Japan, institutional shareholding is not very high in Germany. It is only around 30% of the total shares, whereas it is about 80% in the case of Japan.
- German stock market does not witness the presence of individual households who are excited about buying and selling of stocks. It does not have the normal oomph for the fear of tax bite.
- On the whole, German system of corporate governance is **more or less efficient** in terms of performance and accountability. But the auditing system is far from perfect. The auditors work on the principle of commercial prudence rather than on fairness, facts and truth. This has resulted in a huge stock of unaccounted wealth.
- The government takes an active interest in corporate governance in Germany. It makes sure that the long-run objectives arrived at by consensus are achieved for the sake of efficient corporate governance. It also takes care of R&D and other facilities and infrastructural development for a better industrial growth and the sustenance of **industrial democracy** which is the cherished goal of the government.

Contemporary Challenges and Changes

So many different types of changes are taking place in the CG of Germany (see, Prasad, 2009, 234-5). Some of the major contemporary changes are listed as under:

- In 1997, the **Task Force** that was especially empowered to look into the problems and prospects of CG in Germany suggested that it is necessary to make Germany a renowned financial centre in order to attract foreign capital to make the capital market stronger and resilient.
- The New Code of Governance has been proposed by professionals and experts in order to improve the CG system. The basic tenets of this code are the following:
 - More of corporate disclosure is needed.
 - More professionalism should be introduced in CG.
 - Easy voting process will be more helpful.
 - Merit rather than seniority of SB members is to be emphasised.
 - Pay and perks of Board members should be based on performance.
 - More accountability and transparency will be imperative for the system.

Contemporary Changes in Corporate Governance since 2000 (Monks and Minow, 2001):

- The German model of CG is poised for a structural change from an inward-looking policy to an outward-looking policy in every matter.
- Employee's stronghold in SB is going to be reduced. This will minimise the political interference and gun-boat diplomacy in governance.
- Laws are being enacted to encourage foreign investment in Germany.
- It is accepted by many experts that for Germany, the Anglo-American model will be more suitable.
- After the takeover of Mannesmann by the UK's Vodafone, the German government has become more cautious to preserve and improve on the German system of CG. A few steps have been taken in this direction. First, the government has abolished the capital gains tax on the equity sales. It is believed that this measure will reduce the cross-holding system and will lead to the modernization of the area of CG. Second, it is directly encouraging foreign investment through various ways and means to reduce the stronghold of the banking system to some extent.

CORPORATE GOVERNANCE IN TRANSITIONAL AND **DEVELOPING ECONOMIES**

It is, indeed, difficult to discuss about the precise practice and the stage of development of corporate governance in the developing and transitional economies (DTEs). Since there are political, economic, social, institutional and structural differences among these countries, the same type of corporate governance model may not also be blindly applied to them. The point is well-illustrated by the Federation of Korean Industry's criticism of the OECD's codes of corporate governance. The FKI expressed the opinion that the blanket approach to the application of western standard of accounting was not suitable for Korea. Be that as it may, in the analysis of corporate governance in these countries, we will tangentially touch upon the cases of the Asian and far eastern TDEs. Before we start off, it is imperative to clear out the concepts of the developing and transitional economies.

Developing economies are those economies which are on the path of development but not fully developed yet. Transitional economies are in the process of economic transition and have travelled a long way towards the stage of a fully developed state. The East Asian economies including Malaysia, Thailand, Philippines, Brunei, Taiwan and South Korea are all called transitional economies. There are also transitional economies in Russia, Africa, and Latin America as well. They are more developed than ordinary developing countries. The differences between these two types of developing countries are in degrees and not in kind. For the purpose of discussion here, all the three types of economies such as developing, transitional and emerging economies will be treated as synonymous, although strictly speaking they are not. This is done here for the purpose of analytical simplicity.

Contemplated Advantages of Corporate Governance

The concept of corporate governance is relatively new to DTEs. However, through the international demonstration effect, they have learnt the advantages of and the need for having a good corporate governance in the context of liberalised economies. It should be noted that these countries in South East and Far Eastern regions are wedded to the capitalist path of development and they have already opened up their economies since 1980s, the take-off period of liberalization and globalization. These countries have become more conscious and concerned about corporate governance after the onset of the Asian Financial Crisis of 1997. Many of these countries were themselves affected by this financial crisis. To be precise, most of these countries explicitly recognised the importance of good corporate governance because of its contemplated advantages as early as in 1999 during the period of the crisis.

Some of the advantages of corporate governance as they contemplated are discussed as under:

- A proper system of corporate governance can in many ways reduce the risk of investment, whether foreign or domestic, and if the risk of investment can be reduced, these countries could expect much more investment. As a matter of fact, all these countries were receiving a substantial amount of FDI.
- A good management and governance can also enhance the performance of a company in a substantial manner, and this may improve the access to capital markets for liquidity and financing problems.
- A good corporate governance can also reduce the hold of politics in all decision-making processes. Decision-making on the basis of merit which is an ideal situation will be possible under a good and neutral corporate governance.
- It is possible for a good system of corporate governance to protect and enforce share**holders' right** as a whole and especially of the minority shareholders.
- A properly conducted corporate governance can prevent asset stripping which occurs after mass scale privatization. Many of these countries were using privatisation as an instrument of liberalisation without controlling its disadvantages.
- Another advantage of corporate governance is the better prospect of marketability of **goods and products** in a more organized way. The bottlenecks can be minimized.

• It is possible for a well-governed company to find active owners (shareholders/partners) and experienced and seasoned managers.

Steps Taken by Some DTEs in 1999–2000

In the year 1999, the **Stock Exchange of Korea** formed a committee to look into the possibility of application of the Cadbury model of corporate governance in the case of Korea. In the same year, the Ministry of Finance of Korea, instituted a Corporate Governance Reforms Committee. The Committee did a commendable work formulating a code of governance for the large Korean companies. Another epoch-making step in the direction of better corporate governance was the decision in Korea that 50% of the Board of Directors will be independent.

In **the case of Thailand**, steps were taken after the financial crisis of 1997 to reform corporate governance. In this direction, some mandatory and voluntary approaches have been followed. The mandatory provisions include all the legal aspects of governance, and attempts to improve minority shareholders' rights, accountability and auditing standard of international level. Voluntary approach involves the introduction of best practices in every area related to corporate governance, including the performance of BOD, managerial performance, and performance of all the necessary committees. An Institute has also started functioning for imparting training to the Directors of important companies. However, it is pointed out by some experts that the attitude of the government is very favourable for the improvement of corporate governance.

Taiwan initiated the process of reforms of corporate governance in the year 2002 and adopted the advice of the World Bank. It instituted a corporate governance association to make recommendations for the betterment of the corporate governance system. In all the areas of corporate governance, it has been following the corporate governance principles of developed countries with regard to the capital market reforms, appointment of audit committee, and the BOD.

For Hong Kong, it was formally recognised that only 2% of the companies had Audit Committees. This recognition led to an improvement in the system of corporate governance and subsequently the pacific economic Cooperation Committee instituted in a formal way operation of corporate governance.

The following **nine rules were formulated by Asia Pacific Countries** (APCs) in the year 1999 for better corporate governance:

- Accounting and auditing practices of an international standard are to be introduced.
- A better disclosure system was necessary for corporate governance.
- More active role of the shareholders in the affairs of the company was necessary.
- The interest of the minority shareholders should be protected.
- The process of proxy votings will be simplified.
- The Board must consist of outside directors and the chairperson should also be an outsider.
- There must be an institute of directors in every member country for the discussion of corporate governance problems and for their operational efficiency through an interchange of ideas and experience.
- The number of directors must be increased and there should be a substantial proportion of outside directors.
- There should be training programmes on a regular basis on the topics related to corporate governance.

The progress of corporate governance in the case of Malaysia has been noteworthy. A code of Governance was formulated in the year 2000. The country also formulated a capital market master plan and financial a market master plan in during the same year. It has accepted the single-tier system of governance and it is specified that the CEO is the chairman of the BOD.

In the case of China, the government gave a top priority to the development of the stock market as early as in 2000. However, the development has not been satisfactory. Two very important problems in the corporate governance are: lack of separation between ownership and management, and lack of transparency. The structure that some companies follow is government-led relationship-based structure. China is very eager to catch up with the west in respect of corporate governance, but does not suitably change its institutional structure.

The tight administrative policy of the government has been hurting the further development of the stock market. The Chinese corporate governance model is a control-based model where political and institutional factors play a very decisive role. The business forms which are deviating from the set rules are doing better in the stock market. A great economist of China has remarked that "China's stock market is worse than a casino. At least in a casino, there are rules."

What these Countries Really Needed?

The DTEs wanted to have many important changes in their countries to have an ideal system of corporate governance (CIPE, 2000). The following are some of their desiderata:

- They very badly needed the technical and professional know how.
- They wanted more protection for the shareholders' rights.
- They wanted to establish on firm footing property rights and true ownership.
- They wanted to reduce cross-shareholdings by banks and companies.
- They wanted to have a mechanism that could eliminate vested interests.
- They needed a system of dismantling insider controls and trading.
- Accounting and financial system reforms.
- They wanted a rule-based system that could promote good corporate governance and cordial relationships with all the concerned participants.

Problems in Instituting Corporate Governance of International Standard in DTEs

There are tons of problems in the way of instituting a world standard corporate governance in DTEs.

The problems in these countries are not the same or similar. However, there are some commonalities of problems (McGee, 2009). Some of the major common problems are discussed as under:

- There is **no clear-cut code of conducts and guidelines** which are followed by the DTEs. There is often no unanimity in the acceptance of some of the existing guidelines. Some are in the favour of Caux principles, some opt for OECD principles and some would like to follow the World Bank guidelines. There are often conflict of interest and differences of opinion so that the final decision is often stalled.
- There are often fights between the different interest groups in many types of critical decisions. These may relate to appointment of directors (insiders and outsiders), managers, and decisions

whether there will be a single tier system or not, whether the interest of shareholders will be the sole objective or not, appoint of auditors, and many other issues relating to corporate governance. The bickering often goes beyond the company level and is mixed with party politics, and there is no easy solution.

- The Board of directors is often not reliable and the members have political influence. Corruption is rampantly prevalent and it is indeed difficult to remove auditors and board members even if they are corrupt.
- Under the existing situation, all types of desirable disclosures and transparency are not in the offing. Rampant information asymmetry is a serious problem. Underdeveloped countries very often do have an underdeveloped information system.
- It is indeed difficult to change the age-old system of auditing and accounting. These countries do not have the experience or exposure of an international standard of auditing and accounting practices.
- Capital markets in these countries are more illiquid than liquid. Capital market is narrow and underdeveloped and many types of new instruments are conspicuous by their absence.
- There is often **inefficiency in the allocation of resources**. This may be because of a lack of fool-proof studies or of new types of situations which are not experienced before. Globalization and liberalization have created many new types of risks and uncertainties the impact of which is difficult to gauge.
- Diverse ownership after privatisation in many of these countries poses many new types of problems. So, the same type of formula-based corporate governance cannot often tackle these new problems.
- Vested interests and political interference often create obstacles in the way of financial, administrative and labour market reforms. India is a burning example of this situation. Due to the trade union pressure and democratic delays, labour, market reforms are not perhaps possible in India, and workers sometimes are to be paid more than their productivities, thus causing loss to companies.

To conclude the discussion, it needs to be pointed out that the DTEs have been trying since the beginning of this new century to reform their corporate governance system which was earlier almost non-existence or on a shaky foundation. In recent years, the concern for an efficient corporate governance has been intensified by the fear of corporate failures, scams and scandals in many capitalist countries.

However, incremental changes are visible in many DTEs. Some of these countries are following the World Bank guidelines, some the CIPE (Centre for International Private Enterprise) advice and some are resorting to an admixture of OECD and Caux Principles. Although in principle they have accepted the need for changes in corporate governance, none can expect a miracle or quick-fix in terms of desirable results in this direction. This is so because any change in corporate governance involves political, economic and institutional changes.

Summary

There are bewildering varieties of the models of corporate governance. Some of these models are based on single-tier system, some on two-tier system; some models give more importance to

the banking system and some do not; some models are market-oriented and some are based more on inter-personal relations; some models are more traditionalistic and whereas some are liberal; some take more care about the shareholders, some do not pamper them; some depend too much on cross-share holdings, some remain indifferent; some encourage individual shareholdings, some do not; some are based on more of institutional holdings and some are not. But the adoption of liberalization, globalization and privatization has made different models rather uniform in a way: all of them are conscious about their global impact and interaction.

The Anglo-American model is perhaps as old as the history of capitalism. However, it was never so aggressively introduced but earlier than 1980s. In fact, there are as many types of the Anglo-American model as there are varieties of capitalism. It is pointed out by many critics that the Anglo-American model does not properly work in all types of economies and under all institutional systems. It is not a universal panacea and the most desirable form of corporate governance. It has a number of constraints and limitations. Therefore, many countries are in favour of adopting the Franco-German model in lieu of the AA model. The Franco-German model is based on the philosophy of industrial partnership of all the people who are associated with the governance mechanism.

In the American model, capitalist principles and free-market mechanism are explicitly recognized; accountability and transparency are tried to be practiced in corporate governance; minority shareholders' interests are protected by laws; proxy voting system by mail is an important feature; one share, one vote is the established rule; shareholders appoint Board members and CEOs; professional managers control the company. There is a separation between the management and ownership; audit companies have independent directors; disclosure of important corporate information and data are encouraged; large shareholders are also actively and regularly monitored; role of banks in corporate governance is not crucial as the capital market remains very strong; single tier system prevails.

The Japanese system is different in many ways from the American system. Unlike in America, profit is not the final word in the Japanese model. Corporate governance is based in Japan on family ties and relations. All decisions are based on general consensus. Community value is given more importance. There is the practice of cross-shareholding and there is not much of hostile take-over. Industrial activities are controlled by the government. The German system is based on a two-tier system. Directors can access all types of information; corporate cross-holding of shares is a very common practice. Commercial banks have dominating and controlling power, and there is a personalised relation between the corporate sector and the banking sector. In the German model, the stock market is not dominated by individual households and the government takes active interest in the development of the corporate sector.

The concept of corporate governance is relatively new to developing and transitional economies. However, they have now learnt the advantages of and the need for having good corporate governance in the context of liberalised economies. These countries have become more conscious and concerned about corporate governance after the onset of the Asian Financial Crisis of 1997. Many of these countries were themselves affected by this financial crisis. To be precise, most of these countries explicitly recognised the importance of good corporate governance because of its contemplated advantages as early as in 1999 during the period of the crisis. Corporate governance in these countries is in the process of evolution and they are trying either to follow the established international principles or are in the midst of making their own rules.

Key Terms

Sarbanes-Oxley Act
Wall Street Crash of 1929
Work Council
Cross-holding of Shares
Two-tier System of Corporate
Governance

Macroeconomic
Fundamentals
Hybrid Model of Corporate
Governance
Enlightened Anglo-American
Model

Financial Crisis Principal-Agent Problem

Test Your Knowledge

1. State whether the following statements are True or False

- (i) The Anglo-American model is a capitalist model of corporate governance.
- (ii) The Franco-German model is based on the philosophy of industrial partnership.
- (iii) The fundamental objective of Sarbanes-Oxley Act (2002) was to control malpractices in corporate governance.
- (iv) The American model of corporate governance is a two-tier system.
- (v) The Japanese system of corporate cross-holding (keiretsu) by banks and affiliated companies minimises the risk of hostile take-over.
- (vi) The German system of corporate governance is a two-tier system.
- (vii) In most of the developing and transitional economies, vested interests and political interference are very common in corporate governance and practices.
- (viii) Unlike in America, profit is not the final word in the Japanese model.
 - (ix) For Hong Kong, it was formally recognised that only 4% of the companies had audit committees.
 - (x) It is accepted by many experts that for Germany, the Japanese will be more suitable.

2. Fill in the blanks

(i)	The model is perhaps as old as the history of capitalism.						
(ii)	The Liberalization, Privatization, Globalization model can be otherwise extended as						
	,, and						
(iii)	The Anglo-American model adopts a tier governance system.						
(iv)	The model is based on the philosophy of industrial partnership of all the						
	people who are associated with the governance mechanism.						
(v)	of a company in the United States is a common phenomenon in the						
	corporate world.						
(vi)	Information asymmetry has been wiped out in the corporate governance of						
vii)	corporate governance system is a two-tier system.						
/iii)	It is accepted by many experts that for Germany, the model will be more suitable.						

	A properly conducted corporate gafter mass scale		-			
(x)	Taiwan initiated the process o	of reforms	of corporate	governance	in the year	
3. Choos	se the correct option					
(i)	Who said the famous words, "I as	m going to	die and you ar	re to live; onl	y God knows	
	which one is better"?					
	(a) Socrates		Plato			
	(c) Aristotle	` ,	None of them	l		
	The Enlightened Anglo-American	_				
	(a) A hybrid model		A globalized			
	(c) Both (a) and (b)		None of these			
(111)	Which model gives topmost priorit	-	est of the share	eholders and	its objective is	
	to increase shareholders' value and		T 1' 1 1			
	(a) German model		Indian model			
<i>(</i> : \	(c) Anglo-American model				1 1	
(1V)	Which model is based on the philosophy of industrial partnership of all the people who					
	are associated with the governance			1.1		
	(a) Anglo-American model		Franco-Germ	an model		
()	(c) Indian model		All of them	:		
(V)	After which incident did the business people of America became more interested in understanding the nitty-gritty of Corporate Governance?					
		ate Governan	ice :			
	(a) Wall Street Crash, 1929(b) Formation of the Bill Clinton government					
	(c) Both (a) and (b)		None of these	.		
(vi)		` '			morate Gover	
(V1)	The fundamental objective of which Act is to control malpractices in the Corporate Governance in America?					
	(a) The Parliament Act	(b)	Sarbanes-Oxl	ev Act		
	(c) Both (a) and (b)		None of these	•		
(vii)	While in the United States, market	` ,			in Ianan they	
(111)	have:					
		(b)	Financial Cal	culus		
	(c) Communitarian Calculus					
(viii)	The Japanese system of corporate				s:	
(,,,,,	(a) Shitsuke		Seiri			
	(c) Seiso		Keiretsu			
(ix)	The supervisory board in the German Corporate Governance is called:					
()	(a) Aufsichtstrat	•	Keiretsu			
	(c) Both (a) and (b)	` ,	None of these)		
(x)	The executive board in the German	` '				
()	(a) Aufsichtstrat	•	Vorstand			
	(c) Keiretsu	(d)	None of these	2		

Review Questions

- 1. Compare and contrast the corporate governance systems in Japan and the United States of America. Which one is better according to you and why?
- 2. Compare and contrast the corporate governance systems in Germany and Japan. Which one of them you do not like and why?
- 3. The Anglo-American Model has proved to be both good and bad. Discuss.
- 4. Outline a model of ideal corporate governance suitable for a developing country like India.
- 5. What are transitional economies? Enumerate the problems of these economies to have a system of good corporate governance.

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CHAPTER 20

Ethics and International Business

LEARNING OBJECTIVES

This chapter will help the reader to understand

- Why international business (IB) is growing so fast?
- Ethical issues in IB
- MNCs and unethical IB practices
- Cross-cultural ethical dilemmas and IB decision-making
- Do's and don'ts in IB
- Global values, codes and principles for IB
- Caux principles, Sullivan principles, global compact and DeGeorge's ten principles of IB

Introduction

Alice asked the Cat: "Would you tell me please which way I ought to go from here"?

Cat: "That depends a good deal on where you want to go to".

Alice: "I don't much care where".

Cat: "Then it doesn't matter which way you go".

(Lewis Carroll, Alice in Wonderland)

The above conversation between Alice and the Cat is very relevant for the businessman who wants to venture into international business. Success in international business needs proper direction, aim

and focus. It requires proper planning for products, places, prices and presentation. In the days of globalization since the 1980s, most of the companies are going global and virtually there is now **the end of geography.** The global economy has enormously expanded to the tune of \$ 35 trillion and is being operated by more than 100,000 multinational corporations (MNCs). *The world is more flat now* and technological and communication gap and information asymmetry are fast disappearing. Abundant capital flows across countries are also creating opportunities to go global in search of a lucky break for business. Some developing countries, like Brazil, Russia, India and China (BRIC countries) are doing better than other developing countries in international business.

The **Schumpeterian theory of innovation** is becoming a reality now in less developed countries (LDCs) and they are navigating in the international arena for better business, international market share and goodwill. Joseph Schumpeter has classified five different forms of innovation (See Ghosh, 2004, pp. 88–89):

- The introduction of new goods
- The introduction of new method or technique of production
- The opening of markets
- Exploration of new sources of raw materials, and
- The reorganization of an industry

Needless to add, all the aforesaid forms of innovation can and are growing through liberalization and globalization in recent years, and international business in this context has become extremely beneficial.

However, with the increasing complexity and volatility in the global business, the ethical issues, dilemmas and dissensions have also become very problematic. This chapter will discuss some of the major unethical issues in international business, the negative impacts of MNCs, cross-cultural problems and challenges, international codes, values and principles, and some general guidelines for doing international business.

WHY IS INTERNATIONAL BUSINESS GROWING SO FAST?

Several factors are responsible for the unprecedented growth of international business in the present century. Most of these factors are associated with the growth of globalization since the 1980s of the last century. Globalization stands for unification and integration of many factors the totality of which is immensely useful for the growth of international business (IB) (see Friedman, 2005). Some of these factors and forces can be discussed here briefly as:

- World trade has been growing very rapidly over the years. Regional trading nations are now joining the international trade game to expand their economies and to realize a higher rate of economic growth. International trade has been found to be contributing to economic growth in many stagnant or slow economies of less developed countries. Trade is still now regarded as the engine of growth. Over the last 25 years or so, world trade has grown more than three times.
- The growth of trade is facilitated by the **availability of capital through international sources** like the World Bank, IMF and many other multilateral sources. The introduction of many facilities for the expansion of free trade and the abolition or minimisation of tariffs has also

- significantly contributed to the expansion of global trade. The declaration of the WHO that it will create a framework of predictability and stability for the expansion of trade and commerce among nations is an additional factor giving incentive to less developed countries.
- The **expansion of the knowledge sector** has been able to create a large stock of high quality workforce in many developing economies and it has been possible to carry on innovation, technological development and productivity gain and cost reduction. The increased cross-country mobility of the high quality workforce has been responsible partly for the flow and cross-fertilisation of news ideas and innovation. All this has contributed to new product development through better processes and techniques.
- **Technological development** and its rapid spread over the countries has significantly changed the method and techniques of production. Also, production can now be done just in time. Better technology has produced several advantages including minimisation of cost and time and better quality of products, which are all very essential for **comparative advantage at the international level**.
- Globalization has annihilated the distance, information asymmetry and communication gap. Thanks to the growth of information technology and internet, businessmen can, within no time, gather the information on trade volumes and values, currency values, trade facilities and barriers, potential demand, and so on regarding trade with a particular country, or about the trend in international trade. The efficiency of search engines and that of Google particularly has been a boon to IB across the world.
- The digital devices, mobile phones, email facilities, SMS, instant messaging, and so on are helping the trading people to take almost immediate decisions in the matter of trade. Digitalisation of information technology is a significant contributory factor for the growth and exchange of knowledge about trade. Cross-country phone calls, which are an index of the degree of globalization, have enormously expanded these days.
- Outsourcing or subcontracting is now possible on a large scale among the manufacturing and trading countries. Thus, cheaper materials and inputs can be procured from any part of the world for the sake of the growth of export promoting and/or import substituting industries. This has contributed towards reduction in cost structure.
- The off-shoring of production through the relocation of manufacturing plant is now possible, and that makes possible the use of cheap local labour that significantly reduces operation costs. In this way, the product cycle can be divided into several parts and each one can be located to the area where raw materials and labour are cheap and abundant in supply.
- The supply chain system has also undergone a tremendous structural change. Several countries and world trading centres can now be connected in the supply chain to make time and cost savings possible.
- International demonstration effect has intensified the demand for foreign commodities and branded products. Globalization seems to have brought about some unification and homogeneity in consumers' culture. The increasing demand for foreign goods as a result also of increased real per capita income has called for a sustained increase in trade and commerce. For instance, the wave of Westernization that dominates the cultural transformation of the developing world has been increasing the demand for American pop songs, coke culture and American goods.

Most of the aforesaid factors have created a situation of **horizontal convergence** that has brought companies, customers and places much closer at the international level. Moreover, the success of the western capitalist countries in the realm of growth and development has attracted many Asian economies to the western model of capitalist development, and especially the East Asian countries like Malaysia, Indonesia, Philippines, Thailand and the *Tiger economies* have not only emulated the western model but have also been integrated with the western capitalist world. This has once again resulted in various types of trade interactions in these countries.

ETHICAL ISSUES IN INTERNATIONAL BUSINESS PRACTICES

There are many unethical practices in international business (IB). No one is very sure whether or not these practices are the causes or the effects of globalization, nor can one vouch for the fact that these practices are all brought about by MNCs in different countries. But in varying degrees, these unethical practices are still continuing. In what follows, an attempt will be made to briefly discuss some of the major unethical practices in IB in different countries:

Human rights violation is rampant in IB all over the world. These violations come in the form of abuses of foreign workers, abnormally low wages, use of child labour, inhuman working conditions in factories, long hours of work, violation of many basic rights to employees, maltreatment of women and child labourers, and the basic right to organize themselves to solve their own problems is denied to factory workers. The ILO estimates that not less than 250 million children in the age group of 5–14 years are working in developing countries.

Prevalence of racial and sexual (gender) discrimination is another very fundamental ethical issue in IB. Some scholars will consider this as a form of violation of human rights. Be that as it may, it is a hard fact that in many countries, labour is hired on the basis of race and religion. Thus, in Saudi Arabia Hindu labourers are not generally favoured and, similarly, in Malaysia and Indonesia Chinese workers do not have good opportunities to be employed in factories. Even inside a country, son of the soil theory is always favoured. In Germany, Turkish immigrant labourers who have been working there since long are not given citizenship although the country needs such labourers.

In some countries, like in some Arabian nations, women are not hired for running businesses. In the Middle East, companies may simply refuse to negotiate with foreign saleswomen. Sexual harassment, moral harassment and mobbing are well-known in many countries including Europe (Human Rights Project Report, 2007). Minorities are also discriminated against in countries like Bangladesh, Sri Lanka and Indonesia, among others.

Bribery and kickbacks are normal practices in IB. However, in some countries, they more acceptable than in others. Bribery is an unethical practice because it breeds injustice and, in some cases, misallocation of resources. A study by Keston Joan has revealed that bribery payments are estimated to be \$ 1 trillion in the world (Keston, 2007). The opinions of many consumers and businessmen in different countries think that bribery has increased over the years. *Transparency International* which studies the prevalence of corruption in world countries found that in many countries 30 to 50 per cent of the consumers paid some form of bribe money in Cameroon, Cambodia, Paraguay and Mexico, and in many other countries less than 30 per cent was the bribe

payment (Transparency International, June 2005). In 2007, the Transparency International found that one of the most corrupt countries in the world was Somali followed by Iraq, Haiti, Tonga, Uzbekistan, Chad, Sudan and Afghanistan. Officially, the United States' Foreign Corrupt Practices Act (FCPA) does not allow bribe to be given to foreign firms. However, it permits small grease payments to ministerial or clerical government employees. Although bribe is not permitted in many countries, small gifts which are genuine, transparent and does not attach any condition is permitted by the OECD principles.

Selling of harmful products. Although banned in many advanced countries, these are still continuing in LDCs. Genetically engineered products are banned in many countries and labelling of such food products has been made compulsory in USA and EU. The supply of tobacco products is decreasing in USA but their exports are increasing in LDCs. Baxter International's defective kidney dialysis filters killed ten people in Spain, in the 1970s, Nestle's infant formula proved to be fatal for children in Africa, and ConAgra Foods supplied raw beef in America that caused E. coli infection to many people. All these are common news items. Many countries are now trying to prevent the entry of such harmful goods to their countries.

Price discrimination being practiced in many countries is an unethical issue if it reduces competition and goes against the poorer section of the society. Many vitamins producing companies in USA and EU overcharge consumers, and it is a great business. Prices are increased through monopolization and gouging. Gouging is a situation where very high prices are charged from the customers for a limited period of time. Anyways, unfair prices are invariably unethical.

Dumping is another form of unethical international business practice where domestic consumers may be charged more and foreign customers are charged less for a limited period. It is unethical because competition is thwarted and prices are artificially set just to capture a vast market. Many LDCs have been experiencing dumping by food MNCs who are supplying food items to these countries and thereby ruining the ago-based producers and the agricultural activities.

The use of child labour is rampant in many developing countries, including India, Pakistan, Bangladesh and these labourers are exploited in drug selling, trafficking, prostitution and crime rings (ILO: 101 Report). Many international companies use child labour and pay them almost nothing for keeping the cost of production very low. Once, USA refused to buy Indian carpets because they were made by using child labour. The use of child labour is morally degrading and is a form of exploitation.

Violation of Intellectual Property Rights is unethical and costs every country substantial losses. It demoralizes the creators and innovators. According to one estimate, the loss to the United States on this account amounts to \$250 billion per year and costs about 750,000 jobs (as quoted in Weiss, 2009, p. 252). India and China, among other countries, are in the US list of intellectual piracy (of music and software). Imitation of branded products is a regular phenomenon in LDCs. In India, China, Brazil and Africa, downtown streets are flooded with imitation articles like Adidas sneakers, Rolex watches, Ferrari jeans and the like at throw away prices. The Houghton Mifflin Publisher came to know that counterfeit textbooks are being published in India for world distribution (Ferrell et al., 2003, p. 257).

A study suggests that the original innovators must make suitable changes in the products to make imitation practically difficult (Gupta and Wang, 2007).

Pollution of natural environment is also an unethical business practice resorted to by many MNCs today. Most of the pollution is done by foreign firms in the name of business and development in LDCs. As international business interactions and industrial growth rate are going up, the volume and intensity of pollution are also increasing rapidly. In some cases, like in Mexico, anti-pollution laws are very stringent and legal sanctions are imposed on polluting firms. At present, Australia is regarded as the largest greenhouse emitter. Many countries are now implementing anti-pollution laws but some countries just do not pay any heed. For instance, Israel is accused of defying international convention by dumping toxic waste in the Mediterranean.

MULTINATIONAL CORPORATIONS (MNCs) AND UNETHICAL INTERNATIONAL BUSINESS

Most of the instances given in the preceding discussion show the involvement of some MNCs throughout the world. *Chapter 6* of this book has already given some account of the evils of some MNCs (readers are advised to read Chapter 6 in this context). This section gives a summary of some additional points relating to MNCs:

- MNCs transfer jobs from high wage to low wage countries. They use labour-saving devices and create unemployment. They bring down the wages to the minimum and practice what is known as race to the bottom. This is unfair to the uneducated labour force at the bottom. Critics maintain that MNCs exploit the labour markets of host countries.
- In many cases, they work in collusion with the local government and hire and fire labourers whenever they want. In this way, in Myanmar, they used forced labourers to complete some national projects (Waldman, 2002)
- MNCs also exploit the capital markets of the host countries. Their huge borrowing leaves the capital market empty, and local capitalists cannot borrow from these markets.
- MNCs do not share the cost of social development in the host country.
- MNCs create many negative externalities while carrying on production in less developed countries. However, they do not internalise the bad effects and do not pay any compensation.
- Some consumers' products produced by MNCs for the less developed countries do not contain the label for **consumers' safety and warnings**. The Bhopal gas tragedy in India and Nestle's marketing of powdered milk in Africa and Firestone tyre crisis in Venezuela pose questions on the safety standard and controls by MNCs.
- MNCs have also been found to be **associated with illegal lay-offs**, corporate crimes, exerting political influences in many countries (Ghosh, 1985). They have also been found guilty of **supporting the racial regime** of the then South Africa.
- MNCs are said to have a control over their core technology which is never transferred.
- MNCs, very often, exert considerable influence on a country's capital market and limit
 the local government's ability to access capital and resources. This process intensifies the
 dependency of the less developed countries on developed countries.
- They also, through many types of scholarships, fellowships and grants, lure away the stock of high quality workforce from the developing countries. This phenomenon is often termed as

skill drain or brain drain. This hampers the development process of the less developed countries.

• The above discussion does not intend to blame MNCs across the board. We cannot deny some important and beneficial roles that MNCs have been making in developing countries. In this respect, the contributions of Nike, Cadbury, Patagonia and many others are undoubtedly praiseworthy.

CROSS-CULTURAL ETHICAL DILEMMAS AND INTERNATIONAL BUSINESS (IB)

- There are many types of dilemmas in IB. A serious dilemma in IB is the **cultural dichotomy**. The culture of the domestic country of the businessman may not be the same as that of the host country. For instance, the social and business culture in India and Saudi Arabia is not the same.
- Body language also conveys different meanings in different cultures. For example, nodding of heads up and down may mean different things to different countries. In Albania, it means "no" but in USA, it means "yes".
- Religious taboos may also prove to be dangerous at times in the context of international business. For instance, a Hindu trader may feel offended when he is offered beef preparation for a dinner in a Muslim country.
- The perception of time is also not the same in different countries. American firms put more values on promptness but Indian firms approach the concept of time in a relaxed way (Ferrell, et al. 2003, p. 240).
- The cultural value of one's own country may not be suitable for another country where one is doing business and the imposition of the cultural standard of the domestic country will tantamount to cultural imperialism which may not work at all in IB. The Americanization or what is called the McDonaldisation of culture has evinced a lot of protests from the cultural fundamentalists in many less developed countries (Ritzer, 2004). So, a further extension of business in this front needs to be done with more care and circumspection.
- Another form of ethical dilemma is the acceptance of the principle, "when in Rome do as the Romans do". In doing so, a businessman may be going against his moral standard or the established law and may even be committing some moral vices. Thus, if a Muslim business executive is asked to take wine in USA, and he drinks for the sake of business, he will not be able to excuse himself for the moral lapse if he is a staunch Muslim. Thus, **cultural relativism** may involve dilemmas in IB.

In many cases of IB, the basic problem is to resolve the ethical dilemmas. The global legal or regulatory standards are not so problematic as the ethical and cultural dilemmas. For instance, supposing laws in the host country are silent, in such a case, is it ethically rational to charge high prices for a monopoly product, or to resort to dumping, to exploit labour or to take advantage of the loopholes of laws? These are all ethical issues. Since these issues are crucial in IB, many organizations and institutions have formulated ethical values, codes and principles that can be followed by business people for conducting international business. These will be discussed in the last section of this chapter. It is now imperative to know a few Dos and Don'ts in IB.

Do's and Don'ts in International Business

It is instructive to bear in mind that in the case of successful international business, there is no universal standard that can be uniformly applied in all countries under all circumstances. Even international business ethics or morality does not provide standardized short-cut code of conduct for businessmen that can be followed universally. Very often, personal judgment and decision making skills are of immense value. Having said that, one can in a very general way, specify a few points that are to be followed in IB. The following are the **twenty most important Dos and Don'ts for IB**.

Do's for International Business

- Under all situations, respect and protect Human Rights.
- Always follow the law of the land even if you do not like them.
- Respect and obey Govt. orders and codes of behaviour.
- Use an objective criterion for negotiations as far as possible.
- Use a solution (just like the Nash equilibrium) that will benefit all the parties involved. Nash
 equilibrium is a set of strategies such that no one of the participants in the game can improve
 his gain, given the strategies of other participants.
- Use peaceful process of settlement of disputes, if any.
- Understand the business environment, the people, the core values, culture, tradition and the society.
- Respect the religion of the country.
- Build interpersonal relationship with customers, employees and suppliers.
- Maintain honesty, integrity, accountability and transparency.

Don'ts for International Business

- Do not use dirty tricks for favourable negotiations.
- Don't be rude, over-smart or opportunist.
- Don't boast of your culture and trivialize the culture of the host country.
- Don't cross the cultural limit and taboos.
- Don't pollute the environment.
- Don't pick up quarrels unnecessarily with the local employees. Grant them whatever is right.
- Don't do any work that offends the people, employees, consumers and government.
- Don't offer or accept bribes.
- Don't practice discrimination in price fixation and treatment of employees.
- Don't produce or circulate harmful, unsafe and dangerous product.

Ethical Decision-Making in International Business

In making ethical decision, one needs to make a compromise. This may involve sacrificing, to some extent, your own absolutist ethical standard. You may have to accept the relative ethical values or standard. There are many styles of ethical decision-making. There are basically the following **Five**

modes of ethical decision-making in IB. George Enderle (see Donaldson, 1989) talks about the first four methods given below. The last one is put forward by Donaldson.

- 1. The method of Ethical Relativism: The idea is to follow the ethical norm of the host country.
- 2. Imperialistic method: In this case, the firm applies its domestic ethical standards and
- 3. A method of compromise: This involves the solution of an ethical issue on the basis of shared values of the home and host countries. The best solution is the one that brings a win-win situation for both the parties.
- **4.** Cosmopolitan global method: In this case, the company follows the international/global standard. It does not bother about the host or home country standard.
- 5. Donaldson's hyper-norms method: According to this method, for a good decision-making it is imperative to follow some universal absolutist norms consisting of some fundamental rights and duties. There are various such rights like human rights, right to personal security, right to have freedom, right to equality, and so on.

Having said all this, it is instructive to note that a good ethical decision-making should also take into account the universal ethical values, company mission/vision and professional ethics. A good international company should also care for economic responsibility of making a reasonable amount of profit, environmental responsibility of keeping it clean and social responsibility of enhancing the social welfare of host country people. These **triple bottom lines** are increasingly becoming popular among successful international business houses.

GLOBAL VALUES, CODES AND PRINCIPLES FOR INTERNATIONAL BUSINESS

In the face of many unethical international business practices and cross-country variations in business morality and ethics, many authorities have formulated certain global values, codes and international business principles. The basic purpose of the present section is to elaborate on a few of such values and principles.

The Caux Roundtable Principles (CRP)

The Caux roundtable principles were adopted in 1986 and were first published in 1996. Some senior business executives of a few countries including Japan and United States organized a roundtable conference at Caux in Switzerland and adopted some principles. These principles are popularly known as the Caux Principles (for details, see www.cauxroundtable.org). These principles were formulated so that **moral capitalism** can work simultaneously with the neo-liberal globalization. It is believed that the laws of market are necessary but are not sufficient for a responsible business conduct. Hence, some ethical principles are necessary for international business.

Three Ethical Foundations of CRP

• Living and working together for mutual advantages (**Kyosei** in Japanese language)

- Respect and protection of human rights and human dignity
- Respect for stewardship.

The following **Seven Principles** were formally adopted as CRP:

- 1. Respect shareholders beyond shareholders.
- 2. Contribute to the economic, social and environmental development.
- 3. Build trust by observing the letter of the law.
- 4. Respect local rules and conventions.
- 5. Support responsible globalization through open and fair trade, reform measures, and so on.
- 6. Respect the environment.
- 7. Avoid illicit activities in business.

Stakeholder Principles

- **Customers:** Treat them well and provide them with the highest quality product and services. Assure respect for human dignity in marketing, advertisements and dealer network.
- Employees: Take employees' interest seriously. Help improve their working and living conditions. Encourage employees for suggestions, new ideas and treat them with dignity. Provide safety in work environment and job security.
- Owners/Investors: They deserve fair and competitive return on their investment. Provide them information on the company performance. Protect and show growth in the assets provided by them.
- **Suppliers:** There should be a mutual respect with suppliers and sub-contractors. Maintain long-term business association and develop them to be equally competitive as the parent company in quality and competitiveness.
- Competitors: Fair business competition will help enhance quality and value for customer money. This should also promote competitive behaviour in socially and environmentally beneficial activities.
- Communities: Corporates have a responsibility to respect human rights, democratic institutions, society at large and support public policies and practices that promote human development though harmonious relations between business and other segments of society.

Global Sullivan Principles of Social Responsibility of Business

The Sullivan principles were developed by Leon Sullivan of General Motors in 1977. Many firms throughout the world now subscribe to the Sullivan principles. There are mainly the following eight such principles.

As a company which endorses the Global Sullivan Principles we will respect the law, and as a responsible member of society we will apply these principles with integrity consistent with the legitimate role of business. We will develop and implement company policies, procedures, training and internal reporting structures to ensure commitment to these principles throughout our organization. We believe that the application of these principles will achieve greater tolerance and better understanding among peoples, and advance the culture of peace (for details, see www.the sullivanfoundation.org). Accordingly, we will:

- Express our support for **universal human rights** and, particularly, those of our employees, the communities within which we operate, and parties with whom we do business.
- Promote equal opportunity for our employees at all levels of the company with respect to issues such as colour, race, gender, age, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude or other forms of abuse.
- Respect our employees' voluntary freedom of association.
- Compensate our employees so as to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.
- Provide a safe and healthy workplace; protect human health and the environment and promote sustainable development
- Promote a fair competition including respect for intellectual and other property rights, and not offer, pay or accept bribes.
- Work with governments and communities in which we do business to improve the quality of life in those communities – their educational, cultural, economic and social well-being and seek to provide training and opportunities for workers from disadvantaged backgrounds.
- Promote the application of these principles by those with whom we do business.

The Global Compact

The Global Compact is an international forum which works under the aegis of the United Nations. The Global Compact was formed under the initiative of the then UN Secretary General Dr. Kofi Annan in July 2000. It was advised that companies operating internationally and also big corporations should be the members of Global Compact. The basic purpose of Global Compact is to make these business houses self-sufficient to resolve many problems that become apparent during the period of globalization in the context of cross-cultural ethics and problems. Annan hoped that a proper observance of Global Compact will ensure a more sustainable and inclusive global economy. All global companies should set up their business in consonance with the philosophy of Global Compact so the corporate social responsibility and sustainable development become the critical core values of these companies (see www.unglobalcompact.org).

There are the following **Ten Principles of the Global Compact:**

Human Rights

- 1. Business should support and respect the protection of internationally proclaimed human rights.
- 2. Companies make sure that they have no complicity in human rights abuses.

Labour Standards

3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.

- 4. The elimination of all forms of forced and compulsory labour.
- 5. The effective abolition of child labour.
- 6. Eliminate discrimination in respect of employment and occupation.

Environment

- 7. Business should support a precautionary approach to environment challenges.
- 8. Undertake initiatives to promote greater environmental responsibility, and
- 9. Encourage the development and diffusion of environment-friendly technologies.

Anti-corruption

10. Business should work against corruptions in all its forms including extortion and bribery.

The Global Compact is a voluntary initiative, but is has become popular amongst international business companies. More than 700 international companies have become its members and are doing well.

Apart from these three well-known principles and international codes there are some other values and codes of conduct formulated by many researchers and analysts. In this context, the following **Ten principles** suggested by DeGeorge will be briefly enumerated (DeGeorge, 1993, pp. 114-21).

DeGeorge's Ten Principles of International Business Ethics

- Look at the **problem from different perspectives** like national (legal policy), international, industry and organizational perspectives. Use the technique of **ethical displacement**, if necessary. This means the searching for clarification at the higher level than the personal.
- Use publicity against all types of unethical practices. This will generate pressures against immorality.
- Use the rule of proportionality. This means that the punishment should be proportional to the harm done and the gain to be obtained.
- Use the principle of accountability. The people who have done wrong or harm, should be made accountable. You should also be accountable for your action.
- Be ready to pay the cost imposed on you by unethical people through their organized strategy.
- Act with moral courage based on your values, ethical principles and morality.
- If necessary as a method of retaliation, use restraint and apply minimum force.
- Do not violate your norms and values and never use unethical means to win over a situation.
- Use your moral imagination (or inner voice) while responding to an unethical opponent.
- Work jointly with others to create new social, legal and public institutions to respond to immoral actions and behaviour.

Having understood different global values, codes and principles, it needs to be emphasised that many international companies are now trying to understand the implications of these codes and principles and are showing more response and interest in global social responsibilities in carrying

on international businesses, and some of these business houses are preparing their own core values that can prevent future ethical dilemmas and cross-cultural conflicts. These companies need to perform some balancing actions that will satisfy the local norms, universal international values, the business norms and the personal ethical standards.

The real problem remains in the operation or implementation of different types of values in actual practice and there may arise ethical conflicts because some operational terms do not have the same connotations. For instance, liberalization, globalization or democracy means different things to different people. Virtues like honesty and sincerity are adored by all but their implementation becomes problematic because their meanings may vary when contextualised under different situations or cultures. To cite just one example, *pride* is a great virtue in a Greek society but not in India. A reconciliatory approach to decision-making is indeed pretty difficult in practice at the international level mainly because of the fact that cultures and values are inherently different in essence. However, there is still some hope in the sense that there appears to be some agreement on the need for a set of core values for successful international business.

Summary

Success in international business needs proper direction, aim and focus. It requires proper planning for products, places, prices and presentation. In the days of globalization since the 1980s, most of the companies are going global and virtually there is now the end of geography. Several factors are responsible for the unprecedented growth of international business in the present century. Most of these factors are associated with the growth of globalization. Globalization stands for unification and integration of many factors the totality of which is immensely useful for the growth of international business. Many factors and forces including the unprecedented expansion of trade, capital mobility, technological development, expansion of knowledge, expansion of communication facilities, possibilities of outsourcing of men and materials have helped to expand international business.

However, there are many unethical practices in international business. None is very sure whether or not these practices are the causes or the effects of globalization, nor can one vouch for the fact that these practices are all brought about by MNCs in different countries. But in varying degrees, these unethical practices are still continuing. Some of these practices are: human rights violation, bribery and kickbacks, prevalence of racial and gender discrimination, the use of child labour, selling of harmful products, dumping, violation of intellectual property rights and environmental pollution. Some of the MNCs, no doubt, are engaged in unethical business practices.

There are many types of dilemmas in IB. A serious dilemma in IB is the *cultural dichotomy*. The culture of the domestic country of the businessman may not be the same as that of the host country. For instance, the social and business cultures in India and Saudi Arabia are not the same. There are indeed many cross-country differences in terms of religious taboos, body language and cultural perspectives. There is a tendency of some countries to impose their culture on other countries (cultural imperialism). However, the business people have to make a compromise in many instances and accept the truth-value of cultural relativism. They follow the dictum: when in Rome, do as the Romans do.

In many cases of IB, the basic problem is to resolve the ethical dilemmas. The global, legal or regulatory standards are not so problematic as the ethical and cultural dilemmas. For instance, suppose laws in the host country are silent, in such a case, is it ethically rational to charge high prices for a monopoly product, or to resort to dumping, to exploit labour or to take advantage of the loopholes of laws? These are all ethical issues. Since these issues are crucial in IB, many organizations and institutions have formulated ethical values, codes and principles that can be followed by business people for conducting international business.

In this context, seven principles have been formulated by the Roundtable Conference at Caux in Switzerland (Caux principles), eight principles are developed by Leon Sullivan of General Motors, ten principles formulated by the UN and ten principles of IB by DeGeorge.

Needless to say, many international companies are now trying to understand the implications of these codes and principles and are showing more response and interest in global social responsibilities in carrying on international businesses, and some of these business houses are preparing their own core values that can prevent future ethical dilemmas and cross-cultural conflicts. These companies need to perform some balancing actions that will satisfy the local norms, universal international values, the business norms and the personal ethical standards.

Key Terms

Cultural Imperialism
Cultural Relativism
Tiger Economies
International Demonstration
Effect
Horizontal Convergence

Flat World
Brain Drain
Sullivan Principles
Caux Principles
Triple Bottom Lines
Win-Win Situation

Gouging
Dumping
Compact Principles
Nash Equilibrium
Ethical Displacement

Test Your Knowledge

1. State whether the following statements are True or False

- (i) Genetically engineered products are banned in many countries.
- (ii) Gouging is a situation of charging high prices from consumers.
- (iii) Body language matters. Nodding of heads up and down in Albania means "no" but in USA, it means "yes".
- (iv) The Transparency International (2007) found that one of the most corrupt countries in the world was Somali followed by Iraq, Haiti, Tonga, Uzbekistan, Chad, Sudan and Afghanistan.
- (v) The Houghton Mifflin Publisher came to know that counterfeit textbooks are being published in India for world distribution.
- (vi) The Global Compact is a voluntary initiative, but is has become popular amongst international business companies.

- (vii) The GC was formed under the initiative of the then UN secretary General, Dr. Manmohan Singh, in July 2000.
- (viii) The Caux roundtable principles were adopted in 1986 and were first published in 1996.
 - (ix) The perception of time is also the same in different countries.
 - (x) MNCs transfer jobs from high wage to low wage countries.

2. Fill in the blanks						
(i)	According to Friedman,	stands for unification	and integration of many			
	factors the totality of which is immensely	useful for the growth	of international business.			

	factors the totality of which is immensely useful for the growth of international business.			
(ii)	is still regarded as the engine of growth.			
(iii)	International effect has intensified the demand for foreign commodities			
	and branded products.			
(iv)	Prices are increased through monopolisation and			
(v)	The many types of scholarships, fellowships and grants, lure away the stock of high			
	quality workforce from developing countries. This phenomenon is often termed as			
(vi)	A serious dilemma in International Business is the			
(vii)	The Americanisation or what is called the has evinced a lot of protests			
	from cultural fundamentalists in many countries.			
(viii)	In Relativism, the idea is to follow the ethical norm of the host country.			
(ix)	CRP can be otherwise expanded as			
(x)	The is an international forum which works under the aegis of the United			

3. Choose the correct option

Nations.

- (i) Officially, which organization does not allow bribe giving to foreign firms in the US?
 - (a) United States' Foreign Corrupt Practices Act (FCPA)
 - (b) The MRTP Act
 - (c) Both (a) and (b)
 - (d) None of these
- (ii) A study by has revealed that bribery payments are estimated to be \$ 1 trillion in the world?
 - (a) Adam Smith

(b) Karl Marx

(c) Max Weber

- (d) Keston Joan
- (iii) Which theory is becoming a reality now in less developed countries?
 - (a) The Schumpeterian theory of innovation
 - (b) Marxian theory
 - (c) Both (a) and (b)
 - (d) None of these
- (iv) JIT can be otherwise known as:
 - (a) Just in Theory

(b) Job in Time

(c) Job in Theory

(d) Just in Time

(v)	What is known as a situation where very high prices are charged from customers, may be				
	for a limited period of time?				
	(a) Gouging	(b)	Zipping		
	(c) Zapping	(d)	None of these		
(vi)	What involves the solution of an ethical is	sue o	on the basis of shared values of the home		
	and host countries?				
	(a) Cosmopolitan global method	(b)	A method of compromise		
	(c) Both (a) and (b)	(d)	None of these		
(vii)	According to which method, for a good de	ecisio	on-making it is imperative to follow some		
	universal absolutist norms consisting of some fundamental rights and duties?				
	(a) Cosmopolitan global method	(b)	A method of compromise		
	(c) Donaldson's Hyper-norms method	(d)	None of these		
(viii)	The Caux Roundtable Conference was hel	d in:			
	(a) Germany	(b)	Switzerland		
	(c) India	(d)	America		
(ix)	Living and working together for mutual advantages, in Japanese, is called:				
	(a) Seiri	(b)	Shitsuke		
	(c) Kyosei	(d)	None of these		
(x)	How many principles are there in the Global Compact?				
	(a) 20	(b)	12		
	(c) 8	(d)	10		

Review Questions

- 1. Enumerate the important reasons for the rapid growth international trade and business in recent years.
- 2. What are the evil effects of MNCs in developing countries?
- 3. Enumerate the major ethical issues in international business practices.
- 4. What ethical dilemmas a businessman faces in conducting international business? Suggest some ways and means to make ethical decisions in the context of these dilemmas.
- 5. What international guidelines, codes and principles can help a businessman to conduct business in an international environment?
- 6. What important factors will you keep in mind in doing global business?
- 7. Supposing there are cross-cultural conflicts, how do you propose to carry on international business?

Web Links

1. http://www.eurojournals.com/irjfe_26_08.pdf

[Globalization and International Marketing Ethics Problems]

 $2. \ http://www.aabri.com/manuscripts/09279.pdf$

[International Business Ethics: Strategies and Responsibilities]

- 3. http://www.c2principles.org/Fireworks/The%20Caux%20Round%20Table%20 Principles%20for%20Business.pdf [The Caux Round Table Principles for Business]
- 4. http://en.wikipedia.org/wiki/Sullivan_Principles

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5. http://www.greenleaf-publishing.com/content/pdfs/jcc11kell.pdf

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Cases

- 1. Jesus Forgives the Immoral Woman
- 2. China's One-Family, One-Dog Policy
- 3. Students Protest Over Fees Hike
- 4. High-Handedness of Microfinance Institutions
- 5. Muslim Women and Divorce Laws
- 6. Paid News Scandal and Unethical Journalism
- 7. Adarsh Housing Society Scam
- 8. Endosulphan and the Kasargod Tragedy
- 9. Outsourcing Students' Homework at Low Costs
- 10. The Gita: Some Ethical Issues
- 11. A Story of Love, Revenge and Remorse
- 12. Is Mercy Killing Unethical?
- 13. Secrets of Credit Card Theft
- 14. Is There Full Religious Freedom in India?
- 15. The Impact of the WTO
- 16. Economic Growth and Income Inequality
- 17. Democracy, Development and Labour Market Reforms
- 18. Nestle's Infant Formula Controversy
- 19. Labour Market Dynmaics of the Arab World
- 20. Empowerment of Women in India
- 21. Ethical Dilemma of a Police Officer
- 22. Child Sex Trade in Asia
- 23. Second Freedom Movement against Corruption in India
- 24. Globalization and Human Health
- 25. Globalization: Some Ethical Issues

Case 1. Jesus Forgives the Immoral Woman

Jesus Christ was a teacher who always told simple parables in his teachings. He is the Son of God for Christians, and for the Jews too he was the long-expected messiah. But he was the son of a carpenter named Joseph belonging to Nazareth. Even after performing lot of miracles and teaching the word of God, the Pharisees (high priests of Jews) found it difficult to accept him as the Son of God. Jesus went on teaching and performing miracles and a large crowd always followed him, apart from his disciples. The poor and oppressed found comfort from him and never stopped following Jesus whether in seashores, mountains or even remote villages. For, they found relief in his words and teachings. This provoked the Pharisees. This was because they felt his presence was something that damaged their so-called status in the society. Hence they were eager to trap him.

One day Jesus Christ went to the Mount of Olives, a place near Jerusalem. It was early in the morning and he found the usual crowd eager to listen to him. He was a man of compassion and started teaching them. An angry mob intruded his speech by wildly pulling a woman by her hair in front of Jesus. This group was led by some Pharisees with a secret aim to trap him. The rule among the Jews, laid by Moses was that any man or woman caught for adultery should be stoned to death. But Jesus always said, "I have come to save the sinners" which was something never acceptable for the Pharisees. Thus, he would undermine the Law of Moses, and Pharisees could trap him for going against the Law. The mob had elders and the youngest as well. They yelled: "this woman was caught in the act of adultery". Saying this, they brought her to Jesus. Jesus never bothered about them and was busy scribbling on the ground. "Master, she had done wrong and which is a shameful act; she has been caught for adultery". Jesus understood their secret intentions and asked them, "What does your law say?" They answered, "Master, our law, the Law of Moses, says us that she should be stoned to death", and what do you say?" They continued tempting him, "What do you say?" expecting an immediate reaction from Jesus. Their curiosity increased, when Jesus stooped down scribbling on the ground with his finger. He acted as if he never heard them.

The time went on, the absolute silence with few whispers gained momentum into sort of murmurings but Jesus went on scribbling, testing their patience. Jesus did not utter a single word; the mob was getting impatient and continued with the same question. As time passed by, he stood up, looked at the Pharisees with a penetrating stare and said with authority, "The most innocent among you can throw the first stone". He again stooped down and continued scribbling.

When they heard what Jesus said, a shiver ran down their spine as his words had pricked their conscience. They were spellbound. Gradually they started leaving one after another. They finally realized that no one can stand in front of God almighty who can read their minds and no one is worthy of judging their fellow beings.

While all of them left, the woman, still trembling looked up at Jesus. She saw the compassion in his eyes, when he asked her "Woman, are they all gone"?

"Yes master, they left", said the woman.

He then asked, "Did they not condemn you?"

She answered politely "no one, Lord".

Her timid looks revealed that Jesus would punish her; but was rather relieved when Jesus said,

"I do not condemn you either, go in peace. But do not indulge in sin anymore". She left him with a peaceful new heart, and reassured of a new hope in life that Jesus gave.

Jesus came to this world for preaching love, peace and forgiveness. Christianity is the religion of redemption and reform. Jesus was a reformer and his aim was to show the correct way, reveal the truth and give new lives to the people. He was of the opinion that one should hate the sin but not the sinner. In all his actions, Jesus followed this noble ideology.

Source: Contributed by Ms. Shruthi Francis, Union Christian College, Kerala

Questions

- 1. Why did Jesus save the woman in spite of her guilt? Was it ethically proper for a person like Jesus to save her? Explain your views.
- 2. Justify the actions of Jesus in terms of principle of care ethics.
- 3. Why Jesus did not listen to the request of the mob to stone the woman to death as per the Law of Moses?

Case 2. China's One-Family, One-Dog Policy

Like India, China is burdened with teeming millions, although it has a much larger land area. From the very beginning, the Chinese government realized that in order to ensure a higher per capita income growth, what is essential, is to reduce the population size. Hence it adopted a drastic population policy of one family one child.

For decades, families in China have had to carefully adhere to the strict guidelines of the One Child Policy. In the sprawling metropolis of Shanghai, this controversial and unpopular rule will soon be expanded to an unlikely member of Chinese households—their four-legged residents.

A draft "One Family, One Dog" law being reviewed by the city's legislature will now limit dog-owners to raising only one dog at home. The draft cited Shanghai's high population density and limited living space as the reasons behind the proposal, the *China Daily* reported on Thursday.

With a growing middle class, an increasing number of Chinese, particularly in more affluent cities, such as Shanghai, have become pet owners, a once reviled bourgeois attribute in the days of Mao Zedong. China now has a booming pet industry with more than 5,000 pet products according to one report, and a generation of pet-owners who spare no means in grooming and doting over their animals. Unsurprisingly, the draft law has evoked strong criticism from Shanghai residents, who say the measures are impractical in a city with few dog shelters and resources for residents to turn to. However, in spite of their disagreement with the proposed, the people cannot do much because of the nature of the government. Unlike India, China is not a democratic country.

The draft law, in some sections, reads strangely similar to family planning regulations. Those breaking the law will be fined 1,000 Yuan, or around Rs. 7,000 (far less than the average 20,000 yuan or Rs. 1.4 lakh families have to cough up for a second child). If dogs have puppies, owners will have to give them away to government-approved agencies.

"The rule is unfair and just doesn't make any sense", Shanghai resident Jessie Zheng, who owns a 7-year-old Pomeranian, told *The Hindu* over telephone. "The only valid argument is the question of limited space in Shanghai. But if homes are big enough, there should be no issue. And most importantly, this is a question for families to decide, not the government".

The only silver lining for dog owners like Ms. Zheng is that the draft law brings down the high registration costs pet owners currently face. In China, dogs have to be registered with the local government—a license costs around 2,000 Yuan (Rs. 14,000). As a result of the high costs, most dog owners do not register their pets (and only walk them at night). According to official figures, Shanghai has 800,000 dogs, though only a quarter are registered.

The One Dog Policy, expected to take effect next year (2011), ironically comes into force just as the city begins moving away from the One Child Policy. Faced with an ageing problem, the Chinese Government last year began encouraging couples who are both only-children to have a second child. Ms. Zheng, an only child, said the One Dog Policy was unfair on humanitarian grounds too. She said, "Dogs need dog-friends too". It is pointed out by many that, like the policy of one child, one family, the policy on dogs is a also not going to be a sustainable policy.

Source: Adapted from The Hindu. November 12, 2010

Questions

- 1. Why is one-dog policy unfair on humanitarian ground?
- 2. What are the basic objectives of China's one-family, one-dog policy?
- 3. Analyse the possible consequences of such a policy.

CASE 3. STUDENTS PROTEST OVER FEES HIKE

All capitalist countries are selling education and it is a big business. But the students have to bear the brunt every time the fees are increased. The fee hike is frequently made and the most affected are the students from the Third World countries. In November 2010, students in the UK actively protested this practice. Thousands of angry university students stormed the Conservative Party headquarters in Central London smashing windows and hurling burning objects into the building as a protest against planned cuts to higher education funding and increase in tuition fee turned violent. Several people, including one policeman, have been taken to hospital with minor injuries. The Milbank Tower, where the Conservative Party offices are located, was virtually taken over by slogan shouting demonstrators some of whom climbed on to the roof of the building amid fears that violence could spread.

While trying to tackle the situation, the Police blamed a minority of "troublemakers". The National Union of Students (NUS) also condemned the violence describing it as "despicable". "I'm disgusted how a minority of troublemakers have hijacked a peaceful protest", said NUS president Aaron Porter. Trouble was also reported to be brewing outside the offices of Liberal Democrats, coalition partners of the Conservatives. Some 30,000 students and teachers were taking part in the protest described as the biggest show of student power in recent memory. The march started peacefully but took a violent turn when it reached the Conservative Party Offices.

"It was all peaceful – they were just shouting but now there are hundreds outside, smashing the windows, big eight foot windows of the tower have been smashed, there's glass flying everywhere", said Sky TV as protesters threw sticks, bottles and other missiles. Speaking before the public, Mr. Porter said the proposed increase in tuition fee and cuts in education funding were "utterly unacceptable". "We are taking to the streets in unprecedented numbers to tell politicians that enough is enough", he said accusing the government of abdicating its responsibility. In the Commons, Liberal Democrat leader and Deputy Prime Minister Nick Clegg was involved in angry exchanges with the opposition Labour Party over the proposed fee increase. Mr. Clegg who opposed tuition fee in opposition was accused of opportunistic u-turn for supporting the increase.

For the second time in two weeks, Britain was hit by a wave of angry student protests marked by clashes with police and sporadic incidents of violence. They were protesting against proposed cuts in higher education funding and increase in university tuition fees. In London, demonstrators vandalized a police van, hurled wooden poles, bottles and other missiles as they tried to break through police barriers around Whitehall, where government offices are located. At one stage, tension amounted as students lit a fire on the road leading to Downing Street and threw fire-bombs. Two police officers were injured while several arrests were made.

Effigies of the Liberal Democrat leader and Deputy Prime Minister Nick Clegg were burnt to show their anger against his "U-turn" on his election promise to oppose the tuition fee increase. There were plans to demonstrate outside the Lib Dem headquarters but police were reportedly determined not to allow a repeat of what happened two weeks ago when students attacked the Conservative Party headquarters. "There is a consensus to prevent further criminal damage and we will look to disperse anyone being held as soon as we can and when we can to ensure no further criminal damage will be committed elsewhere," police said in a statement. Invoking the "Spirit of the 1968 protests", organizers warned of an "unprecedented wave of students "occupied" university campuses and staged "sit-ins" in many parts of the country.

Some of Britain's most famous universities, including Oxford and Cambridge, were affected with students taking out marches and protesting outside government buildings. Leader of the National Union Students Aaron Porter said he was opposed to any violence. "There are no conditions in which violence is acceptable. We saw a couple of weeks ago the anger that students had with regard to the government's proposals and tomorrow is another opportunity for students to show what they think about those proposals. From my perspective I think it's really important that the campaign continues its momentum and we continue to hold the government to account," he said. The protest is still continuing and no solution is in the offing.

Source: Adapted from The Hindu, November 11 and 25, 2010

- 1. Is it morally right to make a violent protest against fee hike? Explain your views.
- 2. Do you think that such a fee hikes are justified? Explain.
- 3. Is it a moral issue or a political issue in Britain now?

Case 4. High-Handedness of Microfinance Institutions

All India Democratic Women's Association (AIDWA) is doing a good job by bringing to surface the cases of gender exploitation and discrimination in India. Among the several resolutions passed by the Association (AIDWA) in Kanpur, one of the most important ones was on the need to regulate microfinance institutions (MFIs), which are exercising an iron grip on poor women debtors in several states of the country. The resolution drew attention to the "spate of suicides as a result of the harassment and strong-arm tactics employed by commercial and profit oriented corporate MFIs for loan recovery". Taking advantage of the failure of banks to meet the credit needs of the poor, "This new breed of moneylenders is luring women to form Self Help Groups, and then charging them exorbitant rates of interest—as high as 48–60 percent. Whatever little collectivism has been generated by the SHGs has been systematically destroyed in the process".

It highlights the situation in Andhra Pradesh, where "32 MFIs are reported to have given loans worth Rs. 25,000 crore to 40 per cent of the poor women in the State. Unable to meet their forcible demands for loan recovery, more than a hundred people have committed suicide in the last three months". The ordinance promulgated by the Government of Andhra Pradesh is an eye-wash as it does not put a cap on the interest rates that MFIs can charge. The resolution calls for an immediate Central law to cap interest rates charged by MFIs, and to regulate their operations; to file criminal cases against MFIs engaged in extortionist practices; to cap interest rates from banks to SHGs at four per cent and cap loans given by MFIs to not more than two per cent above the banks interest rates to MFIs; and to expand cheap credit facilities through direct banking to SHGs.

The MFIs are run by corporate money-lenders and they are not less exploitative than village money-lenders. This was the observation of the Vice President of the Orissa Unit of AIDWA, described the credit situation in her State. The AIDWA unit in Orissa surveyed 600 SHGs in 12 districts of the State, including those that have taken government loans; those that have taken loans from government and MFIs; and those that borrowed only from MFIs. The last category accounts for 70 per cent of the SHGs surveyed.

An empirical survey revealed that MFIs had penetrated deep into villages and towns. While on paper, the rate of interest is a flat 10 per cent, the interest charged is on the entire principal through the repayment period, with cuts made from the principal amount under several heads—such as processing fee, bank charges, agreement charges, membership charges and so on. "The compounded interest is never less than 52 per cent, and we found that on the last 10 rupee installment, the interest is 525 per cent!" Measures of recovery are harsh. Agents operate through the head of the SHG the debtor belongs to, and take away her every possession. "Bilashini Behra from Bhubaneshwar took loans from three MFIs, each successive one to pay the previous. She committed suicide because she could ultimately not repay", said Ms. Praharaj.

"The Central government, with the view that this can attract Foreign Direct Investment, has moved a Bill on MFIs", said Rajya Sabha MP Brinda Karat. "There is no cap on interest, so that women's savings can be taken control of, destroying the autonomy of SHGs". The Andhra Pradesh Chief Minister told the AIDWA delegation that he had instructions from the Centre that there should be no cap on interest rates. No one knows the motive of the central government on this issue. The matter needs further investigation.

Source: Adapted from The Hindu, November 12, 2010

Questions

- 1. What are the major problems in the microfinance institutions in India?
- 2. Are the actions of microfinance institutions morally justified?
- 3. What remedial measures, you think, are necessary to eliminate the problems?

Case 5. Muslim Women and Divorce Laws

Does the Islamic law (the sharia law) discriminates against women? The matter is controversial particularly when the question of *talaq* (divorce) is concerned. It is said that a married Muslim woman can be divorced by uttering the word "*talaq*" thrice by the husband. "The triple *talaq* is a sword hanging over the heads of married Muslim women", said Sehba Farooqui, secretary of the Delhi State Unit of the All India Democratic Women's Association (AIDWA), in her introduction to the resolution on the practice of triple *talaq* passed by the 9th national conference of the organization on Wednesday. "A minor disagreement can result in *talaq*". Drawing attention to a case where a wife was recently divorced through online chat, the resolution highlighted the "iniquity and absurdness" of a practice that is affecting thousands of Muslim women in the country today. The Darul-Uloom-Deoband upheld the husband's right and issued a fatwa against the wife. The AIDWA resolution argues that not only is the practice of triple *talaq* discriminatory and unjust towards the wife and thus against constitutional principles, it is also contrary to Islam. "Triple *talaq* said in one sitting is a part of one interpretation of the Koran. Actually, the Koran proscribes it", argues Ms. Farooqui. "There is another interpretation that *talaq* should be given over the three-month period, and we are urging that this pro-woman option be exercised".

Triple *talaq*, according to the resolution, has been proscribed or limited in a number of countries across the world, for example in Pakistan, Indonesia, Iraq, Turkey and Tunisia, and that it is only in India that Muslim men have untrammeled freedom to utter *talaq* thrice. AIDWA sent a representation against the practice signed by 20,000 Muslim women to the central government and the Muslim Personal Law Board, but this was ignored. The occasion was also marked by the release of a book entitled 'Muslim Women: AIDWA's Interventions and Struggles', a collection of articles, reports and documents on the many levels of discrimination faced by Muslim women: in the personal sphere, as victims of communalism and terrorism, and as a section deprived of basic rights of citizenship.

But there are some exceptions. The contrast in the status of Muslim women across the country is vividly illustrated by the experiences of Tajwar Sultana, an activist who lives and works in the crowded by-lanes of the Jama Masjid area of Old Delhi, and 35-year-old Parveen Akhtar from west Tripura, who is an elected member of the *Zilla Parishad*. "There is absolutely no practice of triple *talaq* in my State", said Ms. Akhtar with a laugh, adding that Muslim women have come forward significantly into the political space. "In the Ashabadi Panchayat of Baksanagar block of the nine members, eight are Muslim and one Hindu. The State Government has introduced many schemes for Muslim women".

Is Talaq Uttered on Cell Phone Valid?

Talaq uttered thrice by a Muslim man on mobile phone will be considered valid even if his wife is unable to hear it all the three times due to network and other problems, a fresh fatwa has ruled. This ruling was given by the Darul Tfta, the Fatwa Department of leading Sunni Islamic seminary Darul Uloom Deoband, in reply to a question posed by a man. He had asked that in case no witness was present when he uttered talaq over the phone, would it be considered valid? "I angrily said talaq thrice to my wife over cell phone but she claimed that she didn't hear it even once, and nobody was around. Please tell me whether the talaq has taken place," he asked.

The Darul Ifta is of the opinion that, "If you have said *talaq* thrice to your wife, it is valid." The fatwa said women would be free to marry after her *iddat* period (three months after divorce) is over. It is not necessary that the wife hears it or witness is present for the *talaq* to take place, the fatwa ruled. In October, the seminary had ruled that saying *talaq* thrice even in jest was valid as per Islamic law. A youth, in his query, had said that while chatting with his wife over the net he had playfully typed *talaq* thrice. The problem is that many young married Muslim people do not really know how *talaq* is executed. The youth said he was living happily with his wife and wanted to live with her in future as well and he disapproves his action. The Darul Ifta, in its reply said once *talaq* was said thrice, it amounted to a divorce. It did not matter whether the man had enough knowledge of Islam or not. As per the ruling, the woman would be required to complete the *iddat* period after which she could marry another person. She would be then required to divorce her second husband and go through the *iddat* period again. "Only then would she be allowed to remarry her former husband." Another question implicit in this remarriage is: Will the former husband accept her when she is already married to someone else? This is indeed a big question.

Source: Adapted from The Hindu, November 11 and 16, 2010

Questions

- 1. What are the major ethical issues involved in *talaq* (divorce)?
- 2. Is this process of talaq justified by Islamic laws?
- 3. Do you think that the Muslim women are discriminated? Explain your views.

Case 6. Paid News Scandal and Unethical Journalism

Corruption in the field of journalism is not unknown. But the recent trend in paid journalism is suspected to be professionally unethical as it distorts news and makes it in favour of somebody or against someone else. It is anti-democratic in nature. The "paid news syndrome" in the media should be resisted as part of a larger struggle for democratic rights because corruption in the media directly affects the health of democracy. The struggle has to be waged in the context of media's corporatization, monopolistic trends and structural decline. These views emerged at a day-long seminar on "Abridging Freedom and Fairness of the Media: Combating Challenges", organized by the Rajasthan Working Journalists' Union, the People's Union for Civil Liberties (PUCL) and the Human Rights Law Network here on Sunday.

While delivering the Keynote address, P. Sainath, Rural Affairs Editor of *The Hindu*, said that the paid news scandal, unearthed during the Assembly elections in Maharashtra last year, had exposed a full-fledged industry that was out to integrate journalism into it, blowing apart all values, principles and ethics of news writing.

Mr. Sainath observed that, "For the corporate world, everything including the news is a commodity. With newspaper space purchased for publicity in the garb of news, politicians break the electoral expenditure limit without inviting action, and the media evade tax and develop a political cloud". He regretted that even as statutory bodies, such as the Press Council on India (PCI) and the Election Commission, had initiated a probe into the scandal, the mainstream media was still silent on the issue. "This is a matter of shame. It exposes the corporate media which has blacked out the racket".

It is sometimes believed that the media have "structural compulsions to lie" because of heavy investments made by them in the market. The Election Commission had created a paid news and money power division and the Central Board of Direct Taxes had deputed a senior officer to look into the matter, he said. The Securities and Exchange Board of India (SEBI) is also closely monitoring the new trend. "The choice is clear. Either we finish paid news, or paid news finishes us", said the journalist, making a reference to the PCI "suppressing" a 72-page report of a two member sub-committee on the subject identifying the perpetrators of the crime. Mr. Sainath said the PCI, as the moral guardian of journalism, was expected to take a bold stand on the issue. He said while the media's independence was at stake in the country, the suicide of 2 lakh farmers in Maharashtra, Karnataka, Andhra Pradesh, Madhya Pradesh and Chhattisgarh between 1997 and 2008 received very little coverage in the mainstream media. "Evidently, the media universe has changed", he observed.

Painful Struggle

In order to make media reporting true, comprehensive and balanced, it will be necessary to take steps going beyond self-regulation, such as anti-monopoly legislation, mandatory SEBI guidelines and democratization of media. He also sought citizens' support to the progressive sections of media and creation of an increased public space in the media. Speakers in other sessions highlighted instances of attempts to curb freedom of expression, the state and big business interests exploiting the media, extremist groups silencing the voice of criticism and curbs imposed by the media houses on the professional life of their staffers.

Source: Adapted from The Hindu, November 15, 2010

- 1. What is paid journalism scam?
- 2. Is it morally right to have a system of paid news? If not, why not?
- 3. How does it violate the principles of journalistic ethics?

Case 7. Adarsh Housing Society Scam

Scams and scandals have now become part and parcel of the Indian society, economy and polity. The housing scams of 2010, however, have emerged as one of the biggest enemies of the Indian armed forces. Even as the muck from the Rs. 295-crore Sukhna land scam is yet to be washed off, many top officers have yet again brought shame to the uniform by acquiring flats built in the name of the Kargil war widows. But, as more names surface in the Adarsh Housing Society scam, a disturbing question haunts the Army headquarters in Delhi: How was the Defence Ministry unaware of the whole deal? The scam comes a major embarrassment for Defence Minister, A.K. Antony, who recently pledged to rid the armed forces of impropriety. A red-faced Army chief, General V.K. Singh, has apparently issued strict warnings to commanders to ensure such incidents do not occur in their sectors. However, Singh refused to divulge details, "As far as we are concerned, the inquiry is on, and I would not like to comment beyond this, as it may hamper the inquiry", he said.

The Adarsh housing scam involves precisely two issues: one is the unethical and illegal behaviour on the part of the recipient of the houses which they are not entitled to, and the bigger question is about the disproportionate assets of some defence personnel. For instance, it is said that even a junior commissioned officer of the army owns an Adarsh flat worth more than Rs. 2 crore. While the Centre was reviewing the scam, Defence Minister A.K. Antony sought reports from the Army and the Navy. According to the Defence Ministry, there has been no communication from state about the land or the construction of the 31-strorey, 104-flat building in Colaba. "We were never approached by anybody about the land", said Ministry Spokesman Sitanshu Kar. Incidentally, the building overlooks sensitive defence installations, including a naval airbase.

There are many big bosses involved in this scam. Among the 37 defence personnel who have been allotted flats in the building are two generals, one former chief of Navy staff, three lieutenant generals, three major-generals, one vice-admiral and five brigadiers. Four successive general officers commanding of the Pune-based Sothern Army Command and Major-General R. K. Hooda, currently posted at the Army headquarters, too, own Adarsh flats. But, many of the officers claimed that they had no inkling the land was meant for Kargil widows and rued the mess up. The three former service chief-General N.C. Vij and General Deepak Kapoor, and Admiral Madhavendra Singh-were among the first to surrender their flats.

Adarsh Society President, Brigadier (retd) M.M. Wanchu, cited a defence communication and stated the land belonged to the state government. "It was subsequently allotted to the society... it is clarified that defence has nothing to do with the land in question", he said. Wanchu also dismissed reports that while allotting the land, the State Government had stipulated that it was reserved for Kargil war widows or a girls' hostel. But defence ministry sources told *The Week* that in the original application submitted in 1999–2000, Adarsh promoters asked for land in the name of retired and serving defence personnel.

Kargil was mentioned for the first time in a letter (June 2000) to Chief Minister, Ashok Chavan, who was then state Revenue Minister. Also, in many communications, it was mentioned that the society had many officers who took part in Operation Vijay. Thereon, the cause of Kargil martyrs was repeatedly used to gain permissions and benefits. Major-General (Retd) T. K. Kaul's role has now come under the scanner since he was the sub-area commander in Mumbai when the project

was initiated. As new skeletons fall out each day, the stench is getting nauseating. How long will the Defence Ministry remain tightlipped? How long will the housing society remain 'Adarsh'?

Source: Adapted from The Week, November 14, 2010

Questions

- 1. Explain the basic ethical issues involved in Adarsh Housing Scam?
- 2. Who do you think is morally responsible: the distributor of flats, the receiver of flats or anybody else? Explain.
- 3. How do you propose to solve the situation and punish the guilty?

CASE 8. ENDOSULPHAN AND THE KASARGOD TRAGEDY

For the last so many years, the people working in the plantation site and in the neighbouring areas of Kasargod (Kerala) have been suffering from the harmful effects of endosulphan. The organochlorine pesticide Endosulfan, sprayed extensively in the plantations of Kerala Plantation Corporation, is one of the major reasons for the abnormal health conditions including physical deformities and mental retardation found among people in 11 panchayats of Kasargod district, according to a study.

A study conducted in the '2001–2005' period by three experts reveals that the abnormality among people is high in areas close to the plantation where Endosulfan was sprayed. Through geographic mapping, cluster areas of abnormal health conditions were indentified and a study was conducted to identify any association between pesticide exposure and health hazards. In the study that covered the entire Kasargod district, abnormal health problems were found in 11 panchayats and the 'number of cases' was high in four panchayats including Badiyadukka, Enkamaje, Coomanagedge. "For the case-control study, primary data for 221 cases, 176 unmatched controls and 189 'age and sex' pair-matched controls, were collected and analysed. Exposure measurement was through two variables—residential proximity of the parents to the Endosulfan sprayed plantations and occupational handling of pesticides by either of the parents".

In a paper presented before experts in a conference at Tanzania, Dr. Sukumaran told that the found a link between 'Endosulfan spraying' and mental and physical abnormality of people in the Kasargod district, was proved by a major section of the academic community through scientific studies. "The spraying of Endosulfan using helicopters caused direct contamination of water resources and entered the body", he added. The fact that, endosulphan has damaging effects on human health, has not been accepted as true by many people. The controversy was ongoing for quite some time in the past. However, its use of the chemical has now been banned in Kerala and the Govt. of India is also ordered its discontinuation in the country.

Source: Adapted from Indian Express, November 14, 2010

- 1. Explain the adverse health impact of Endosulphan spray?
- 2. Who is to be morally blamed and why?
- 3. How do you propose to compensate the victims?

Case 9. Outsourcing Students' Homework at Low Costs

Everybody has heard about outsourcing of some company works and essential inputs but outsourcing of students' homework is a new phenomenon of this century. This is being openly practiced in developed countries, including the European nations. Outsourcing of jobs to low-cost destinations has been a prickly issue for some time now, but Australian academics are worried over a new trend—of students outsourcing homework to their counterparts in India, Pakistan and Egypt.

With the cheap rate prevailing in developing countries of India and Pakistan (@\$2 for 100 words), high school and university students in Australia have found out ways to outsource homework projects. An increasing number of websites are offering to write essays, term papers or dissertation writing services, the *Sunday Herald* said in a report. The websites offer "fixed-price" services or allow students to put work out to tender, promising to tailor their work to display different levels of expertise.

The outsourcing is available not only for doing homework but also for doing many small odd jobs which are labour-intensive in nature. Matt Barrie, founder of a website designed to put small businesses in touch with affordable labour in emerging economies, has found homework assignments are often put through his site, the paper said. "We get them all the time and, as a lecturer, I really don't approve, but kids will be kids—they will always find away to cheat", he said. And some young people in countries like India and Pakistan, among others, are finding it a lucrative option to earn respectable pocket money. "It is my part-time job, I get work from all over the world, including Australia, the US and the UK", said Mohammed Ali Khan, 23, a graduate from Pakistan, who is churning out essays and papers for high school and university students charging \$2 per 100 words.

Is the outsourcing of homework for students unethical? This is controversial. Some experts will say that if the students understand what is written, they can learn rather than copying from elsewhere. So the learning process continues. However, many are of the opinion that students themselves should do the homework and not get them outsourced. Such an attempt will jeopardize the very meaning of education based on learning by doing. However, others agree to differ on this issue.

Academics say it is a worrying trend. "The trend towards custom-produced work at such low costs, particularly at university level where lecturers may not know their students as well as in high school, is extremely worrying because it is much harder to spot", says Mary Bluett, Victorian branch president of Australian Education Union. Australian Education Minister Bronwyn Pike said: "Students who submit purchased work risk being caught and facing severe consequences."

Source: Adapted from the Press Trust of India, Melbourne, November 14, 2010

- 1. When the outsourcing of students' home assignments makes all parties happy, why it is considered as immoral? Explain.
- 2. Under what ethical principles, such outsourcing becomes immoral?
- 3. How, according to you, the situation can be tackled forever?

Case 10. The Gita: Some Ethical Issues

The *Bhagavad Gita* is a Hindu scripture and contains the essence of many Upanishads and the teachings of Vedanta. It is said that Lord Krishna is the divine milkman, milking the cow of the Upanisahds to yield milk for Arjuna and also for the entire humanity at large. It is set in the battle-field of Kurukshetra at the very beginning. It is a war between the Kauravas and the Pandavas. In the war, Lord Krishna assumes the role of Arjuna's friend and charioteer. He is also the philosopher and guide. Arjuna along with his four brothers had to fight the battle against their Kauravas cousins to regain their lands and titles that were immorally and unlawfully taken away by them. The Pandavas did not ask for half of the kingdom which was their rightful share, but only asked for five villages for the five brothers. The Kauravas did not agree to given even a small piece of land without fighting. This was the main cause of war between the Kauravas and the Pandavas.

However, when Lord Krishna positions his horse-drawn chariot in the midway between two armies on both the sides, Arjuna becomes flabbergasted and is not want to fight the battle as the commander for the Pandavas. However, Lord Krishna insists Arjuna to fight the battle with the courage of a warrior (*kshatriya*). He tells Lord Krishna that he is not prepared to kill his own cousins, uncles, teachers and his maestro who taught him archery. Arjuna's heart is greatly troubled as he has to kill many of his own people and relatives. Arjuna at this stage confronts an ethical dilemma between duties as a warrior and the ethics of care and compassion. Lord Krishna asks Arjuna to fight the right kind of battle and not to be a coward. He says it does not matter who gets killed, for people will have to die sooner or later. It is the mortal body which perishes and not the soul. Krishna asks Arjuna to fight (to perform the assigned duty) as a duty, and to perform the assigned duty is everybody's religion. One should perform his duties without any desire for the fruit of the action and its reward. This is one of the fundamental teachings of the *Bhagvad Gita*.

Arjuna wants to know why he should fight a battle like this between close relatives. He wants to know more about his duty, about the sin that he commits by killing his people and what happens when one dies and leaves this world, and so on. Lord Krishna answers all his questions and shares the spiritual knowledge with Arjuna.

Lord Krishna explained to Arjuna that there is no point at this stage to think about your sin if you kill your kith and kin. The Lord says, "Giving up all dharmas, come to Me alone for refuge; I shall free you from all types of sin". Having said this, the Lord dispels all doubts from the mind of Arjuna who ultimately gets ready for fighting the battle.

Source: B.N. Ghosh, Teaching Materials on Business Ethics, IMT, Punnapra, Kerala

- 1. Is it ethically right for Lord Krishna to persuade Arjuna to fight a battle with his close relatives? Explain.
- 2. They say to forgive is divine. Is it not ethically more graceful to forgive the wrong-doers, particularly when they are your close relatives? Give your views in terms of the ethics of care and compassion.
- 3. Lord Krishna asks Arjuna to give up all religions. Does it not mean that the *Gita* is an antireligious book, and teaches people to be atheist? Elucidate your point of view.

Case 11. A Story of Love, Revenge and Remorse

At long last, in the early fifties of his life, Biren got an appointment in a Singapore-based company as its Director with a lucrative package. He joined the firm and within a very short time, he carved out niche for himself as a polite, amiable, respectful and professional person. Biren used to visit his family and friends in India once in a year for a month or so. He wanted to take with him his wife and his only son, Babul, but since his son was appearing for the civil services examination and the wife was working in a private college, they did not want to accompany him. Rima, his wife is a beautiful and a highly educated and sophisticated lady. Biren and Rima had an inter-caste marriage and both were happy and contented.

In Singapore, Biren had to appoint a lady, Mira, to do household chores, washing and especially cooking Indian food. Mira first told Biren that she was a divorced woman. However, gradually she disclosed that she was married but her husband left her soon after the marriage as he was a drug addict. She was young and pretty but her life was miserable and lonely. Biren by nature is a sympathetic person and his sympathy for the poor girl, Mira, gradually turned into love quite unknowingly and rather unconsciously. Mira loved him more than Biren's love to her. She considered his love as the anchor of her life. Mira knew that Biren was a married man with a grown-up son. But that did not deter her love to Biren.

A woman perhaps has a better faculty of introspection than that of a man. In the course of time, Rima started doubting her husband and asked him to resign and come back to India. Biren wanted to stay there for a few more years as per the contract and of course for the money that he was getting from his company. He told Rima that after coming back to India, he will have no good job to fall back on.

Biren bought a very expensive house in the name of Rima and presented her with a new and dainty car. Rima was temporarily happy once again. As time passed by, there grew a faint hope in the mind of Mira that, since Biren is so considerate and nice to her, may be one day he would marry her and would permanently settle in Singapore. A romantic and innocent mind often does not brook the convoluted world of reality but always simplifies it to accommodate her dreams. She hardly knew that Biren cannot permanently stay in Singapore on a contractual job.

Next year, as usual, Biren came to visit his family and found that his house was cordoned off by private security guards, and he was not permitted to enter his house. Rima left the house by putting a note to her neighbour saying that somebody from Singapore had written to her that Biren would come to India with his new wife (Mira) to take away all his bank balances. Hence, she had withdrawn all his money by forging his signature. As the house was in the name of Rima, Biren was dispossessed of the house.

Biren has now virtually become a pauper. He came back to Singapore with a broken heart. He has lost everything—his family, his love and his material possessions. He resigned from his job and came back to India. Mira heard about all these and did not want to put him into further trouble. She blamed herself by saying that all these happened because of her. She knew that being a foreigner; she cannot stay with Biren forever in India as his wife. For a Hindu, a second marriage is an offence. She asked Biren to go to India and compromise with his wife and forgive her for the money that she has stolen.

Biren now stays with a family as a paying guest. His wife, Rima, stays alone in her house and the son who is a senior civil servant, visits her occasionally. He did not approve of her mother's cheating on his father. Mira's husband is now almost a normal person, and they now live together. However, she never told her husband about her relationship with Biren. She never loved her husband. She still loves Biren and hopes to be united in the next life.

Rima now hates Biren and she says she has taken revenge by making him a pauper. Biren feels that he is completely misunderstood; he never married anybody and still loves Rima as ever before. He made several attempts to make a compromise but Rima is a stubborn lady. Biren only wishes that before taking all drastic actions, Rima, who has stayed with him for thirty years, should have just spent thirty minutes to discuss the whole issue and the rumour. Mira is lonely with her husband; Rima is alone and Biren is forlorn and dejected feeling occasionally sad, remorse and guilt in his mind. Who is at fault?

Source: B.N. Ghosh, A Collection of Short Stories (Unpublished)

Questions

- 1. Who is the guiltiest character in this episode?
- 2. Why did Rima take the revenge? Do you think that the forgery she committed is morally right?
- 3. What is your opinion about the character of Mira? Where is she ethically wrong?

Case 12. Is Mercy Killing Unethical?

Mercy killing is suggested by many in the cases of those patients who are terminally ill and have been suffering from excruciating pain and discomfort for long. Mercy killing is also called euthanasia. One widely-accepted definition of euthanasia is "a deliberate intervention undertaken with the express intention of ending a life, to relieve intractable suffering." It's also simply called "mercy killing." Again, euthanasia itself may include voluntary, non-voluntary, involuntary and active or passive kinds. In India, despite a long ongoing debate and a few landmark legal precedents, any form of euthanasia amounts to criminal homicide punishable by law. A major apprehension among those who are against any form or mercy killing is that, if legalized, some instances could be disguised murders, especially of the sick and elderly, which the perpetrators could get away with.

The Supreme Court (1994) had proclaimed that the right to life provided in the Constitution might bring into its purview the right not to live a painful life. This in effect temporarily made suicide no longer an offence, and would by extension have legalized assisted suicide, which is what euthanasia usually is. But in 1996, while dealing with another case, the Supreme Court reversed its earlier judgment and made suicide once again a punishable offence. Even so, in practice, the police and the legal system generally deal leniently with those who unsuccessfully attempt suicide, because such people are usually depressed of suffering deeply in some way. But any kind of assisted suicide-including shocking, stray instances reported of *sati*, the ancient, outlawed practice of widows committing suicide with the assistance of relatives on their husband's funeral pyre, does not get such sympathy.

A history was made by the Supreme Court again in 2009 when it admitted a petition filed on behalf of Mumbai nurse Aruna Shanbaug, now 62, who has been lying in a semi-comatose state since 1973 after she was raped and strangled by a hospital employee. In many countries, voluntary euthanasia is legal such as in the Netherlands, Switzerland, Belgium, Luxembourg and in the US states of Oregon and Washington. In Australia, euthanasia was legalized temporarily in the Northern Territory in 1997. Since then, there have been 12 attempts to legalize euthanasia in Australian state parliaments, all of which have failed. England and Wales are taking the first step to consider passing a law on assisted dying. According to a recent online news report in the *British Medical Journal*, a 12-member commission will consider if such a law is required, and submit a report in October next year. Assisted dying involves a doctor prescribing a life-ending dose of medication to a mentally competent, terminally ill adult at his request. It is the patient who administers the medication himself.

Some countries are trying to legalize assisted dying. Assisted dying is very different from euthanasia. In the case of euthanasia, the life-ending medication is administered to the patient by a third party, usually a doctor. On the other hand, assisted dying refers to providing assistance to someone to die. Former Lord Chancellor Charles Falconer, who will head the commission, was reported as saying to the BMP that the idea for the commission came from Dignity in Dying, a national campaign and member organization that is striving to make this legal. Money for the commission was raised by Dignity in Dying. Despite this, Lord Falconer has made it explicitly clear that the members will act independently and that the commission will not be influenced by anybody. Currently, it is illegal in England for doctors to help terminally-ill and mentally competent patients to die. While terminally-ill people can travel to Switzerland and resort to assisted dying, people in England who had helped the patient to travel to Switzerland can be punished. Apparently, Lord Falconer had tabled an amendment in the House of Lords to provide legal protection to those who had helped terminally-ill patients to travel abroad for an assisted dying. His attempt failed, though.

Switzerland is not the only country that has legalized assisted dying. The State of Oregon in the U.S. was the first in the world to legislate assisted dying way back in 1997. Citizens there had voted for the "Oregon's Death with Dignity Act" in 1994, but immediate implementation was delayed due to legal hurdles. There have been 460 patients in Oregon who had died by taking advantage of the Act between 1998 and 2009.

In the *New England Journal of Medicine*, it is reported that there were totally 23 patients who received legal prescriptions for lethal medications between January 1, 1998 and December 31, 1998 in the State of Oregon. Of the 23, only 15 patients actually took the lethal medications and ended their lives. Washington State emulated Oregon and voted for assisted dying in November 2008. Eleven people used prescribed medicines to end their lives within six months after the State law permitted assisted dying. Three countries—Belgium, Luxembourg, and the Netherlands have legislated assisted dying. Voluntary euthanasia is forbidden in Switzerland. But Article 115 of the Swiss Penal Code exempts people who assist someone to die, provided they have acted with entirely honorable motives. France and Spain are looking at the possibility of amending the existing law to permit assisted dying. The policy of *Dignity in Dying* is to work towards legalizing assisted dying so that terminally-ill patients have a choice and control over the timing and manner of their deaths.

"The dying person (adult) suffering at the end of their life, will be given the option to substitute a bad death with a good death," its website states. There are some basic requirements for a patient to become eligible to receive a prescription for lethal medication from a doctor. For instance, the patient must make two verbal requests to his doctor separated by at least 15 days, and should also provide a written petition. The doctors should confirm the diagnosis and prognosis of the disease. The patient should be mentally sound. If the patient's judgment is impaired by his mental state, even depression, he becomes ineligible. The doctor should inform the patient of the possible alternatives such as palliative care, pain control and et al. However, is it ethically correct?

Source: Reader's Digest, October 2010 and The Hindu, November 28, 2010

Questions

- 1. Explain the meaning of mercy killing and why it is done.
- 2. What do you think should be the conditions for assisted dying? What is the difference between mercy killing and assisted dying?
- 3. How do you propose to eliminate abuses of such laws as mercy killing/assisted dying?

Case 13. Secrets of Credit Card Theft

Misuse of technology makes it possible to steal someone's credit or debit card. The subsequent passage will highlight the same.

You should watch your back while in queue at the supermarket I'll hold my phone like I'm looking at the screen and photograph your card as you're using it. Next thing you know, I'm ordering things online-on your money. Those letters and newspapers piling up at your door indicate you are away. And there could be card numbers and bank numbers I can use.

In this context, one important tip is: check your bank and credit card balances at least once a week because a lot of damage can be incurred in the 30 days between statements. In Europe, credit cards have an embedded chip and require a PIN, which makes it more difficult to hack. Not here, and so I can duplicate the magnetic stripe technology with a cheap machine.

If a bill does not show up when it is supposed to, do not breathe a sigh of relief. Start to wonder if your mail has been stolen. You throw away the darnedest things-pre-approved credit card applications, old bills, expired credit cards, bank deposits slips, and crumpled-up job or loan applications with all your personal information.

You may see something that looks like it does not belong to the ATM or sticks out from the card slot and you walk away. That's the skimmer I attached to capture your card information and PIN. It is advisable that you ask your bank to stop banks from sending you preapproved credit offers? You're making it way too easy for me. I use your credit cards all the time, and they never check your signature. You will give me a lot of trouble if your credit card has your picture on it.

My things will be easy if you have a debit card that does not require a PIN when you buy something from a shop. You know, it's secure only at the ATM. I can call the cell phone service provider, pose as you, and say, "Hey, I thought I paid this bill. I cannot remember—did I use my

Visa or Master Card? Can you read me back that number?" It's unbelievable how much they'll tell me

I should give you thanks for using your debit card instead of your credit card. Hackers are constantly breaking into retail databases, and debit cards give me direct access to your bank account. (Why, if you used only a credit card you could contest the charge and refuse to pay up.) I love that new credit card that the courier boy left at your door. I write down the numbers and put it back. Then your card is as good as mine.

Source: Reader's Digest, October 2010

Questions

- 1. How is credit card theft made possible?
- 2. Is there any difference between the procedures of credit card theft and debit card theft?
- 3. What precautions should one take to pre-empt such thefts?

Case 14. Is There Full Religious Freedom in India?

In spite of the good intentions and the secular atmosphere of the country, religious freedom of minorities cannot be fully protected in India. Although legal protections against violations of religious freedom exist in India, corruption and lack of trained police, the laws were never enforced, according to a United States State Department report. In the *International Religious Freedom Report 2010*, the State Department said despite government efforts to foster communal harmony, extremist groups continued to view "ineffective investigation and prosecution of attacks on religious minorities" as a signal that they could commit such violence with impunity.

However, the report did not completely clear the government of all responsibility for acts of violence relating to religion, in particular suggesting that law enforcement and prosecution was weak due to a "low police to population ratio, corruption, and an overburdened and antiquated court system". It argued that some State and local governments also limited religious freedom by maintaining or enforcing existing anti-conversion legislation and by not efficiently or effectively prosecuting those who attacked religious minorities. In particular, it noted that there were active anti-conversion laws in six of the 28 States—Gujarat, Orissa, Chhattisgarh, Arunachal Pradesh, Madhya Pradesh, and Himachal Pradesh.

The report specifically criticized the persecution of minority groups in Pakistan. It makes clear that in Pakistan, Christians, Sikhs, and Hindus reported governmental and societal discrimination in the country. The manifestation of this discrimination ranged from defining as illegitimate the children born to Hindu or Christian women even after they converted to Islam after marriage.

An extensive list of incidents across Indian states, in which religious freedoms had been attacked, is prepared in the report. Most entailed attacks by private citizens and groups on religious minorities and their organizations. However the report also noted some positive developments relating to religious freedoms. In particular it praised the National Foundation for Communal Harmony for providing assistance for the physical and psychological rehabilitation of child victims of communal, caste, ethnic, or terrorist violence.

The report praised the Andhra Pradesh government for allocating approximately \$5.89 million for the Andhra Pradesh Christian Finance Corporation; the Gujarat High Court for directing the State government to resolve the issue of restoring mosques and *dargahs* destroyed or damaged during 2002 Gujarat riots; the Central Government for announcing an increase of \$32 million to the National Minorities Development Finance Corporation for finding programs for minority welfare. Overall the national government, led by the United Progressive Alliance, continued to implement an inclusive and secular platform, the report said.

Source: Adapted from The Hindu, November 19, 2010

Questions

- 1. Cite some incidents in which religious freedom of minorities in India has been curtailed.
- 2. There are anti-conversion laws in some Indian states. Do you think that such type of law is ethical?
- 3. What should the Government of India do to ensure full religious freedom to minorities?

Case 15. The Impact of the WTO

China's entry into the World Trade Organization (WTO) in 2001 has made it more active in the field of international trade through interactions with other less developing countries (LDCs). Long before joining the WTO, China lowered its tariff rates on several occasions and realized the need for convertibility of the Chinese currency (RMB).

After becoming a member, it has cut the average tariff level of over 5000 imported goods from 15.3 per cent to 12 per cent. China is opening its agricultural goods and general goods markets, as well as services markets. It is expected that all these will boost foreign investment in China. But it will not be an unmixed blessing for China. The import bill now is likely to be much higher than before. So, if China is not able to constantly increase its exports, its current account balance of payment may pose a problem as in other developing countries. The downside of its entry to the WTO is that there would be an expanded pressure of neo-liberal globalization and western influence in China, which may affect its traditional taboos and culture. China also actively participates in the activities of the Asian-Pacific Economic Cooperation Organization and plays a very decisive role in all its policy making processes. China's role in bilateral trade relations with many developed countries including the USA, the EU, Russia and Japan are strengthened every year.

India's experience with the WTO is not a happy one. Before the introduction of agricultural liberalization in India, agricultural commodity prices were lower than their international market prices. Hence, exports of farm products from a country like India were rather a lucrative proposition for the peasants, and as farmers are price responsive, they used to increase production for exports. This trend continued in the first phase of globalization in the 1980s. But the trend reversed since the 1990s, particularly after the so-called *special and differential treatment* of the less-developed agricultures by the WTO. The typical LDCs studied by the FAO showed a rise in the export of agricultural products based on their performance in the early phase of globalization of the 1980s; nut in the 1990s, in spite of the WTO's special and differential policy, the imports of agricultural products as a result of subsidy-induced price fall in the international market, increased several times in these developing countries (FAO, 2000).

Since the prices of agricultural products have become lower in the international market, Indian farm product exporters have become much poorer. This has led to widespread protests, frustration and even farmer's suicides. The growing economic problem has now become a human problem. In Indian, agricultural exports as a percentage of total exports went down from 30.7 (1980–81) to 19.4 (1990–91) to 15.4 (1999–2000) to 13.5 (2000–2001). The situation is quite opposite of what was expected. The large amount of imports has created two adverse problems: export-import imbalance and fall in the prices of domestic food products. Although exports went up by 83 per cent, the import of agricultural products in India escalated to 168 per cent. This export-import imbalance in India has been responsible for a structural adjustment that led to lower compound rates of growth of food grains production in India. There has grown some sort of apathy towards the agricultural sector as it is not remunerative any longer. *Kulaks* are shifting to other business in the non-agricultural sector; city-ward migration has been increasing and, employment in agriculture, mining and quarrying, and community and personal services has indeed decelerated.

Source: B.N. Ghosh, A Tale of Two Economies: Development Dynamics of India and China, Nova Publications, New York, 2009

Questions

- 1. India's experience with the WTO is not a happy one Explain why.
- 2. What do you think will be the likely impact of China's entry in the WTO?
- 3. How has Indian agriculture been affected by the WTO's policy? Explain.

Case 16. Economic Growth and Income Inequality

There are many basic common factors and forces that shape the pace of industrialization in India and China, which are found to be primarily responsible for the spurt in income inequalities. These common factors are: structural transformation favouring capital and technology-intensive method of production, concentration of economic power and growth of monopolies, growth of capitalism and cronyism. Inequalities in educational opportunities have led to income inequalities in both the countries. In the field of education in many rapidly developing south-east Asian countries, there are both intra-racial and inter-racial inequalities. For instance, in the field of higher education in Malaysia, most of the *Bumiputra* students are from the richer section and the children from poor Bumiputra community constitute only a negligible proportion. Even in countries like Singapore where there are officially declared equal opportunities for education, the children from the lowerincome groups do not have the same effective equal opportunities for higher education for many reasons of which lower income is the most predominant. When income levels are different, effective opportunities and choices cannot be the same. Higher education can be afforded only by the rich people. In recent years, the rich Malays have a higher share of subsidies at the secondary and tertiary level of education compared to the poor Malays. A higher rate of human investment by the richer class has been largely responsible for the wider income inequalities in these fast growing market economies where there are better opportunities and higher income prospects for the more skilled and professional workers.

A paradigm shift in the production process from labour-intensive (lower value added) to capital (technology)-intensive (higher value added) mode of production made the unskilled labourers, who are generally from the low-paid working class, alienated and rejected in the labour market. This was evident in Malaysia, South Korea, China and Singapore. The small-size of the economy of Singapore could ensure full employment of the labour force although at a relatively low level of income, but higher human capital investment by the elite class was responsible for wider gaps in wages and salaries. This was also true for the Malaysian economy where the pay difference between ordinary workers and skilled (professional) workers were much higher in the 1990s and the early years of the new century (almost ten times) than what it was in the 1960s and 1970. Moreover, some countries like South Korea, Singapore and Malaysia imported qualified labour from abroad, and it adversely impacted on the wage and employment of local labour. Various types of structural adjustments needed by these economies for achieving higher rates of economic growth were not in favour of the poorer class, and these intensified income inequalities. In China and South Korea, the vertical growth of big industrial conglomerates led to concentration of wealth and growth of monopoly power in a few hands. The returns to assets and land became abnormally high, and the income inequalities between the owners and non-owners of assets became wider and wider.

In Hong Kong, politico-economic reasons compelled the movement of labour-intensive manufacturing operation to China. The policy of deindustrialization reduced labour demand and wages. The structural transformation trivialized the importance of the manufacturing sector in Hong Kong and the working force had to fall back mostly upon the low-paid services sector. It needs to be appreciated that services occupations in less developed countries, unlike in developed countries, are poverty and low-income induced. As a result of the occupational shift in Hong Kong in favour of low-paid tertiary jobs, labour force participation rate appreciably fell and labour income was reduced. The income inequalities were aggravated as an offshoot. However, in Taiwan, the restructuring in the manufacturing sector was not much against the interest of the working class as there was more or less a balance between industrial and services employment. But since structural adjustment led to declining manufacturing employment, some labourers lost more lucrative jobs, and income inequalities increased, albeit to a moderate degree. The policy of egalitarianism which is the fundamental basis of the development philosophy of Taiwan is perhaps responsible for a moderate upswing in income inequalities.

Source: B.N. Ghosh, A Tale of Two Economies, Nova Science Publications, New York, 2009

- 1. How does capitalist industrialization lead to the aggravation of income inequality? Explain the process.
- 2. Analyse the reasons for the growth of income inequalities in the newly emerging economies in recent years.
- 3. Is the growth of income inequality ethically bad? Give your views.

Case 17. Democracy, Development and Labour Market Reforms

It is said that labourers in India are argumentative and rather unrelenting. The violent opposition by workers against the proposed privatization of civil aviation and banks, the Hero Honda episode in Gurgaon, and the practice of *gherao* (confinement of higher officials) that started in the past are not stray incidents but bespeak of definite behaviouristic attitude of workers in work places. Indian labourers are more conscious of their rights, and they are often supported by political parties. The fluid labour market situation characterized by overt and covert unemployment and underemployment of various types with very low opportunity cost of labour reduces it to be a victimized class with a high degree of nuisance value. This class is vulnerable to be sold out in the hands of politicians and pressure groups. Indian workers are often used and misused for the purpose of disruptive activities. Even on flimsy grounds, the workers resort to strikes and violence which generally hamper production and growth. The working class is low productive and repugnant to progressive changes in the dynamics of production and in labour market relations.

The capitalist principle of "hiring and firing of labour" is not simply applicable in India. Over the years, Indian labour has been able to develop a system of countervailing power on the basis of strong trade unionism in very profession and occupation. Even the state in India does not want to repress labour. This is mainly because of two specific reasons. First, such an action goes against the election politics, and second, it violates the fundamental principles of democracy which India adores. The tradition of having too much of democracy in every type of action and decision creates in labour a proclivity to wage a plucky battle everywhere for his or her rights. Jawaharlal Nehru once described Calcutta as a "city of processions". Media people often describe Kerala as *hartal's* own country. Even Mahatma Gandhi advised labourers to fight for their rights through strikes, non-cooperation and civil disobedience. In the case of a choice between cowardice and violence, Gandhi advised people to be violent. Indian labour is highly sensitive and potentially violent, a factor which discourages multinationals corporations (MNCs) to work in India.

In fact, the growth of India's manufacturing sector is somewhat stifled by rigid labour laws, which are among the most restrictive in the world (*The Economist*, February 2007, p.67). It is indeed very difficult for a firm that employs more than 100 labourers to fire workers without of permission of the central government which is unable to amend the laws without the support of the communist party of India, on which the central coalition has to heavily rely. In theory, it is possible to have a flexible situation in this regard in different states. However, in practice, the rules of the central government are tacitly followed, and the regional trade unions always cling to such laws as are in their favour. If the Indian manufacturing sector is to really expand, the first thing it must do is to introduce suitable labour market reforms without further delay.

Source: B.N. Ghosh, A Tale of Two Economies: Development Dynamics of India and China, Nova Publications, New York, 2009

Questions

1. Indian labour is highly sensitive and potentially violent. Do you agree with this statement? Give reasons for your answer.

- 2. Why is the capitalist principle of hiring and firing of labour is not applicable in India? Explain.
- 3. What do you mean by labour market reforms? Why are such reforms not possible in India? Explain.

Case 18. Nestle's Infant Formula Controversy

Nestle, S.A., is the Swiss conglomerate which once dominated the marketing of Infant formula in the Third World, or less-developed countries (LDCs). Other companies also marketed infant formula in LDCs, but Nestle was the major company. In the 1970s, Nestle became involved in a controversy over the morality of selling infant formula in the Third World and of using specific promotional and marketing techniques considered immoral by some. The basic allegation against Nestle and the others was that in these Third World countries, infant formula was likely to be misused and therefore, might lead to malnutrition, diarrhea, and death. Also, it was claimed that Nestle's aggressive marketing tactics encouraged women to choose bottle feeding, thus resulting in a decline in breast feeding, which is safer and healthier, particularly in the Third World. Poor sanitation, impure water, inadequacy of water supplies, and inability to read, comprehend, and follow directions resulted in disease and malnutrition. Mothers, who were poor, tried to save money and thus over-diluted the infant formula to make it go further. One of the worst marketing practices entailed the use of "milk nurses"—women dressed as nurses' uniforms who walked the halls of maternity wards urging mothers to get their babies started on formula. In reality, these women were sales representatives employed by the companies on a commission basis.

Although several companies were engaging in these questionable marketing practices, the Swiss conglomerate Nestle was singled out by a Swiss social activist group in an article published in 1974 entitled "Nestle Kills Babies". Around the same time, an article appeared in Great Britain entitled "The Baby Killers". From this point on, a protracted controversy developed with Nestle and other infant formula manufacturers on one side and a host of organizations on the other side filing shareholder resolutions and lawsuits against the company. Among the groups that were actively involved in the controversy were church groups such as the National Council of Churches and its Interfaith Center on Corporate Responsibility (ICCR), UNICEF, the World Health Organization (WHO), and the Infant Formula Action Coalition (INFACT). Nestle was singled out because it had the largest share of the world market and because it aggressively pushed sales of its infant formula in developing countries, even after the WHO developed a sales code to the contrary. In 1977, INFACT and ICCR organized and led a national boycott against Nestle that continued for almost 7 years. More than 70 American organizations, representing churches, doctors, nurses, teachers, and other professionals participated in the boycott. These groups mounted an international campaign aimed at changing these objectionable marketing practices in the LDCs. In 1984, after spending millions of dollars resisting the boycott, Nestle finally reached an accord with the protesters.

Source: Adapted from http://en.wikipedia.org/wiki/Nestl%C3%A9_boycott, accessed on July 11, 2011.

Questions

- 1. What was the controversy about Nestle's baby food formula?
- 2. Why was Nestle alone singled out for this offence while many others were producing the same type of product?
- 3. How was the case settled by the company?

Case 19. Labour Market Dynamics of the Arab World

The labour market in the MENA region is going through the convoluted process of transition. Such a transition has been basically affected by a couple of problems involved in the labour market dynamics. First, there are rising rates of unemployment and underemployment. Sound, it has been noticed that a large number of expatriate workers are producing deleterious effects on the macroeconomic balances in the Gulf region. The capital outflow in the form of remittances by the expatriate workers at present amounts to \$13 billion a year (ILO 2004:19). All these have prompted two policy changes—to replace more and more foreign workers from the region and to increase the participation of the domestic labour force. However, the nationalization drive has been creating many problems in Saudi Arabia. This is particularly true for the local female workers.

Arab labour market dynamics has to be understood in the context of the psyche and ethos of the Arab world in recent years. In this connection, one can talk about three different emerging trends. First is the attempt to introduce *modernization* in some of the Arab countries. Second is the *arabi*zation of the labour market in almost all countries, especially in Saudi Arabia, and the third is the overriding influence of the process of *Islamization*. The labour market arabization has differential impacts on the gender dimension of the labour force. The *saudization* strategy was able to increase the employment of local labour by about one million, and between 1983–1999, this helped to increase the employment of native labour in the private sector too. Evidently, this has positively helped the female labour force in achieving a higher LFPR and income. In the case of *arabization* of the labour market, the demand for local labour is likely to increase and possibly the wages will look up too. This will spurt the supply of labour and perhaps the overall labour force participation rate will also go up in sympathy. But if the general philosophy of Islamization becomes overwhelming, it may not increase the labour force participation rates of women except in some modernized GCC countries. Thus, the average gender wage gap may not narrow down in future. In fact, the chasm may increase as it is likely to boost the local wages for male labourers following the arabization move. Whatever are the prospective advantages, if at all, in store for female labour force, they are likely to be swamped out by the intensification of the *Islamization* process. Thus, there are some sort of counterproductive roles of the processes of *Islamization* and modernization of the Middle Eastern labour market for the women labourers. Since the Arab world valorizes religion and trivializes all other aspects of life and society, none can be very sanguine about the fate of women in the labour market. Things will depend on the relative strength of these two opposing forces. However, it needs to be appreciated that labour market dynamics in these countries is not influenced so much by economic factors as by cultural, religious and traditional idiosyncrasies.

It is too early to comprehend the precise nature and impact of such a structural change on the relative gender wages and employment in different countries of the Middle East. As against the

probable gains in gender employment and FLFPR(Female Labour Force Participation Rate), one should place side by side the negative effects of open wars, civil wars and sanctions, which are being experienced by countries like Iraq, Algeria, Lebanon, Sudan, West Bank and the Gaza Strip. The ILO study predicts that during 2003–2015 the labour force in the MENA region will grow at the annual rate of 2.6 per cent per year, bringing in four million new work force every year into the labour market. What is critical for the absorption of this labour force is the high rate of growth of these economies. But the bad news is that for so many years, these economies have been growing at the rate of only around four per cent per year. None can reasonably expect that this rate will suddenly jack up, and unless economic growth spurts significantly, the labour market dynamics for the Arab women is likely to be hovering around the status quo ante. However, there seems to be a silver lining. In the MENA region, only about one third of the labour force gets regular employment, and the unemployed women workers constitute a huge untapped resource that can be used for boosting productivity and the tempo of economic growth, only if the labour market discrimination and socio-cultural tradition against the women are eliminated, and the employment maximization policy of the native labour force, both male and female, is accepted as the top priority on the time table of action programmes.

Source: B.N. Ghosh, "Gender Disparities and Labour Market Dynamics in the Middle East", Unpublished Paper, 2010

Questions

- 1. Many structural changes are taking place in the Arabian labour market. Elaborate on this.
- 2. Is there any labour market discrimination against Arabian women? Explain
- 3. *Islamization* and arabization will have different impact on the female labour force. Explain why?

Case 20. Empowerment of Women in India

In recent times the concept of women empowerment has gained primacy in contemporary social science discourse as well as in action sociology. This stems from the realization of the relative failure of development as an instrument of change and the failure of welfare state in safeguarding and protecting weaker sections from inherent and artificial mechanisms of exploitation and domination. As a result of this understanding and as an effort to find new alternatives in altering the existing inequities in terms of social positioning, economic status and psychological dispositions, gender studies evolved as a powerful social framework.

Theoretically these studies have their roots in a definite model of feminist literature to which we identify as the "third of wave of feminism". Exemplars of this branch of feminist thought believe in multiculturalism, cultural pluralism and cultural relativism. They believe that each geographical and ecological niche is specific and peculiar and thereby distinct from others. This tendency and characteristic is not only particular to ecology only but also have decisive preponderance in social ambience. It unflinchingly recognizes the futility of universal feminism in ameliorating the drudgery and oppression of women across the face of the globe. It has also realized the inability of universal

feminism as an emancipator project as well as a vantage point of women liberation. On the contrary it focuses on the differences and specificities existing among various sections of women in various parts of the world. This paradigm underscores the inherent and accomplished differences among women as well as the heterogeneity of women as a group. This estimation has encouraged in taking up specific local problems by specific and indigenous groups of activist to operate individually and as autonomous groups. Maitrayee Mukhpadhya emphasized that women in India did not constitute a homogenous group and thus the problem they faced in development, varied in degree and kind along with the variation in class and community background. It is true that women in India do not constitute a homogeneous group and suffer from multiple maladies most of which are located in their specific and particular domain and its eradication or relief lies only in a comprehensive understanding of that particular locale and its frailties. The tribal women, the women of street, middle-class women competing with each other in the status ladder, upper-class women fighting for individual autonomy and poor and illiterate rural and urban women striving for economic and social autonomy provides various juxtaposing and paradoxical realities uncommon to any encapsulating grouping.

Shabana Azmi and late Protima Bedi's fervent pleas for individuality of women, Medha Patkar and Vandana Shiva's ecofeminism, Vina Majumdar and Neera Desai's erudite social feminism, Indira Gandhi and Sarojini Naidu's feminist activism as well as Sushmita Sen and Aishwarya Rai's cosmetic feminism has very little to do with millions of women fighting for individual and just human rights across the labyrinth of lane and by lane of vast landscape of Indian peninsula. Therefore it is imperative and essential to have definite trajectories and strategies to solve typical and archetypal problems of separate and by and large autonomous women groups.

In this context, one must strive to understand the benefits and limitations of indexes of women empowerment largely proposed by United Nations Development Programme (UNDP)'s Human Development Index (HDI) which uses Gender Empowerment Index (GEI) to measure Gender Development Index (GDI). Considering the difference in the degree and kind regarding to the male responsibility and attitude in India and life styles, life worlds and worldviews of men in India one ought to take a symbiotic perspective of men-women relationship and feminism. The concept of empowerment needs to be interpreted and understood within the strict parameter of these competing realities. Empowerment is defined as the strategy and policy of enabling the underprivileged for participating in the process of decision-making.

The process of empowerment has three dimensions namely economic, social and political. Economic empowerment refers to the policy rather the adoption of affirmative and protecting strategy in providing economic and employment opportunities to women. But this seems very difficult in India considering the rate of unemployment, gigantic population strength and low per capita income as well as over increasing income disparity graph despite the boom in the IT industry and fat forex (foreign exchange) reserve in the aftermath of liberalization. Poverty and unemployment continues to trouble Indian planners and experts day in and day out and it automatically rules out and sustained freebies for women in employment and economic opportunities that will jeopardize the ongoing economic development programs. Political empowerment of women has been introduced in India since early 90's in the form of decentralization of power and in the program of power to people. The Panchayati Raj and Nagarpalika Bill incorporated in the 78th and 79th Constitutional amendment has given a new lease of life to many a women across the

country, paving the way for their participation in decision-making and political development of the nation. Though the result has not been as encouraging as it should be in terms of qualitative change in attitude and aptitude of men and women at least it has opened new vistas and doors for a new beginning. It has been a silent revolution. Now, the question comes of social empowerment that is the empowerment of women in social sphere where they spend most of their time. Social empowerment refers to the enshrinement of the principles of equality, equity and dignity in social relationships particularly in gender relationships. This is an attempt to engender the society about gender relationship and this should be achieved not through the legislation but through the inner realization and gradual change of mind. This attitudinal change and change of perspectives towards our social counterparts is possible only when a holistic transformation of life and worldviews are necessarily changed. Efforts should be made in the direction of including these perceptual changes in the perspective of social praxis.

The problem with this paradigm is that the slightest possibility of attitudinal change is trampled by the leviathan patriarchal social order. Even the traditional instruments and agents of change like education have miserably failed in arresting and eradicating these structural malaises. Education system (both traditional and modern) is in fact infested by a powerful approach, which has meticulously propagated both covertly and overtly a sense of difference and inferiority between the two sexes. It stems from the sinister and faculty belief that gender differences are natural corollary of their between differences. Therefore, there is an urgent need to transform the pedagogical practices and direct it towards a positive goal. We must ensure proper and quality education for our future generation and present genre through various techniques and end the existing impasse over the role and position of women in society, their condition and competencies, their rights and responsibilities.

Source: B.N. Ghosh and Parvesh Chopra (Eds.), Gender and Development, Wisdom House, 2002

Questions

- 1. The concept of universal feminism is practically futile. Why?
- 2. Discuss the benefits and limitations of HDI, GDI and GEI.
- 3. What are the different gender empowerments in India? Explain why gender empowerment has not been successful in India?

Case 21. Ethical Dilemma of a Police Officer

For almost a week, the front page of all newspapers has highlighted the terrorist attacks on Taj Hotel and surroundings in Mumbai. It was shocking news to the world. Mr. Mathew, the Police Commissioner of Mumbai, could not make it to home all these days. He was busy co-ordinating the security of citizens and the arrest of the terrorists from the moment of attack.

Despite all the police force deployed and the added military support, nothing could he do to save the hostages. Many including VIPs were killed in the bomb blasts. This was almost unavoidable since the terrorists had infiltrated the Taj Hotel, despite its tight security, taking different strategic positions unknown to the force outside. They blasted bombs in different floors of Taj at a time, not

to let anyone escape. Many, the terrorists as well, were seriously injured. The injured terrorists were the only source that helped Mr.Mathew to find out the mastermind behind this attack.

Mr.Mathew had his entire mind and efforts on this investigation, and using all possible evidences, traced the terror-leader from Thane, a township near Mumbai. He did not wait, and made the arrest of the devil, named Shera. Suddenly Mr. Mathew became the talk of the town. The heart of India was with him, and he became an icon in the police department and media as well. He felt relieved after the arrest of Shera, as this fellow was a threat to the nation in coming days.

From the very moment of attack on Taj, Mathew had been away from home. His wife and, daughter Keya, were awaiting his arrival any moment after the arrest of Shera. Their glowing faces expressed how proud they were to have him as the man of their home. Mrs. Mathew told Keya, the chatterbox, not to disturb dad for the moment and instead get ready for school. He looked almost exhausted, after a week's hectic job. Keya being a very sensible girl, told dad, "I have lot of things to tell you. My friends and teachers are praising you to the sky's limits, and I am so proud of you dad". Telling this, she waved her hands and moved away to the school van that just arrived.

Mrs. Mathew served him some breakfast, when he reached the table after bath. He had his food, and went to sleep. How long he slept he couldn't recall. His sleep was interrupted when his panicked wife handed the phone over to him. A serious voice from the other end penetrated his soul with the words which no father wants to listen to. "Look! Your daughter Keya is with us, don't worry, she is perfectly all right". The word of assurance transformed into threat later as follows; "Our mind may change if you ignored what we tell next".

"Think practically. We want our Shera back. We are not concerned about the other members at the hospital. We need Shera, as Keya is to you". He answered nothing, since he felt a big blank or void ahead. The other end interrupted his silence "You want Keya, we want Shera; so think, think practically, don't be over-smart; we will call you in the evening" Thus ended the first episode of his nightmare. Although not a single word was uttered by Mathew, his wife could read every line of conversation from his panicked face. With a loud cry she fainted. Mathew laid her on the bed.

He stared at his uniform. His thoughts wandering to the days he became an IPS officer. He recalled how confident he was in that uniform. It was a dress that assured protection to the fellows around him. His wife, a proud young woman during their marriage, now lay down helpless. "No! My family must be safe, and should never suffer because of this uniform".

At this stage, the police officer confronted with an ethical dilemma in his mind. One the one hand, there is the call for duties and on the other, there is the responsibility of safety of the family in accordance with the ethical principle of care and compassion. Which one he should choose?

His eyes wandering through the showcase got hooked on the medals he received and the pictures of excellent service awards with people around respectfully gazing at him. Suddenly he could see millions of citizens looking helplessly at him through those photos. "No! I can't release Shera, the Lucifer is going to kill many innocent people from my nation".

His wife turned to the side and started crying again. "Keya, my child! Keya, where are you?" His face blushed and a ray of sympathy looking at his wife flushed the eyes already red after sleepless nights, and the anger against the terrorist. No doubt, he was in utter dilemma.

Once again his eyes gazed at the photos on the wall; the Police force marching and saluting the minister with him standing nearby at the Republic Day parade where thousands of excited Indians watching him receiving best service medal form the President. His eyes stopped moving further

when watching the smiling face of Mahatma Gandhi. He felt a sort of assurance about what he has decided. He put on the uniform, and nodded at his guard, and in seconds, his vehicle moved to the head quarters. The busy traffic gave way to his vehicle that moved forward with a strong decision that nobody could stop.

Source: Contributed by Ms. Shruthi Francis of Union Christian College, Kerala

Questions

- 1. What is an ethical dilemma? What ethical dilemma is involved in this case?
- 2. How did the Police Commissioner solve his dilemma? Why did he choose not to release the terrorist? Justify his decision in terms of ethical principles (deonticism and utilitarianism).
- 3. Do you think that the Police Commissioner took the right step by neglecting the ethics of care?

Case 22. Child Sex Trade in Asia

One of the important features of globalization is that it has annihilated distance between different countries and communication has also been made easier. This facilitated not only human interaction but also illegal trades involving human beings. One such trade is the child sex trade. In recent years, the child sex industry has expanded in India and across Asia. "The situation is serious and ever-changing," says Vitit Muntarbhorn, a professor of law in Bangkok, and a long-time UN human rights special reporter. "There is a press-down-pop-up phenomenon: even as the sexual exploitation is tackled in one country, it may emerge insidiously in another. Generally, there is a very big gap between policy and implementation." Says David Feingold, the international coordinator for HIV/AIDS and trafficking at UNESCO, "Compared to ten years ago, the trafficking in children for sex has worsened in Cambodia, for instance.

But there are some countries like Thailand, where the situation has improved, opines Sunitha Krishnan, General Secretary of Prajwala, a Hyderabad-based anti sex-trafficking organization, "Out of the estimated 20 lakh women being trafficked in India, at least five lakh are children." Since sex with children is illegal and clandestine, no one knows for sure how many are involved. "It is impossible to give accurate figures, and there has never been a concerted national effort to keep track of those involved. Numbers are obtained from some brothels, but counting the children trafficked through hotels or on the streets is impossible," explains Krishnan. However, the US State Department, too, estimates that up to 5 lakh Indian children under age 16 are exploited in the sex trade. A research by *Reader's Digest* estimates that close to 10 lakh children are involved in the sex trade across Asia. Three developments have led to this situation:

- Greater demand for child sex from Asian men
- Widespread corruption
- Indifference of law enforcing agencies

It is the strong belief of some people that sex with children, and especially with virgins, because they believe that it will bring them good health, long life and good luck. In many parts of India, where daughters are often seen as a liability by their families, it's easy for the sex trade to thrive.

"Parents are tricked into giving their children to traffickers. Uncles and brothers sell them," explains Roma Debabrata, trustee, Stopindia, a Delhi-based NGO who rescues child victims and women.

India is the pathway for children being trafficked from Nepal and Bangladesh to neighbouring countries and the Gulf region. The Ministry of Home Affairs estimates that 90 percent of India's sex trafficking is internal. A 2003 study done by the Institute of Social Sciences, Delhi, the National Human Rights Commission (NHRC) and UNIFEM, the United National Development Fund for Women, showed that the maximum number of sex workers under 16 were found in Bihar's brothels, while the largest number of Indian brothel owners obtained women and girls from Andhra Pradesh. NHRC reports that abusers in India generally face little risk of arrest: "Insufficient or adequate laws, poor enforcement, ineffective penalties and minimal chances of prosecution, all play a role in perpetuating trafficking."

An organization in Sri Lanka, known as South Asia Partnership International (SAPI) states that "managers of guest houses provide tourists with anyone they ask for. The most wanted are young girls and boys." Maureen Seneviratne, who runs Protecting Environment and Children Everywhere, (PEACE), estimates that in the areas where her Colombo-based NGO works, up to 6000 children are being forced to work as prostitutes at any given time. In the recent years, few paedophiles have been arrested and prosecuted. The situation in Thailand is a little better. Thailand now has laws protecting all children from exploitation. In reality, however, Thai Children have received greater protection, while the trafficking of children in neighbouring countries continues unabated.

How can the outrageous situation of child sex trade be eliminated? In this context, Chutikul, a former Thai cabinet minister who now works as chairperson of the government's Sub-Committee on Combating Trafficking in Children and Women observes that,

"Three Ps and three Rs are the key elements in the fight against trafficking". The three Ps are: Prosecution, Protection and Prevention; the three Rs are: Rescue, Repatriation and Recovery. However, the progress in this matter is not satisfactory. This is so because such trafficking is transnational and without active regional cooperation, nothing substantial can be expected to be achieved.

Source: Adapted from Reader's Digest, New Delhi, September 2007

Questions

- 1. Explain the three important reasons that are responsible for child sex trade in Asia.
- 2. Discuss magnitude of the problem of child sex trade in Asia.
- 3. What remedies do you propose to eliminate the child sex trade?

Case 23. Second Freedom Movement against Corruption in India

The recently held Commonwealth Games (CWG), witnessed unprecedented corruption. Let us review some of them. The graph of Indian character during the last couple of months has had an amazing run—from notches down its Y-axis to a spectacular rise above and a steeper fall way below its starting point. The run-up to CWG was marked by rains, dengue, delay, corruption, dug-up

roads, dirt and filth strewn all over the city. The foreign press and the Indian media wrote off the CWG, citing Indian inefficiency to host a major sporting event. The loathsome pictures flashed on BBC website and gleefully reprinted by the Indian media were meant to show that India lives only in gutters. No one questioned whether this kind of reporting was the erstwhile empire's way of striking back? For nearly six weeks, we ground our noses in muck and filth and looked gleefully at the CWG as 'Corruption Wealth Games' played in a Hall of Shame. Passively, we accepted the sobriquet 'corrupt' for ourselves and painted our shame in all its stains! India- bashing had reached an incredible proportion.

When we thought we had arrived at the nadir, the Indian *jugaad* came into play. The stains faded away and India preened itself on ceremonial hosting, graduating with honours at the end of an 11-day extravaganza. Our athletes lifted the Indian morale to show that all is not lost in corruption and India still can shine. As the Indian flag went up 101 times, the graph peaked higher on the Y-axis. But even before the victory bugle sounded the last post, the first post was heard to mark the start of the investigations. The euphoria of the nation's sporting success did not last even 24 hours as reports about the Games scam amounting to a staggering Rs. 8,000 crore started coming in. With the graph rapidly descending into a bottomless pit, India shaming eclipsed India's momentary hours of shining.

Worse was to follow. The *Adarsh scam* showed how former defence officers were defenceless before greed and graft. The *spectrum scam* put all the rest in the shade! Is it possible to retrieve the graph after its hellish descent into the dark vaults of shame? The famed Indian *jugaad* now pejoratively stands for Indian ingenuity for corruption. One should be an outright optimist or be gifted with self-delusion to affirm that the CVC, the CAG, and the CBI put together can erase the odium of corruption! Let us admit that there is a distinct malaise—an insatiable greed for money—afflicting our society. The vulgar display of riches and the glamorous lifestyle of the ultra rich picturized daily on page 3 of our newspapers and on TV screens are the sources of vaulting ambition among the middle class to become instant-rich by any means. The media which are aware of their reach and influence present a picture larger than life, shirking their responsibility to provide their audience a broad sociological, psychological and truthful understanding of all issues.

The efforts of our policymakers to liberalize our economy and bring about egalitarian capitalism have not yielded the expected dividends; on the contrary, they have unshared in *crony capitalism* among many of the corporate biggies and inflected the middle class to dream big and seek unhealthy satiation through graft and corruption. The politicians have gained the most by their (ab)use of power and a clever distribution of largesse to those select few who can return their favours in equal measure. To live and let live is their mantras the politicians package humanity into politics, but not politics into humanity. How to regain our honour and dignity in the world polity? Can we return the graph up on its axis once more? Our only hope rests on the middle class that has always been the backbone of our society. Gandhiji during the freedom movement mobilized the middle class to sacrifice its dependence on the colonial masters. Today, we need a second freedom movement against corruption. The middle class should sacrifice its greed that is far greater now than before and build a corruption-free society that values the elegance of a life of simplicity. Can India shaming turn into India shining? Only if the middle class rises and says, "yes, we can".

Source: Adapted from Hema Raghavan's article in The Hindu, November 28, 2010

Questions

- 1. What are the large scams and scandals that affected India in the last quarter of 2010?
- 2. What are the basic reasons of corruption in India? How can we regain our lost honour and dignity?
- 3. Do you think that a second freedom movement will be necessary to fight against corruption?

Case 24. Globalization and Human Health

Globalization has brought about environmental degradation in general. It has escalated the rate of haphazard industrialization and urbanization in developing countries and thereby increased the tempo of environmental pollution like air, water and soil pollution. This has not only impacted adversely the human health but also reduced the production of healthy food and fibres. In recent years, global food and financial crises are working in tandem to increase the food prices and decrease its availability to the poor; overall, the food security of many countries is at stake. Frequent recession and financial debacles have increased the vulnerability of local/national governments, and public health services are getting more and more neglected in the agenda for action. The structural adjustment policies (SAP) unleashed by the international financial organizations have played ducks and drakes with the lives of poor people in Asia, Latin America and Africa. A large number of people of these continents are not really living but somehow existing. A cursory glance at the following chart will give a fairly good idea of the deleterious impact of globalization on human health.

Globalization and Human Health

Changes due to Globalization	Direct/Indirect Impact on Human Health
1. Increased Cross-border mobility	Increased drug-trafficking/contrabands.
2. Modern sophisticated weapons and chemical devices	Increased terrorism and loss of lives and dangers to health
3. Cross-border mobility and improved communication and travelling	Commodification of women and trafficking in women and girls (cross-border sales and purchase) and transmission of venereal diseases including HIV AIDS
4. Change in food culture (coke culture: fast, fatty and junk food)	Escalated cardiovascular diseases, obesity and glucose imbalance
5. Increased trade in food articles	Dumping of unhealthy, contaminated and infectious food articles
6. Structural adjustment programmes unleashed by the World Bank and the IMF, (the two great agents of globalization and liberalization)	poverty, unemployment, and disrupted social

(Contd.)

(Contd.)

- rate of industrialization and Urbanization, affecting human health in various ways. through harmful industries and vehicular traffic
- 7. Environment degradation through excessive Increased tempo of air, water and soil pollution
- gasses

8. Increased rate of global warming, climate Produces respiratory disorder, less production change, ozone depletion and green house of food and fibre because of natural disasters.

9. Food and financial crises and increased Human health indirectly affected intensified frequencies of recession.

unemployment, poverty, malnutrition and under nutrition.

due to loss of income arising out of liberalization and increased indebtedness in and outside the country

10. Pauperization of state/local governments Reduced spending on public health services. Private sector-dominated health care market and the working of drug MNCs have escalated prices and inequalities in the distribution of health goods and services.

Although globalization has reduced the world into a virtual workshop, the occupational safety is not yet introduced at the factory level in many countries. Over 500 million of the three billion global workers are from India, and it should take initiatives to introduce occupational safety measures at workplaces where they are absent. The main concern of the WHO is to focus on small and medium scale industries and unorganized industries where ordinary workers and women labourers are not given any protection. The WHO emphasizes that each and every country must evolve its own cohesive national plan to promote occupational health. The office of the WHO in the Southeast Asian region disclosed that about 2.2 million lives are lost every year because of work-related accidents and the largest number is from Southeast Asia (*The Hindu*, September 20, 2007). In India, only one per cent of fatal accidents and 0.1 per cent of non-fatal accidents are reported to the ILO. Under-reporting means that less importance is accorded to the issue; it also implies that factory managers want to play safe and do not like to tarnish the image of those industries/factories to avoid public criticism and legal actions in many cases. Work-related human problems in factories and firms are either suppressed or minimized in private sector industries and in privatized firms.

Source: B.N. Ghosh, Rich Doctors and Poor Patients, Wisdom House, UK, 2010

Questions

- 1. How does globalization affect human health? Explain the mechanism.
- 2. Globalization goes against the poor working class. Do you agree? Explain your views.
- 3. Suggest some ways and means to reduce the adverse impact of globalization on human health.

Case 25. Globalization: Some Ethical Issues

Several characteristics of modern globalization are quite apparent in our times. It is a program of binding all individuals, institutions and nations into a common set of market relations. These relations, needless to say have their **own laws of motion**. It is also a calculated economic strategy of the capitalist economies and institutions to reinforce capitalist process of growth for these countries. Globalization is a means to extract surplus through the exploitation of cheap labour, HQM and resources of the Third World. It is the last stage of and the last attempt to ensure capitalism to survive. A few salient features of globalization are given as under.

First, globalization of capitalism is sure to intensify economic inequalities on only between developed countries (DCs) and less developed countries (LDCs), but also between the capitalist and labour classes in a state. Capitalism is based on the philosophy of production efficiency but neglects distributional equity. Under globalization, capital will get more and labour will get less, much less than the value of its marginal productivity. So, there may be the perpetuation of relative poverty and inequality.

Second, unequal competition between DCs and LDCs in various fields of economic activities, for example, banking in LDCs, would lead to more harm to LDCs in the form of unemployment, contraction, recession, and so on. In the face of better technology and capital-intensive methods of operation of DCs. LDCs would not be able to compete effectively, and their income, output and employment will fall. On the other hand, MNCs will gain substantially. Thus, there would not only be more dependency but also more poverty and backwardness in LDCs. The unequal competition generated and perpetuated by globalism is the most detrimental dimension of this phenomenon for LDCs.

Third, there would be more exploitation of labour, for the DCs will relocate their production centres to LDCs for minimization of labour costs. And in the face of the introduction of high-tech production, labour demand is likely to go down. Thus, there may be proletarianization and immiserization of labour. At the other extreme, due to the monopoly-monopsony relation in the market, surplus value from labour is likely to increase. MNCs will have higher degrees of concentration and centralization of capital, and these will virtually capture the market for capital and consumption goods in LDCs.

In fact, since the introduction of globalization in the late eighties of the last century, the pauperization of workers in U.S.A. and England has intensified, and living standards of Eastern Europe have fallen between 30 and 80 per cent. The calorie intake in many LDCs has also substantially fallen between 1979–80 and 1995–97 (FAO Statistics, 1999).

Fourth, neo-liberal ideology like privatization and deregulation unleashed by globalism has been creating much dislocation. Privatization has converted public monopoly into private monopoly. It has led to excessive price escalation without corresponding quality improvements in many countries; but it has not led to new product development or development of new predictive forces. It has brought about massive transfer of wealth from the public sector to rich private capitalists. It has unnecessarily absolved the public sector of its responsibility towards social reproduction. It is no wonder, therefore, that the World Bank has declared public health not as a *public good* but as a *private good*.

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Finally, the capitalist-free market principle propagated through globalization is not able to eradicate crises. As a matter of fact, a capitalist economy is prone to have periodic recessions and crisis. Evidently, the inflow of capital in the absence of well-regulated and well-disciplined capital markets may create havoc on LDCs. The Asia crisis in the Nineties of the last century is a case in point. Nevertheless, under such a situation, global players can bring home their capital safe or even with some speculative profit but domestic economies of the affected countries are in peril.

All these will shoe that globalization is likely to give rise to unequal competition between DCs and LDCs where the latter would be adversely affected. Thus, it would be better for LDCs not to be carried away by the western slogan of globalization. It would be necessary to slowly open up their economies for deregulation and liberalization. Behind the philosophy of globalization are the immense possibilities of exploitation of cheap and innocuous resources of LDCs: high quality workforce, skilled and semi-skilled labour, natural resources and the environment of LDCs which are priced much lower than the average world market price in such countries. The *race to the bottom* goes hand in hand with globalization.

It is necessary at this stage of world development for LDCs to be more selective in their choice of capital inflow, to impose some sort of tax on speculative capital movement, to restrict the outflow of physical capital and high quality workforce, to raise the labour standard, to fix decent minimum wages in collaboration with the ILO, and improve the capabilities of human being through appropriate entitlements and empowerment policies. Globalization, after all, is a neo-colonialist strategy devised to extract surplus by the West from the Rest.

Source: B.N. Ghosh, Managerial Economics and Business Decisions, Ane Books, Delhi, 2010

Questions

- 1. Why is globalization unethical? Explain.
- 2. How does globalization discriminate against the Third World countries?
- 3. How is globalization working against the developing economies?

Glossary

Accountability: Assuming responsibility for any work done or action taken.

Aesthetics: The study of the nature of beauty. According to Kant, it is the study of sensation.

Affirmative Action: A direct action program that can improve loads of affected people.

Alienation: A process of distancing a person from either a product produced by him, or from a family or from the system itself. In a capitalist system, this aloofness happens to labour.

Allocative Efficiency: It is a way of efficiently allocating the resources. This is done by making marginal cost equal to price and also by paying a factor of production a remuneration which is exactly equal to its marginal productivity.

Amoral: Not following any moral rules.

Anthropomorphism: An interpretation of what is not human in terms of human. Thus, God is sometimes interpreted in terms of human features and qualities.

Anti-consequentialist: A person who thinks that it is not the consequence that is important but more important is the process of doing an act. Robert Nozick was an anti-consequentialist.

Apollonian: Anything having the beauty of Apollo. It is sometimes distinguished from the romantic and emotional qualities of Dionysus.

A posteriori: A process of logical reasoning where one can deduce logical conclusions from empirically observed facts.

A priori: A process of logical reasoning where one can deduce particular conclusions from the given general or universal premises.

Aristotle's Theory of Golden Mean: According to Aristotle, it is a virtue to follow the *middle path* because it requires some restraints or control of greed. The middle course lies between excess and deficiency. Moderation in everything is a virtue to enjoy life and is the secret of a good and happy life.

Attribute: Characteristic quality. It may be one of the aspects of an object or reality.

Behaviourist: A person who depends on the empirical behaviour of things or objective behaviour of people to analyze a situation or phenomenon by ignoring intuitive or introspective behaviour or qualities.

Benchmarking: It is the process taking the best performance as the standard reference.

Blue Chip: This is considered as a riskless form of investment in shares.

Bottom-up Approach: It is a process of decision-making from the grass roots level and the idea goes upward to the higher ranking people. It is opposite to the top-down approach.

Brain Drain: A situation of massive and constant migration of high quality workforce from a developing country. This slows down the pace of economic and social development.

Calvinism: A Christian philosophy which says that salvation of a man is predestined which can be achieved only by the grace of God who is omnipotent.

Capitalism: An economic system where the capitalist owns the means of production, exploits labour, generates surplus value and gradually increases the capital intensity in production to make the system more competitive, and everything is regulated by the market forces of supply and demand.

Categorical Imperatives: According to Kant, categorical imperatives are some categorical ethical acts which must clear two tests. First, a person's reasons for acting in a particular way should be the reason which will induce others to act exactly in the same way (universalizability), and second, you should perform your duty on others in such a way that you will like others to perform their duties on you in exactly the same way (reversibility).

Causality: The process of discovering the cause-effect relationship of a phenomenon.

Caveat Emptor: This means that buyers should beware. It is their responsibility to choose the right product. The sellers cannot be held responsible.

Charvaka Philosophy: The philosophy of gross hedonism which teaches that the best life is the life of sensual pleasure: eat, drink and be merry.

Clause 49: Provides certain conditions for companies which want to be listed with the stock exchange. Such companies have to follow the SEBI's stipulations.

Cognitive Disequilibrium: It occurs when one does not understand the behaviour of another group in relation to his own group. In the situation of cognitive disequilibrium, one feels the need to pass on to another stage of moral development, as Kohlberg maintains.

Competitive Advantage: A factor (or a group of factors) that allows a company to produce at the cheapest rate compared to the cost of production of other producers of the same product.

Compliance: Acting on the basis of given mandatory directions and instructions.

Concept: A term or an idea having specific meaning in a particular context.

Consciousness: A quality of being aware of something within oneself.

Consumers' Sovereignty: This implies that consumers are the kings. They decide what to produce and their choice is the basis of all productions under capitalism.

Cooperative Conflict: A situation where the purpose of the conflict is to improve the overall condition. For instance, a conflict in a family is a cooperative conflict.

Corporate Citizenship: The recognition of consistently good, morally commendable and socially responsible works of a corporate body.

Corporate Governance: It is a system of directing and controlling business corporations through certain well-organised rules and regulations.

Cosmology: A branch of metaphysics that deals with the nature of the universe. It also may mean the study of the natural order of the universe.

Cost-Benefit Analysis: An analysis based on a comparative study of all costs and all benefits. In general, a decision is taken in favour of the project which yields net benefit over costs.

Culture: It is the totality of shared beliefs, attitudes and values of a group of people at a particular place and time.

Customization: It implies the design and development of a product that meets the requirement of a particular class or type of customers.

Cultural Imperialism: A situation where a person (or a company) considers his own culture as superior and imposes it on others.

Deism: The doctrine that accepts the existence of a supreme power or creator, and also the belief in natural religion.

Demonstration Effect: The effect that is produced in the matter of consumption or habit by imitating others.

Deontic Philosophy: A doctrine popularized by Kant. It says that it is most important to perform one's own duties first.

Determinism: A theory or doctrine that tells that the occurrence of a phenomenon is causally determined by some antecedents, preceding events or natural laws.

Dialectic: A logical process of reasoning that explains the involved history, relations, growth, evolution and future of a phenomenon based on the thesis, anti-thesis and synthesis. This is used extensively in the Hegelian philosophy.

Disinvestment: Reduction in investment by selling the whole or a part of the existing project. It is a sort of negative investment.

Dumping: It is the practice of exporting goods to another country at a price which may be lower than the cost of production; this is done with the purpose of capturing the market in the long-run.

Economies of Scope: A situation when a reduction in per unit cost of production is possible by extending the product lines. For instance, suppose a company has a high reputation in making one product for children like, baby oil. It can then increase the scope of its activities by also producing baby shampoo, baby massage oil and so on. The increase in scope reduces the per unit cost of production.

Egoism: The ethical theory that considers self-interest as the basis of all morality.

Engineering Efficiency: A situation where fewer inputs are used to produce an output.

Enlightened Capitalism: A type of capitalism which is motivated by the feeling of doing something good to the society and the working class.

Enlightened Self-interest: It is not complete self-interest but some feeling for the social development that induces a person to do good works.

Epicurean (Hedonist): A person who believes that sensual pleasure is the best ideal to be achieved, and therefore, practices it.

Epistemology: The study of beliefs and knowledge.

Essence: The most crucial and characteristically significant dimension of an object or substance.

Ethics: The study of what is right or good human conduct. It is also regarded as the science of moral judgment.

Ethical Absolutism: The idea that although ethical questions are basically relative in essence, yet there are some ethical issues or principles which are universally true. For instance, truth, kindness, honesty etc. are everywhere adored and taught as the correct ethical principles. It is in this sense, that some ethical principles can be regarded as absolute.

Ethical Audit: It is a system of audit that studies the business system, its, structures, procedures and policies to assess whether or not the system is complying with the standard that it has publicly declared.

Ethical Base and Superstructure: A situation where everything fundamentally based on an ethical foundation and the superstructure built on it has also an ethical basis.

Ethical Dialectics: It is an interrelated dimension of ethical dilemma which can explain ethical conflicts and their nature and ontology.

Ethical Dichotomy: The use of two types of ethical standards—on may be personal and the other may be organizational, or one may be international and the other may be local.

Ethical Dilemma: A mental state, where a person is unable to decide as to which alternative out of the two should be chosen.

Ethical Displacement: A technique of solving ethical dilemmas by searching for clarification and solution at a higher than the personal level.

Ethical Dualism: A practice where a firm is sometimes behaves ethically and sometimes their actions turn out to be unethical.

Ethical Intensity: The importance or relevance of an ethical issue to the decision-maker or to the organization.

Ethical Multiplier: The effect of an ethical or unethical act has a cascading effect that spreads over a wider area and also continues for a long time.

Ethical Relativism: The theory that the same standard or principles of ethics are not universally applicable.

Ethical Pluralism: It is an attempt to integrate all the theories and principles of ethics to explain fully a particular situation or phenomenon.

Ethical Syllogism: It is the logical process of drawing conclusions from the two given propositions which are ethically and empirically correct.

Externality: External influence which may be good or bad.

Fatalism: The view that everything that is happening in human life is due to *karma* done in the past or has been done now. The reward and punishment are predestined and cannot be changed by human beings.

First Cause: The self-created ultimate source of all being and the beginning of series of causes which are correlated with God.

Four Critical Principles of Ethics: These are—ego-based principle (or psychological principle), rule-based principle (such as categorical imperatives), end-based principle (like consequentialism or utilitarianism) and care-based principle. The last one is the golden rule of ethics.

Free Rider: A person who enjoys a public good without making any payment.

Gini Coefficient: A method of measurement of inequality, where the value lies between zero and one. The higher the value of the coefficient, the greater is the inequality.

Globalization: A global movement that seeks to unify habit, culture, technology, method of production and behaviour in all the areas of life including business and trade practices in the world. It is an integrative process and is measured by the total trade/GDP or FDI over GDP ratio.

Gouging: The practice of charging high prices.

Grey Market: In this market, the players are not from the organized sector but are dealing with goods which are locally produced and such goods are not very reliable in terms of quality and durability.

Gut-Feeling Test: To test the ethicality of an action or decision on the basis of what the mind says (inner voice).

Halal and Haram: According to Islam, certain things by themselves are impure and should not be used by Muslims. These are called haram. Some practices are pure and can be used, and they are called halal goods or practices.

Hedging: It is a method that minimizes the risk of investment under uncertain situation.

Hedonism: A philosophy which believes that sensual pleasure is the best ideal to be achieved, and therefore, it is practiced.

Heuristic: A problem-solving or exploratory method of research.

Horizontal Convergence: It is said that the process of globalization brings companies, customers, and countries very close to one another. This process is called horizontal convergence.

Idealism: A theory that ultimate reality lies in a realm that transcends the phenomenon. It also means that the essential nature of reality lies in consciousness, reason or ideas. In the case of ethics, these ideas are basically moral ideas.

Ideation: A mental process of forming ideas or thoughts.

Instrumentalism: The doctrine that ideas are instruments of action and that their usefulness determine their truth value.

Immiserization of the Proletariat: Relative deterioration of the economic conditions of workers. **Immoral:** Something (some action) against the principle of morality.

Insider Trading: It is the trading of shares of a company by a person, generally an insider, who has all the confidential information about the company. This is an illegal activity.

Intermediate Goods: The goods which are used as inputs for the production of final goods.

Intuitionism: It is a metaphysical doctrine that says that it is not the reason but our intuition that explains the reality of a thing or phenomenon. Gandhi used to call it *inner voice*. In the case of ethics or moral philosophy, it is said that human beings have first order disposition to know what is right and what is wrong.

Karoshi: Over-work and lack of any rest.

Liquidity: It is the readiness of purchasing power. It also means the convenience with which an asset can be converted into cash. Cash is the most liquid asset.

Logic: The study of reasoning and the ideal method of arguments, thought and analysis.

Market Islam: An evolution of Islamic theological thinking that permits to market certain halal products to earn income and win the competition. For instance, the use of non-alcoholic beverage in Muslim countries produced by them.

Materialism: The doctrine that matter is the only reality and determines every relation as in the analysis of Marxism.

Materialistic Dialectics: It is a condition where historical change or development is explained as an interaction of material forces. These forces interact with each other and produce a new system.

Merit Goods: These are goods like education and health, which are very essential for the society. Hence, the government permits classification of these into different categories to facilitate their consumption by different sections of the population.

Meta Ethics: It is the study of the origin and meanings of different ethical concepts and precepts.

Metaphysics: It is the study of not the ideal form or feature but of ultimate reality, and the interrelations between mind and matter.

Moral: Ethical or something supported by moral principles.

Nash Equilibrium: It is a set of strategies such that none of the participants in the game can improve his pay off (gain), given the strategies of other participants. In this type of game, for each player there is equilibrium from where he will not like to move because this is the best.

Naturalism: The philosophy as enunciated by Adam Smith and others that the whole world is governed by some natural forces and laws.

Negative Externality: A situation when undesirable external factors produce adverse effects on health, income, environment or social cost.

Negative Journalism: Presentation of facts in a very crude manner without any decency or ethical consideration.

Nirvana: A state of mind in Buddhism and Jainism that says that when ignorance is dispelled by enlightenment and knowledge, the mind attains perfect bliss and happiness and it is not disturbed by anything. It is a state, where the mind is devoid of desires and achieves mental equilibrium.

Nivritti: It is the proclivity of mind to refrain from empirical pleasure and enjoyment.

Niyama: It includes purity of thoughts and deeds, contentment, austerity, regular study of sacred scriptures and a constant awareness and the remembrance of the divine power.

Noumenon: It refers to something which is conceivable but not knowable. According to Kant, a thing-in-itself is capable of being expressed by thought but cannot be practically experienced. Thus, in many cases, we can think about something through our mental faculty but not as a phenomenon in the real world.

Ombudsman: An official whose job is to settle organizational disputes and to give proper guidance so that such disputes can be avoided.

Ontology: It is the essence of being. It is sometimes interpreted as the nature of a thing.

Opportunity Cost: The cost (value) of relinquished alternatives. It also means the value of an alternative that is available.

Outsourcing: Getting certain things (functions) done from outside.

Parables of Talents: The Bible cites many parables to show that those who are talented and can make good use of the resources are rewarded by God. Thus, productive occupations are exalted.

Pantheism: The doctrine that equates God with all the forces and laws of nature. It also means the worshipping Gods from different creeds and cultures.

Percolation Effect: A trickling down phenomenon from top to bottom.

Pluralism: The doctrine which holds that there are more than one type of reality and plurality of entities.

Policy Trade-off: A situation where all policies cannot be implemented at the same time, hence, a part of a policy is to be sacrificed in order to accept something of an alternative policy.

Polytheism: A system where many types of Gods are worshipped.

Positivism: A method of study or enquiry that applies objectivity and scientific methods in drawing conclusions.

Pragmatism: The doctrine that the meaning of an idea must be sought in their practical or real efficacy.

Pravitti: The tendency to pursue a life of pleasure and enjoyment.

Predatory Pricing: Very level of pricing or penetrating pricing.

Price Rigging: A manipulation to increase or decrease the price level.

Prolegomena: An introduction or preface.

Public Goods: Public goods are those goods which can be simultaneously consumed by all, without reducing the utility of anyone else, like public roads. It can be consumed without making immediate direct payment.

Puritanism: A system of belief that says that all callings are divine in nature (including business) by performing those duties a person can make his life worth living.

Race to the Bottom: A practice encouraged by MNCs to reduce the wage level of low-skilled and manual workers, particularly in developing countries.

Realism: The philosophical idea that objects of sense perception or cognition exist independently of the mind. Realism is concerned with facts and reality and not imagination and vision.

Regulatory Capture: A process in which the regulators the law-enforcing agencies are captured by bribing them.

Reserve Army of Labour: The unemployed labour force is referred to as the reserve army of labour.

Reverse Discrimination: A process whereby in the name of elimination discrimination against a class, another class is discriminated for a long time in an unfair manner. Thus, in the name of removing the discrimination against the low-caste people, the high-caste people may be unnecessarily penalized by depriving them of certain opportunities in the job market.

Reverse Robinhood Effect: Collection of money immorally or unethically to perform social responsibilities.

Reverse Utilitarianism: A situation which involves smallest harm or injury to the smallest number of persons.

Samadhi: It is the final stage of yoga where the mind is completely absorbed in the thoughts of the object.

Scholasticism: The medieval philosophy that separates speculation from objective reality.

Social Audit: A system of audit that identifies the social performance or responsibilities of a business firm.

Social Capital: It is a collection of non-human wealth and includes institutions, organizations, social cooperation and trust.

Social Ostracism: An act of separating a person from the mainstream normal social interactions. It is a punishment for a person. It is like social boycott.

Soft Skill Development: Development of different dimensions of human personality like speaking, presenting, walking, dressing and so on.

Spirituality: It is the quest for finding out the real meaning and purpose of life.

Spread Effect: The impact of an action or a phenomenon is not static confined to a particular place, but it spreads and circulates.

Subjective: An individual experience being conditioned by personal mental characteristics.

Substance: Ultimate reality that underlies all outward manifestations, structure and change.

Surrogate Advertisement: A situation where a product is not advertised directly but with the help of something that well-accompany the use of the product. For instance, bottles of whisky are displayed in a dinner party advertisement.

Sustainable Development: A development which can sustain itself. It is a situation where the human consumption of the natural capital is much lower than the replenishment capacity. The cost of development is lower than the benefits of development.

Sweat Shop: A place of production where the working condition is inhuman as there are no basic facilities like fans, sanitation, pure drinking water and so on.

Teleology: It is the study of end or consequences of a theory or policy.

Theist: A believer in the existence of one God supposed to be the creative source of man.

The Triple Bottom Line: It is a test to know whether or not a company is creating value for its shareholders and for the society. These triple elements are: social, economic and environmental dimensions.

Top-down Approach: It is a method of decision-making from the highest position (rank) and that percolates down for implementation.

Transcendental: Beyond the realm and reach of the senses.

Transparency: It refers to openness in dealing without confidentiality.

Universalism: The belief that fundamental business practices and ethics are applicable everywhere.

Utilitarianism: The doctrine saying that a particular action or policy is justified if it brings greatest happiness to greatest number of people. It is based on the concept of net utility maximization.

Value-based Management: It is a type of management where human values like honesty, integrity, reliability, trust etc. are given more importance than anything else.

Voluntarism: The doctrine that will is the most important force for any action, experience in the real world. It also means the system of doing something based on volition or will.

Whistle Blowing: It is a method public protest to expose the unethical act of management or an employee.

Window-dressing: A method of manipulation to display wrong things as right. Thus, there may be window-dressing in the balance sheet to wrongly inflate the value of assets and bring down liabilities to attract investors.

Win-Win Situation: A situation of interactions of two persons or companies where both the parties gain.

Yama: It includes fivefold action like non-violence, truth, honesty and so on that regulates the behaviour with others around a person.

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