

MBA-Distance Education Semester-III

BEV 303 BUSINESS ETHICS AND VALUES

Lesson No. 1

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INTRODUCTION TO BUSINESS ETHICS AND VALUES — THEIR GROWING SIGNIFICANCE

STRUCTURE

- 1.1. Objective
- 1.2 What is Ethics?
- 1.3 What is Business Ethics?
- 1.4 Origin of Business Ethics
- 1.5 Importance of Business Ethics
- 1.6. Business Ethics in a Global World : India's Changing Ethics
- 1.7 Keywords
- 1.8 Short Questions for Practice
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- 1.10 Suggested Readings
- 1.11 Self Check Questions (Answer key)

1.1 OBJECTIVES

After reading this chapter, the students should be able to :

- Determine the basic concepts of business ethics the importance of ethics and the origin of business ethics.

1.2 WHAT IS ETHICS?

Derived from the Greek word 'ethos', which means 'way of living' ethics is a branch of philosophy that is concerned with human conduct, more specifically the behaviour of individuals in, society. Ethics examines the rational justification for our moral judgments; it studies what is morally right or wrong. just or unjust.

Ethics is two things. First, ethics refers to well based standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. Ethics, for example, refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. And, ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well-founded reasons.

Secondly, ethics refers to the study and development, of one's ethical standards. As mentioned above, feelings, laws, and social norms can deviate from what is ethical. So it is necessary to constantly examine one's standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous effort, of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

Ethics a major branch of philosophy encompasses right conduct and good life. It is significantly broader than the common conception of analyzing right and wrong. A central aspect of ethics is 'the good life', life worth living or life that is satisfying, which is held by many philosophers to be more important than moral conduct. The right, act can be identified as the one causing the greatest good and the immoral act as the one impeding it.

1.3 WHAT IS BUSINESS ETHICS?

Business ethics is a form of the art of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia descriptive approaches are also taken. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have redefined their core values in the light of business ethical considerations.

Business ethics is the behavior that a business adheres to in its daily dealings with the world. The ethics of a particular business can be diverse. They apply not only to how the business interacts with the world at large, but also to their one-on-one dealings with a single customer.

Business ethics set the standard for how your business is conducted. They define the value system of how you operate in the marketplace and within your business. With legal scandals concerning insider trading and employee theft making the news, it is no wonder that businesses are increasingly giving attention to the ethical basis of their business and how to lead in an ethical way. While the examples above seem to be clear-cut breaches of ethics, many ethical dilemmas that are not so clear-cut are faced on a daily basis in business. In fact, there may not even be a "right" or "wrong" answer to the dilemma, but how you deal with it will say much about you and your business.

The benefit of ethics is higher employee morale and commitment that in most cases leads to higher profits.

1.4 ORIGIN OF BUSINESS ETHICS

Business ethics has come to be considered a management discipline, especially since the birth of the social responsibility movement in the 1960s. An increasing number of people asserted that because businesses were making a profit from using our country's resources, these businesses owed it to our country to work to improve society. Many researchers, business schools and managers have recognized this broader constituency, and in their planning and operations have replaced the word "stockholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.

Today 90% of business schools teach business ethics. Ethics in the workplace can be managed through use of codes of ethics, codes of conduct, roles of ethicists and ethics committees, policies and procedures, procedures to resolve ethical dilemmas, ethics training, etc.

1.5 IMPORTANCE OF BUSINESS ETHICS

Now to answer the latter part of the question - How is business ethics important?

The importance of business has largely been undermined over the years. It provides numerous benefits such as

- Attention to business ethics has substantially improved society
- Ethics programs help maintain a moral course in turbulent times
- Ethics programs cultivate strong teamwork and productivity as they align employee behaviors with those top priority ethical values preferred by leaders of the organization.
- Ethics programs support employee growth and meaning. Attention to ethics in the workplace helps employees face reality, both good and bad - in the organization and themselves. Employees feel full confidence they can admit and deal with whatever comes their way.

Self-Check Questions

- A.** Statement 1: Business ethics are a study of human behaviour and conducts.
Statement 2: Business ethics are concerned solely with the profitability of a Business.
1. Both statements are correct
 2. Both statements are incorrect
 3. Statement 1 is correct, statement 2 is incorrect

4. Statement 1 is incorrect, statement 1 is correct
 5. None of the above
- B. Business ethics is a form of :
1. Corporate strategy
 2. Financial Planning'
 3. Programming Language
 4. Applied Ethics
 5. None of the above
- C. Business ethics deals primarily with :
1. Social Responsibility
 2. Pricing of products and services
 3. Moral obligations
 4. Being unfair to the Competition
 5. None of the above

1.6 BUSINESS ETHICS IN A GLOBAL WORLD : INDIA'S CHANGING ETHICS

The 20th century was driven by governments in advanced nations, but the 21st will be dominated by free market economies in emerging nations. Jagdish Sheth, executive director of the India, China and America Institute and a professor of marketing at Emory University, made this point in his address to the Markkula Center for Applied Ethics fourth biennial business ethics conference on March 9. The topic of the conference was Business Ethics in a Global World, with a focus on China and India.



Jagdish Sheth,
Center, Chats with Conference Participants

Sheth offered his perspective on why China and India are poised to dominate the 21st century, how Indian business practices differ from Western ones and what the consequences are for business ethics on a global basis.

The collapse of Communism is one of four forces that are driving the shift from 20th century global business model to the 21st, Sheth said. He argued that the best capitalistic countries are former Communist countries, such as China: Communism imposed discipline on citizens, created greater gender equality and invested heavily in technical education.

Another driving force is that affluent nations are aging, and their traditional industries will not generate as many jobs in the future. Even in the U.S., which is not aging as fast as other affluent countries, General Motors stand as an example of a Company that is hiring only one employee for every eight who retire.

In addition, economic pragmatism means those in power have discovered economics crucial role in elections. J. Sheth cited the fall of George Bush Sr. who went from being wildly popular to losing his re-election bid when the economy faltered. Finally, Sheth cited the idea that 'the world is flat': the IT revolution has leveled the playing field between emerging and advanced economies.

And so Sheth forecast that the world is moving from the 1800s, which were the European century, and the 1900s, which were the American century, into the Asian century.

He noted that Asian countries are trading with each other, and said both China and India are poised to become innovative economies, not just locations for low-end jobs. This shift will redefine business practices. Sheth discussed several ways in which Indian business practices are unique - and may give rise to ethical behavior that may or may not be compatible with the prevailing Western viewpoint.

Indian business culture, he said, puts a premium on favors, friendship and clanship. Friendship is highly valued, whether based on multigenerational family friendships, school friendships or personal friendships. The Western concept of conflict of interest, he said, does not always mesh well with the Indian value of loyalty to one's group.

Sheth noted that Western business has its own versions of these ideas: Procurement departments in U.S. companies are more likely to buy from the company's customers, for example.

In terms of government rules and regulations, Sheth said that in India, the government acts as a gatekeeper rather than an enabler, with slow approval, a complex bureaucracy and corruption. Enforcement is also lax.

There is a strong belief in corporate social responsibility in India, Sheth said. He also noted how Indian management style differs from that in the West: Decisions are made by the person at the top, not in a participatory way. And there is what he called a caste system by education.

What are the implications of these differences - and of India's rise - for business ethics? Sheth cited, among other ideas, a shift from a focus on shareholders to a focus on stakeholders. He predicted that ethics will be anchored to the idea of business as a profession, similar to the way the field of medicine is now. And he said there will be global standards of governance, but their application will be adapted to local conditions.

1.7 Keywords

- Ethics :- the discipline dealing with what is good and bad and with moral duty and obligation.
- Communism :- the political system in which the state owns and controls all factories, farms, services etc. and aims to treat everyone equally.

- Culture :- the customs ,ideas, beliefs, etc. of a particular society.

1.8 Short Questions

1. What are human values?
2. Define Integrity
3. What are ethical values?

1.9 Long Questions

1. What do you mean by ethics ? Discuss their importance.
2. Explain the nature and scope of ethics.
3. What is Ethics? Is it a science? Discuss.

1.10 Suggested Readings

Desjardins, J. (n.d.). An Introduction to Business Ethics. In *An Introduction to Business Ethics* (6th ed.).

Mackey, J., & Sisodia, R. (n.d.). . *Conscious Capitalism: Liberating the Heroic Spirit of Business*.

Maxwell, J. C. (n.d.). *Ethics 101: What Every Leader Needs To Know*.

1.11 Self-Check Questions (Answer-key)

- A. Option 3 Statement 1 is correct, statement 2 is incorrect
- B. Option 4 Applied Ethics
- C. Option 3 Moral Obligations

ETHICAL CHALLENGES

STRUCTURE

- 2.1. Objective
- 2.2. Introduction
- 2.3. Development and Globalization : The Ethical Challenges
 - 2.3.1. Some ethical Issues
 - 2.3.2. Further Issues
- 2.4. Issues in Business Ethics
 - 2.4.1. General Business Ethics
 - 2.4.2. Professional Ethics
 - 2.4.3. International Business Ethics and Ethics of Economic Systems
- 2.5. Ethical Issues in Business
 - 2.5.1 Ethical Issues arising from the Nature of Markets
 - 2.5.2. Ethical Issues and Society - Examples
 - 2.5.3. Ethical Issues arising from Internal and Industry Practices - Examples
 - 2.5.4. Unethical Practices in Marketing - Examples
 - 2.5.5. Unethical Practices relating to Products - Examples
 - 2.5.6. Ethics and the Supply Chain
- 2.6. Bribery
- 2.7. Institute of Business Ethics Suggestions for Good Practice
- 2.8. Ethical audit
- 2.9. Summary
- 2.10. Keywords
- 2.11. Short Answer Questions
- 2.12. Long Answer Questions
- 2.13. Suggested Readings
- 2.14. Self-Check Questions (Answer-key)

2.1 OBJECTIVES

After reading this chapter students may be able to know :

- Ethical challenges, issues in business ethics.
- They also come to know ethical issues in business, bribery, ethical audit and business ethics in a global world.

2.2 INTRODUCTION

2.2.1 Ethics

Ethics is a major branch of philosophy, encompasses right conduct and good life. It is significantly broader than the common conception of analyzing right and wrong. A central aspect of ethics is 'the good life', the life worth living or life that is satisfying, which is held by many philosophers to be more important than moral conduct.

2.2.2 Ethical Issues

Problem or situation requires a person or organization to choose between alternatives that must be evaluated as right (ethical) or wrong (unethical) is called as ethical issues. Ethical issue is in the Decision Making, Problem Solving, & Strategy and Entrepreneurship, Management, &, Leadership subjects.

2.2.3 Economy

An economy is the realized system of human activities related to the production, distribution, exchange, and consumption of goods and services of a country or other area.

Economy refers also to the measure of how a country or region is progressing in terms of product.

In modern economy, there are three main sectors of economic activity :

- **Primary sector** : Involves the extraction and production of raw materials, such as corn, coal, wood and iron. (A coal miner and a fisherman would be workers in the primary sector.)
- **Secondary sector** : Involves the transformation of raw or intermediate materials into goods e.g. manufacturing steel into cars, or textiles into clothing. (A builder and a dressmaker would be workers in the secondary sector.)
- **Tertiary sector** : Involves the provision of services to consumers and businesses, such as baby-sitting, cinema and banking. (A shopkeeper and an accountant would be workers in the tertiary sector.)

2.2.4 The Global Economy

"The global economy" gave business the ability to market products and services all over the globe. It has also allowed them to develop partnerships and alliances throughout the world, which has become essential for success in today's business. Prior to Globalization, the United States dominated the global economy. In recent years, however, the U.S. share of the global economy has shrunk to approximately 25%. This trend is expected to continue as the economies of many newly industrialized countries continue to grow at a faster rate.

2.2.5 Globalization

Globalization can be defined as the worldwide integration of economic, cultural, political, religious, and social systems. Globalization means increasing the interdependence, connectivity and integration on a global level with respect to the social, cultural, political, technological, economic and ecological levels

Globalization, as a term, is very often used to refer to economic globalization that is integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and spread of technology.

The word globalization is also used; in a doctrinal sense not a literal one, to describe the neoliberal form of economic globalization. Globalization is also defined as the internationalization of everything related to

different countries; Internationalization however, as a contrasted phenomenon, differs from globalization in that Global is commonly used as a synonym for "international", however such usage is typically incorrect as "global" implies "one world" as a single unit, while "international" (between nations) recognizes that different peoples, cultures, languages, nations, borders, economies, and ecosystems exist.

It should not be narrowly confused with economic globalization, which is only one aspect, however important it is. In that respect, there are several definitions, many of which mention the increasing connectivity of economies and ways of life across the world. While some scholars and observers of globalization stress convergence of patterns of production and consumption and a resulting homogenization of culture, others stress that globalization has the potential to take many diverse forms.

In economics, globalization is the convergence of prices, products, wages, rates of interest and profits towards developed country norms. Globalization of the economy depends on the role of human migration, international trade, movement of capital, and integration of financial markets. The International Monetary Fund notes the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions, free international capital flows, and more rapid and widespread diffusion of technology.

➤ **Advantages of Globalization**

- Goods and people are transported with more easiness and speed.
- the possibility of war between the developed countries decreases.
- free trade between countries increases.
- global mass media connects all the people in the world.
- As the cultural barriers reduce, the global village dream becomes more realistic.
- the interdependence of the nation states increases.
- there is a propagation of democratic ideals.
- the flexibility of corporations to operate across borders increases.
- As the liquidity of capital increases, developed countries can invest in developing ones.
- the communication between the individuals and corporations in the world increases.
- environmental protection in developed countries increases.

➤ **Effects of Globalization**

- enhancement in the information flow between geographically remote locations.
- the global common market has a freedom of exchange of goods and capital.
- there is a broad access to a range of goods for consumers and companies
- worldwide production markets emerge.
- free circulation of people of different nations leads to social benefits.
- global environmental problems like cross boundary pollution, over fishing on oceans, climate changes are solved by discussions.
- more transformer data flow using communication satellites, the Internet, wireless telephones etc.
- the standards applied globally like patents, copyright laws and world trade agreements increase.
- international criminal courts and international justice movements are launched.
- corporate, national and sub national borrowers have a better access to external finance
- worldwide financial markets emerge.
- Multi-cultureless spreads as there is individual access to cultural diversity. This diversity decreases due to hybridization or assimilation.
- international travel and tourism increases.
- worldwide sporting events like the Olympic Games and the FIFA World Cup are held
- enhancement in worldwide fads and pop culture.
- immigration between countries increases.

- local consumer products are exported to other countries.
- immigration between countries increases.
- there is an increase in the desire to use foreign ideas and products, adopt new practices and technologies and be a part of world culture.
- cross-cultural contacts grow and cultural diffusion takes place.
- due to development of containerization for ocean shipping, the transportation costs are reduced.
- free trade zones are formed having less or no tariffs.
- capital controls reduce or vanish.
- subsidies for local businesses decrease.
- there is supranational recognition of intellectual property restrictions i.e. patents authorized by one country are recognized in another.

➤ **Measuring Globalization**

Looking specifically at economic globalization, it can be measured in different ways. These centre on the four main economic flows that characterize globalization :

- Goods and services, e.g. exports plus imports as a proportion of national income or per capita of population
- Labor/people, e.g. net migration rates; inward or outward migration flows, weighted by population
- Capital, e.g. inward or outward direct investment as a proportion of national income or per head of population
- Technology, e.g. international research & development flows; proportion of populations (and rates of change thereof) using particular inventions (especially 'factor-neutral' technological advances such as the telephone, motorcar, broadband).

➤ **Advantages of Globalization in the Developing World**

It is claimed that globalization increases the economic prosperity and opportunity in the developing world. The civil liberties are enhanced and there is a more efficient use of resources. All the countries involved in the free trade are at a profit. As a result, there are lower prices, more employment and a better standard of life in these developing nations. It is feared that some developing regions progress at the expense of other developed regions. However, such doubts are futile as globalization is a positive-sum chance in which the skills and technologies enable to increase the living standards throughout the world. Liberals look at globalization as an efficient tool to eliminate penury and allow the poor people a firm foothold in the global economy. In two decades from 1981 to 2001, the number of people surviving on \$1 or less per day decreased from 1.5 billion to 1.1 billion. Simultaneously, the world population also increased. Thus, the percentage of such people decreased from 40% to 20% in such developing countries.

➤ **Is Globalization necessary for Economy?**

Globalization is necessary, for an economy to grow. And with globalization, with the mutual co-operation and assistance -particularly with reference to the law of comparative advantage- it is going to be beneficial. Globalization also helps reducing the poverty level in the country-there is plenty of evidences and record to support it. Developing countries specially require globalization. Indians are very rich in resources of skilled manpower. So other countries are interested to invest in India. We don't have that much funds/money to make very huge industries or developments. There is no shame to invite other countries for investing. Lot of advantages is there like employment, infrastructure development, tourism, foreign exchange and etc. Even America would be nowhere if globalization was an imaginary concept never put forward. Half the world's countries would be reeling in depression right now if not for globalization. For example, petroleum, most countries are on the verge of depleting their entire reserves and some countries don't have it at all. Seeing this if not for globalization the entire world would be left crippled due to the massive energy crisis facing them. While globalization is necessary it is not sufficient to ensure

communities gain from globalization. To keep and spread the gains, government must not only reduce barriers to trade and investment, they must also get domestic policies right. For example, recent study of 79 developing countries shows in the 1990s globalizing developing economies real incomes and output grew faster, on average about 4 times faster, than inward looking economies output.

➤ ETHICS OF GLOBALIZATION

Debates on globalization, especially in policy making circles, are often shaped by purely national interests, whether social, economic, or political. But such interests are parochial, whereas, if the phenomenon of globalization were to be carefully examined, it would be found to affect, far more than the narrow range of concerns and issues to which it is customarily restricted, so that discussions of the subject would properly be broadened to take into account the cultural and spiritual dimensions.

While enormous possibilities are associated with the phenomenon of globalization, these potentialities must not blind us to the grave problems it entails. Only through concerted action by the world community can there be any hope of tackling and finally eradicating such menaces as international terrorism, the proliferation of deadly weapons, illegal drug trafficking, organized crime, the spread of disease, and environmental degradation.

Perhaps foremost, all responsible parties and bodies in today's world are compelled to seek some means of global conflict resolution and arbitration. Specifically, the question must be addressed: "How are we to avoid a disastrous and unwinnable clash of civilizations?" The author of that controversial thesis has himself suggested an answer. In his 1996 book *The Clash of Civilizations and the Remaking of World Order*, Professor Samuel Huntington included this generally neglected conclusion: "...as many have pointed out, whatever the degree to which they divided humankind, the world's major religions - Western Christianity, Orthodoxy, Hinduism, Buddhism, Islam, Confucianism, Taoism, Judaism - also share key values in common. If humans are ever to develop a universal civilization, it will emerge gradually through the exploration and expansion of these commonalities.'

Recognizing 125 years ago humanity's acute need for spiritual and religious reconciliation, the conditions essential to the creation of a universal civilization and the establishment of a system of world governance. He emphasized the necessity of creating a universal global consciousness, a new spiritual awareness, and a new sense of responsibility.

The tabernacle of unity hath been raised; regard ye not one another as strangers. Ye are the fruits of one tree, and the leaves of one branch. We cherish the hope that the light of justice may shine upon the world and sanctify it from tyranny.

International community, globalization is a vision of world unity in so deep and broad a sense as to embrace every aspect of human life. Such a vision of planetary unity and integration, however, bears no relation to the often bland, faceless, and amoral global marketplace that we see operating today. Instead, it recognizes and celebrates the rich diversity of creeds and cultures while at the same time affirming the fundamental oneness of the human race. The approach to globalization can be summed up as a commitment to the concept of "unity in diversity" and what this practically entails in the life of the individual and society alike.

A diverse world affords the optimal conditions for all to realize their highest potential through independent intellectual, spiritual, or aesthetic endeavor. With the oneness of humanity accorded pride of place in human consciousness, its very diversity becomes rather a safeguard against tyranny than a cause of bitter conflict and division.

The multicultural approach offers a sound alternative to the paradigm of globalization which seems predominant today. Since the end of the Cold War over a decade ago, the proponents of globalization have enthusiastically acclaimed the transformative potential of markets and market mechanisms as a kind of universal panacea for all the world's ills.

Undoubtedly, markets do perform certain functions very efficiently: over time, they have emerged as useful instruments for the allocation of goods and services, and, to a certain degree, have succeeded also in connecting and integrating the peoples of the world. Yet, are not other economic models also possible -

models that should serve to release and develop human potential, whilst drawing upon those innate human impulses towards fairness and compassion.

All too often, dialogues on globalization are thwarted by appeals to "cultural relativism." In theory, cultural relativism is the notion that certain social, economic, cultural, and political practices are intrinsic to particular groups, and that the peremptory imposition of alien and artificial standards is an unwarrantable infringement. Yet such protests are often but attempts to shirk the application of a universal code of human rights. In fact, cultural relativism, meaning the view that would deny such universal norms, is a political stratagem rooted in the false premise that the member societies of today's world have grown up in hermetic isolation from each other; whereas the most cursory examination of human history reveals beyond the faintest shadow of a doubt that every society on earth is related to its sisters by a thousand ties. And this is a reality which the investigations of archaeologists and others are further corroborating with each passing day. Whatsoever circumstance restricts the ability of individuals to develop their inherent capacities, and to prosper as human beings, must be changed.

Perhaps the essential and underlying unity that binds together all the peoples and races of the world is nowhere more evident than in the perennial wisdom - what Gottfried Leibniz termed the perennial philosophy" - that "universal and unanimous tradition" common to all cultures and expressing, albeit in a myriad different ways, a common vision of the plight of man. By rediscovering such fundamental perceptions it would be possible to derive those essential commonalities which unite all peoples, and to design in consequence a single global system of governance based upon universal values. From these could then be fashioned a comprehensive global ethic and a shared global "human rights and responsibilities constitution."

Instead of retreating from globalization, developing countries and ethnic communities are summoned to shape the process by themselves actively participating in it; the world must not indeed be deprived of the distinctive and invaluable contribution that all societies, without exception, have within their power to make by sharing with others their highest and most noble values.

A globalization informed rather by the timeless wisdom of the prophets and sages than the arbitrary exigencies of the global mart must of necessity be set upon a firm foundation of interfaith and intercultural cooperation, and be characterized by an amicable and open dialogue between the divers creeds and cultures of the world.

The principle of unity is the bedrock of all religious faith; but in the social sphere, the establishment of a universal standard of justice is of preeminent concern, for justice is the essential foundation of unity, and without unity there can be no peace. The construction of a peaceful global society is thus a progressive task: first, justice is universally established; second, the unity of the planet is realized; and finally, world peace reigns supreme. The global system for which humanity should strive must accordingly renounce all forms of exploitation of one group by another; its international trade must be conducted in a manner both free and fair; and it must accord to all workers as well as managers and owners - a share in the prosperity treated. The new global order should narrow the gap between rich and poor, and grant equal opportunities to all members of the human family; above all, it should insure equality between men and women.

Today perhaps more than at any other time in history, great and incalculable possibilities have opened before us as a world community. New avenues can be perceived that, if wisely followed, will lead us into a world that is at one and the same time diverse and unified, a world suffused and guided by a vision of unity transcending all human differences. Above all, we have the chance as never before to attest to the truth communicated to us by the scriptures of all past ages. Whatever our persuasion, we are all wayfarers on a single path leading to the selfsame ideal haven.

2.3 DEVELOPMENT AND GLOBALISATION: THE ETHICAL CHALLENGES

One simplistic model of the relationship is as follows: globalization is an economic process involving increased international investments and trade in goods and services. Development is a process of economic growth. Globalization is the engine of economic growth. So globalization is the engine of development. Since development for all countries rich and poor is desirable, globalization is desirable and therefore ought to be promoted.

Another somewhat more complex model might be: globalization (the growth of the global economy) may stimulate economic growth overall, but its benefits are not distributed equally or fairly, favoring rich countries and not poor countries, and favoring the better off in poor countries and not the very poor who are often trapped in poverty even increasing poverty. Furthermore global economic growth is generally at the expense of the environment and so does not contribute to sustainable development. So globalization fails to address or actually exacerbates poverty and damages the environment, and is therefore a bad thing and to be opposed. Hence much of the rationale of the anti-globalization rallies of recent years. Neither of these models is adequate, since both development and globalization are rather more complex ideas than are suggested above. Their causal connections are more complex and hence the ethical issues involved are more nuanced. Certainly neither a blanket commendation of globalization nor a simple condemnation of globalization is in order.

2.3.1 SOME ETHICAL ISSUES

Globalization needs first of all to be seen as a multi-dimensional process. The global economy which is often thought of as the heart of globalization is really only one important manifestation of global connectivity. This is more generally about an expansion of awareness, consciousness or sense of relatedness of people. I shall consider issues under the headings of the globalization of production, problems, governance, community, information and ethics.

2.3.1.1 Globalization of Production

Clearly the expansion of the global economy is an important part of globalization. At one level it is just a fact whether we like it or not and it has various impacts on development. But at another level, normative issues are involved. It is informed by certain normative

Assumptions which may be contested :

- (a) Libertarian or neo-liberal values : the value of the free market both in itself and as the engine of economic growth both within countries and between countries. This usually goes with the values of privatization and of reducing tariffs, subsidies and protections - one of the chief goals of the World Trade Organization (WTO);
- (b) Development is an economic process of growth which is good because growth enables people to have more economic liberty to make choices.

Critics will pick on the values feature of this.

First, libertarian values on their own are inadequate both for development and globalization.

There must be side-constraints of various kinds:

- (a) Certain things ruled out as unfair;
- (b) Taxation for welfare etc.

Second, even if libertarian values make some sense e.g. reduction of protectionism, this is unfair unless applied fairly; e.g. if rich countries insist on poor countries reducing their subsidies if they keep theirs in place! The genuine conditions of a free market do not exist in many poor countries, Inequality of power e.g. with no/few trade unions leads to massive exploitation by multinationals.

Third, if development is not merely economic growth, even fairly distributed economic growth, economic globalization may undermine other aspects of development - e.g. importance of traditional community. There are dangers of homogenization.

In short, economic globalization marginalizes the poor, destroys the environment and damages cultures.

2.3.1.2 Globalization of Problems

Many of the global problems are by-products of the expansion of the global economy, but it's worth seeing this as a separate aspect of globalization because the globalization of problems covers a wide range of things - such things as pollution or resource shortages; global warming; expansion of global tourism; the spread of AIDS and other health hazards facilitated by global transport; Internet fraud; terrorism.

What is a problem? A problem is a gap between a current situation and a goal combined with a difficulty in achieving the goal either because we either do not know how to proceed or, if we do, we

meet obstacles to proceeding; a solution is finding out either how to proceed or finding ways of overcoming obstacles to proceeding.

What makes a problem global? Something might be a global problem because of its cause i.e. many actors all over the world, because of its effects e.g. actual or threatened bad consequences for many actors all over the world, or because of its solution requiring actions by many actors all over the world. A paradigm might be one which involves all three elements: a problem for all is caused by actors all over the world requiring solutions in the form of actions/changed policies or behaviors from actors till over the world.

Global warming is a good example: the gap between what we want (unchanged weather patterns, sea levels as they are etc.) and where we are at (Co₂ emissions very likely to undermine our goals), caused by the actions of billions throughout the world, and requiring a solution in the form of billions of agents changing their customs and habits.

But other types of global problems might be allowed: a global problem in the form of widespread damage but caused by one country, one group, one organization or even one person, requiring action by a limited number of actors e.g. a nuclear accident like Chernobyl; or a problem perceived by one country as a problem for it but caused by global activities and requiring action by the country and possibly others in the world who are persuaded to help with that country's problem, e.g. the American perception of global terrorism.

Even where a global problem is caused by actors world-wide and requires solutions by actors world-wide, the two sets of actors may not be identical. If AIDS is a global problem it is because of the effects on those who contract it, but whether or not they are the chief agent of the solution is debatable: the solution which is partly about stemming its spread to others may lie in the hands of other agents who learn - or teach - sexual responsibility re condoms etc. and of the doctors and scientists who produce the drugs that can mitigate its effects.

Most global problems require co-ordinate action. This presupposes a global ethic in two senses: the problem is defined as a global one because human suffering anywhere is regarded as bad. i.e. we have a global ethic which says: all human beings matter and matter equally. Second, we have a duty to co-operate in measures that promote the common good.

Amongst the most morally compelling global problems is world poverty and to some extent though a separate issue - the gap between rich and poor countries. Unlike many problems of the environment where the problem is global because it affects us all in a self-interested way, wherever we are, the problem of absolute poverty is different. What makes it global is not its being globally widespread, though of course it is in many parts of the world, and there are pockets of it everywhere, but its offending our moral conception of what kind of world we want as our goal since the gap between reality and the moral goal is extremely great. We need to note here that the problems of poverty are addressed and the imbalances between nations addressed to the extent that these are seen as global moral problems for those with the power to make things change - rich people, rich organizations and rich governments. The extent to which there has been a globalization of the problem of extreme poverty is a direct function of the extent of our global moral sensibilities and feelings of solidarity. I shall argue later that this extent is not far enough.

2.3.1.3 Globalization of Governance

Governance is distinct from and broader than government. It is the sum of the various ways we order our public affairs: formal governments with coercive powers are one part of significant parts of governance. How do we order our affairs at a global level? In one sense global governance has been in existence for a very long time. Ever since the world was sufficiently opened up to allow for extensive co-operation or conflict between different countries or nation-states, there have been attempts by states, either acting on their own if very powerful, or acting in concert, to try and shape how things go globally, to impose a certain conception of order* into international relations.

The Westphalia system that evolved from the 17th century in which states were both as a matter of fact the key actors in the world and normatively had the right to do so can be seen as a form of global

governance. On the other hand, what is often now seen as global governance is a development from that and one in which globalization as a recent phenomenon plays a significant role. The globalization of governance has, for instance, as manifested in the last fifty years or so, the following characteristics :

The strengthening of international institutions like the UN and the spread of international law: thus to a far higher degree than before many aspects of life within states are fenced in, if not formally constrained by, the decisions of international bodies and the laws that are passed. Even if states are still the key actors, what limits are in place are far more extensive than before.

The increasing influence of non-state actors such as transnational companies that play an increasing role in determining how the economies within countries fare, e.g. in deciding to close down operations in one city and setting them up elsewhere in the world where labor is cheaper, or outsourcing call centers and so on. Such organizations will also have a powerful lobbying role in international organizations like the WTO in helping to shape the developing trade rules, pressing for a General Agreement of Trade in Services (GATS) etc. These economic actors may not engage in government, e.g. in formulating Or approving laws, let alone enforcing them, but they certainly contribute to governance

In that what they do and promote influences the way things go globally and indeed is intended to so influence it.

The third area of development is the development of global civil society - once described By Mary Robinson, no doubt hyperbolically but with a serious point, as the second super Power alongside the USA! Individual people, whether acting through national nongovernmental organizations (NGOs) or international NGOs (INGOs) or acting through more informal groups (such as those formed for political purposes on the Internet), increasingly play their part in trying to influence how things go on global issues. This may be through pressuring their own governments on internal foreign policy issues, or through trying to influence foreign governments (like an Amnesty International letter writing campaign) or at international forums (e.g. environmental pressure groups helping to formulate international environmental law').

The normative aspect of this is significant too. If the increasing activities of NGOs in global civil society is a fact, it is a fact that most welcome both because it is an expression through membership of relevant bodies, of commitment as 'global citizens' to play a part in making a better world, but also because there needs to be movement to correct the effect of what is called the democratic deficit' - the fact that both through the increasing influence of supra-national international institutions (like the United Nations and the European Union) and through the powerful influence of transnational companies in the global economy, neither governments nor their citizens in almost all countries feel that they are - or indeed are - any longer in democratic control of many of the factors crucial to determining their life aspects.

This is particularly so for developing countries, and one of the challenges raised here is how to empower the voice of poor countries in international forums where decisions affecting them are made. Partly a matter of global civil society making sure these voices are properly heard and partly a matter of empowering people in civil society within poor countries themselves.

It is worth noting in passing that globalization and development, are in important respects parallel phenomena. They are both processes; they are both processes which their defenders see as moving towards a better state of affairs for human beings, and their critics see as making things go worse; they are both seen as processes to some extent under the control of agents such as governments, international institutions or large companies.

The idea of a process being controlled is more explicit in the case of development than in the case of globalization, but we need to see any interest in globalization as a multifaceted process which could go in various directions according to our normative priorities is premised on the idea that it is subject to human control at least to some extent. Indeed globalization can be seen development at a global level, and this thought should remind us that the unit of development is not a fixed datum - it does not have to be the nation state, and often our focus may be on sub-national or supra national levels.

2.3.1.4 Globalization of Community

The above discussion about global civil society leads to the next dimension of globalization - the globalization of community. This of course overlaps with governance but is much broader than this. In many ways this gets to the heart of globalization since it is concerned with the fact that people increasingly feel globally connected.

Particularistic solidarities link people from similar groups all over the world (such as indigenous groups, women's groups) and cosmopolitan solidarities like people who share certain global concerns such as environmental issues.

In addition to these communities, there may also be developing wider communities of people who sense that they share certain common values, such as human rights, The values of the Earth Charter or the shared values of a particular church, the widespread consensus of people working in the NGO movements concerned with development, environment, peace, though they may differ on particulars and issues of effective means, the shared values of the international relations community or indeed the shared libertarian values of people who do business with each other across the world.

If we mean by community a group of people who are united in sharing certain moral values about what is good or right, then clearly there are emerging many communities of shared ethical values, some overlapping with each other, some in conflict with each other. We cannot say that there is thus a single global ethical community. On the other hand we do not need more than some 'overlapping consensus for there to be community or society, and it may be that we can talk of emerging global community in the singular, in the sense that we belong to a one planet with common vulnerability and common fate, and we have somehow to co-exist with each, even if our values are in many ways significantly different.

The relevance of this to development is as follows. Whether or not there is a single global community, there is certainly as part of globalization an increasing sense amongst many people that we do share a common global ethic, that we have common but differentiated responsibility across borders as the Rio Declaration puts it or as the Earth Charter puts it, with increased power and knowledge comes increased responsibility. The increasing acceptance of this global ethical perspective should in principle be good news for the prospects of development particularly for poor people in poor countries. The governments of rich countries are, it is arguable, more likely to give proper and more aid, pursue fair trade with and not free trade at the expense of poorer countries, if more of their citizens actually see themselves as part of global community and want through their own actions and through what they advocate changed priorities in foreign policy. Whatever cosmopolitan idealists like me may ideally think governments ought to do, the reality is that governments will not act much ahead of or indeed behind where their electorates are in terms of moral priorities, and probably should not, given the nature of democratic mandate.

Second, thing is that the adoption of a global perspective should in principle favor the poor, but this is an overstatement, because to the extent that the communities of shared values include the communities of business and international diplomacy and these communities are dominated by the kinds of global ethic which hitherto have dominated, then severe restrictions are in place hindering the prospects of developing countries. I shall return to this key issue later, but briefly remark here that if the values of the relatively unregulated global free market and the internationalist values in international relations theory that legitimate the promotion of national self-interest remains dominant amongst those with power, then the prospects for development for poorer countries are limited.

Third, the globalization of community allows for the development of transnational solidarities between different groups in development, often the marginalized such as minorities, indigenous people, or other groups that are oppressed or otherwise have their traditional values undermined by modern progress'. Globalization is not merely about, homogenization (though it often is of course) but also about the response to that tendency in the form of increased sense of the importance of local difference - a process which had been called globalization.

The point is that the grass-roots defense of a traditional conception of development can be strengthened by the knowledge of and communication with others with like struggles.

2.3.1.5 Globalization of Information

The globalization of information really covers the massive spread of ideas, knowledge, images, sounds, and symbols and so on across the world. This partly covers the phenomenon of MacDonaldisation or Cocacolarisation of the world, contributing to the homogenization of the conceptions of the 'good life'. But it also has important more serious aspects as well, such as the spread of scientific knowledge, serious academic reflections as well as ethical values.

While the spread of images and ideas of the good life raises for many thinkers' serious doubts because the wish to perceive cultural diversity in development, the other two areas is more positive in their implications. The sharing of information particularly that associated with the development of technologies is actually an important factor in development, and the nature of such transfers raises interesting ethical questions concerning the financial basis upon which they are done.

On the other hand ethical values arc among the ideas Chat get transmitted across the world, and this fact, helps both with the constitution of global community (or the various communities which collectively make up global community) and the acceptance of a global ethic of some kind.

2.3.2 FURTHER ISSUES

(a) The Globalization of Ethics

First I want to examine the questions 'what exactly is the globalization of ethics?', and what is the relevance of the answer to development?'

This question needs to be distinguished from the question : what is the ethics of globalization?

The latter is - like the ethics of anything - the ethical examination of globalization and its various aspects. It involves the application of ethical values - themselves nor a function of globalization - to these issues. These values may be based on person's religion, theology, philosophy and worldviews derived from various sources. This is an important, area of enquiry, and some of the issues germane to it have already been raised in this lecture.

A good example of this approach is Singer's recent, book *One World : the: Ethics of Globalization*. It does rest on an important presupposition which some thinkers might question. If globalization is to be subject to ethical assessment, it must to some extent be capable of change by human intention.

Ethics presupposes choice and therefore if globalization is to be ethically assessed the assessor must believe it is not. an inevitable process which we can do nothing about. The fact that globalization has so many dimensions, as I indicated earlier, strongly favors the view that it is something we can modify the direction of if enough of us feel it should be changed. Whether it could be stopped altogether is another matter.

The globalization of ethics however comes from a rather different starting point. The assumption here is that ethics is itself the subject matter of globalization, rather than the other way round as just discussed, and just as the globalization of production is about changes in the global economy and the globalization of governance is about emerging new forms of governance, so the globalization of ethics is about the ways globalization has affected ethics. This is a fascinating question, though it is not one that is often asked.

The globalization of ethics might mean any one of six things (maybe more) :

- (i) The globalization of ethics is the process whereby the subject-matter of ethics as a recognized area of enquiry has come to include global issues and problems. Ethics has become globalised in the sense that an important part of its domain has become global. Ethics becomes or comes to include global ethics. In addition to issues in personal morality and lifestyle and issues in social and political philosophy as applied to the state and the society within it, ethics focuses on issues like world poverty, foreign intervention, immigration, international trade rules, debt relief for poor countries, global environmental problems etc. Supporting this factual claim about an area of ethical discourse, are three further claims:
- (ii) The globalization of ethics means that many individuals who did not think about ethics as global ethics at all come to think of ethics as global ethics: their ethical horizons are expanded because of exposure to what happens in the world through the media etc.

- (i) The globalization of ethics may be a process in which many thinkers, who may always have accepted that ethics was global in principle, now come to see that many of its important issues are in fact global issues. Global ethics in principle becomes global ethics in practice.
- (ii) The globalization of ethics may be, in addition to (i) to (iii) and partly as a consequence of them, the process whereby ethics as reflective enquiry comes to involve modified conceptions of ethics itself - not merely the extension of preexisting sets of values to a wider field, but a new understanding of things like responsibility, relationships, 'care', neighborhood. None of these ideas can mean quite the same thing at a global level as at a local level or even at national level. Is there for instance a quite new sense to 'global ethics' itself, not as a set of beliefs held by an individual but as a shared public social reality? This leads to further more specific theses:
- (iii) The globalization of ethics may be as process whereby communities come into existence with membership spread across the world in which there is a shared ethic as a kind of social reality. We noted earlier the development of such communities of shared values earlier. What is being proposed here is an ethic in a new sense - not the sense of a set of values held by a thinker which are for that thinker global in application, but a global ethic as a public social reality, public because it is shared in the strong sense of not just being identical but perceived to be shared by its members. This I shall call the communitarian conception of a global ethic.
- (iv) The globalization of ethics may go further than (iv) and be the process whereby certain values come to be accepted by all or almost all people across the world: a global ethic in this sense is an ethic which is shared universally (or nearly so). Globalization either makes explicit commonalities already in existence or it creates the emergence of this shared universal ethic.

What should we make of these claims, both in them and for their relevance to development? The first three claims clearly identify a trend, and are to be welcomed as some of the more positive features of globalization and for their implications for development. The fourth claim about the changing character of ethical concepts given their global scope is certainly important to developing the right framework in which people accept their global responsibilities.

The fifth claim that there are emerging various global ethics associated with emerging communities is at best ambiguous, at worst dangerous and bad news for development - depending on how the claims are interpreted. The sixth claim about a single global ethic universally accepted would, if true, be good news for development since presumably it would include the perspectives of the poor in it. Unfortunately it's not true so let us put this on one side first.

It is a claim about something that does not or does not yet exist - though undoubtedly enthusiasts for global ethics think that globalization is either disclosing or producing a global ethic agreed by sufficiently large numbers to count as global in this sense. Consider the Declaration toward a Global Ethic of the Parliament of the World's Religions and the 'global civic ethic' proposed by the Commission on Global Governance. Whether globalization will eventually produce such an outcome is hard to tell. But if the search for a viable global ethic depends upon universal or near universal consensus then we have a long time to wait. I shall argue that The validity of a global ethic does not however depend or such consensus.

The first three can be taken together. Since from my point of view it is right to see an ethic as global and explicitly so, the fact that globalization is leading to more people accepting a global ethic who did not before, to more people turning their global ethic held on principle into an active exercise, and the more there is acceptance that ethics as a subject is global as well as social and personal can only be a good thing. One way of put this point is to note that the globalization of ethics has made the ethics of globalization an important part of ethics discourse!

Having said that, the extension is a good thing, I have to add that much depends on the global ethic that is adopted - not all global ethics will have same benign consequences for development. However from the point of view of development, this is to be welcomed. This is not merely that development issues gain from an explicit ethical discourse that tries to find general ethical principles underlying proper development, but more importantly because the acceptance of a global ethic will lead to looking at the whole issue of international responsibilities of individuals, states and business companies.

Indeed if the global ethics has two dimensions - an assertion of universal values and an assertion of trans-societal responsibilities, then the globalization of ethics can be seen as the increasing acceptance of the latter, at least for those who already see ethics generally as implicitly universal. I shall return to this issue again towards the end of the lecture.

The fourth aspect of the globalization of ethics - the development of new conceptions of community, responsibility etc. - is potentially important for development, as I noted earlier, in that it shakes limiting prejudices about what morality is about. It could however be problematic for development if it is either intended to question that at a fundamental level the core ethical values were permanent, thus opening the way to relativism, or if it leads to the dangers of the communitarian conception in the fifth sense.

What shall we make then of this sense of a global ethic as an ethic shared by global communities? Is it a good thing that such communities are forming, since ethical action is more likely to be effective if it is embedded in solidarities of various kinds? The difficulty is of course that these communities that share values may not have the same values, and may have values which from one's own point of view are to be rejected or questioned. The so called Washington consensus in this sense involved a community of like-minded development thinkers but their vision of development was one-sided. The community of international diplomats share certain values about the rights of states in the international society of states but for a full-blown cosmopolitan, these are inadequate and in a way part of the problem we have in trying to move towards a more just world, as explained more fully later. Of course if a community has the right kinds of values, then the fact that these values are embedded in shared practices and mutual support is all to the good.

But the communitarian position is more worrying if a further conclusion is drawn from the fact that there are multiple global ethics associated with different communities, and that is that since the validity of an ethic depends on its being accepted by a community of actors who share the ethic, they are just that - a number of different global ethics none of which is better than any other. The alternative interpretation of this would be to say: *given that there is no single global ethic in sense, the idea of a global ethic has no application.* A genuine global ethic would be one which is accepted by all - since the alternative would be a global ethic not accepted by all but imposed on others or applied to others who do not accept it, and this is unacceptable. So all claimed global ethics are in fact based on error.

This claim if right that there are multiple equally valid global ethics or none at all would have dire consequences for development. It would undermine all serious attempts to set out a general account of the character of a development ethic, such as capability ethic or attempts to justify development in terms of the progressive realization of human rights. To accept such a universal ethic is not to deny that there may be significant differences in the detailed ways development is pursued. Faithfulness to cultural tradition may well be an important consequence of one of the universal values in development - which people live in accordance with their cultural values and traditions. But the acceptance of diversity within a common framework is a very different story from one in which values are relative to particular cultures or in which a global ethic is denied altogether or relativized.

It would also undermine any serious attempt to construct a principled ethical framework for understanding global and international relations. If the validity of an ethical value depends on its being accepted by a community of actors who share that value, there would be no Archimedean point from which to critique the behavior of states or transnational companies, if their behavior was based on the 'global ethic' internally accepted by those whose community it is.

We need to get back to some set of first principles for determining a global ethic, and then accept that the globalization of ethics in senses (i) to (iii) merely makes it more likely that this ethic will be accepted. And if communities develop e.g. in the development of NGOs with the appropriate shared values, then that fact can help with the realization of the values in question.

This general point can be illustrated by the case of global citizenship. The idea of global citizenship, particularly that of a universal community with a universal ethic, has nothing to do with globalization and indeed goes back to the thinking of the Stoics in the ancient world; the idea was born out of reflection of the general nature of 'man'. But if we look at the modern world we can see how modern communication and the emergence of global civil society has given a particular social and political expression to global citizenship and thus made it more likely that people will take up the perspective which has always been available to human beings, once they acquired the capacity to think rationally about the general conditions of human nature.

(b) Could Globalization be a good thing for Development?

This leads into my second more extended issue. Could globalization be a good thing for development? I would rather ask this question than: is globalization a good thing for development? As things are, the answer to the latter question would have to be on balance no'. For all the many aspects of globalization other than the development of the global economy, such as evolving global communities, strengthening global civil society and what is called globalization from below and the new patterns of global governance emerging, the general effect of the global economy is not good for the world poor. As forcefully argues the general effects of the global economy are that the socio-economic rights of millions are simply not being met when they could easily be met if the rules of the system were different - which they could be. Though many may reject capitalism outright as the problem it is undoubtedly the case that it could work to much greater advantage for the poor if the types of constraints, taxation regimes, welfare provisions and other distributive measures, like provision of education and health care for those without the capacity to pay for them, which are generally taken as read in a rich country were applied to international relations.

There are of course many determinants of how well development proceeds in a country and how well a poor person can benefit from it, and these have to do with physical conditions, levels of skill, access to clean water, road infrastructure etc., but arguably amongst the determining conditions are the ethical assumptions and priorities that guide what, agents do. These might be aid agencies working in the field or government agencies in the country in question working with poor people, with certain assumptions about what the good is or what well-being is that development is meant to deliver. It might be governments or business companies pursuing certain general priorities in regard to development because they have a certain conception of what development ought to be. It might be key figures in the governments of other countries and in international institutions who, in addition to views about what the ends and means of development ought to be, have a normative view about the right ordering of international relations, e.g. about what countries ought to do other countries.

(i) Spheres of Development Ethics

Development ethics can be divided up in a number of different ways, e.g. as Gaspar does into case studies, policy formation and theorizing, but for my purposes here I want to divide it into the following three sets of questions :

(a) What conception of the good should inform development? Here we have the rich and fertile ground of much discussion these days in development ethics with such theories as Sen.'s and Nussbaum's capability approach and O'Neill's Kantian approach, vying with each other, but also presenting these as considerably richer than more conventional accounts of the normative basis of development in terms of increasing wealth as the provider of choice or preference satisfaction.

(b) What norms should determine the social, political and economic relations in a society which most appropriately delivers the ends of development in the form of well-being? Here we have debates about

libertarianism vs. Rawlsian distribution and other theories of distributive justice, as well as issues to do with appropriate forms of democracy and participation.

(c) What norms should inform the international framework within which countries pursue their development? Here we have the debates about the ethical basis of aid, trade, investment and debt relief, the normative standing of international bodies that deliver aid or support development like the World Bank and the International Monetary Fund, and so on.

Some may doubt that the third is really a part of development ethics since it's really an ethical examination of international relations or global relations between people, not about development itself as process going on inside a given state. But if we take on board what I said earlier about the parallels between globalization and development, this distinction may not be so obvious. Development discourse has application where policies can affect how things go for large numbers of people. 'International development' can be taken to refer to this dimension. In any case if the general socio-economic framework in a country is seen as a means towards the end of human well-being, exactly the same can be said of the international framework. It is itself another large means to development including poverty reduction or it can be a large impediment instead.

Arguably the ethical assumptions which underlie the international framework are as crucial to poverty relief as are any other ethical determinants. The two main normative obstacles are libertarianism at the global level and nationalism. Unless these are challenged and modified as the ethical ground rules of international relations and the global economy, the conditions of poor countries and the conditions of the very poor within them will remain for a long time. There may of course be some successes through general trickle-down processes, but without a large-scale turn-around, large-scale change will not happen - and yet it is perfectly possible. Its conditions are simply an ethical meta-idea.

(ii) Libertarianism at the Global Level

We need to distinguish between the basic truth that the freedom to enter the market and buy and sell goods and services is an important constituent of human freedom and wellbeing - it is an end of development not merely a means to many & other good results, and what is often advocated by economic libertarians - namely an unrestrained and unregulated free market. For the latter fails to recognize that the real or substantive freedom of someone is not the same as his formal freedom i.e. the fact that there is no law preventing him from entering the market. Substantive freedom however, like what Rawls had called the worth of liberty, requires many background conditions to enable people to acquire and exercise the relevant freedoms - sufficient material resources, sufficient education, access to healthcare, a non-oppressive social environment and so on. The value of a free market is to be seen in contrast to older practices like guilds, where only some could sell certain goods or only certain people could enter certain professions, it is not to be seen as a license to do anything. Restrictions for instance on what I may do with dangerous waste, or on how little I may pay a worker, on accounting practices, on how much of my money is free from taxation used to finance public goods and welfare provision, are not unwanted invasions of my economic liberty: they are the framework within which my valuable freedom is exercised but which is needed so that other people can properly enjoy their economic freedom, their other freedoms and other aspects of their well-being.

There is battle enough I confess to get this perception on the value of economic freedom accepted within economically advanced countries - especially I realize here in the USA - the land of liberty! - but my main point is that if anything like this is accepted as the basis of the international free market, we would have a revolution in the way this operates. Far more attention would be paid to labour standards and environmental standards. Far more attention would be paid to create a genuinely level playing field e.g. in getting the rich countries to remove their subsidies if poor countries are expected to. But moving to a level playing field in which the same trade rules are applied consistently for all countries whilst a step in the right direction, is hardly enough.

A speaker once likened the level playing field to a chess match between himself: both played by the same rules but won, and would do even if he had several pieces removed at the beginning! Now the analogy is imperfect of course, since in chess if one person wins the other must lose, and in free market transactions there is the theory of and often the actual practice of win-win outcomes. But as we know, the reality is often otherwise particularly in north-south economic relations and the analogy of chess game is apt: the power imbalances are often too great.

So we need to go further. For examples, the profits after tax from international trade and investment go to shareholders who are mainly in rich countries, but more to the point the tax itself generally gets collected by the countries where the companies are registered. Isn't it about time we re-conceptualized this? If the profits of international investment are to be taxed, shouldn't the tax be seen as collected for the benefit of the countries involved, or seen collectively put into an international 'fund' to be used, as inland revenue money is used, to finance education, health, pension and unemployment, and sickness benefit and so on? This idea is of course a variation on a theme that has been explored by others before - such as the Tobin Tax or Resource Tax if that idea is too radical, what about the less radical idea proposed many years ago by Barbara Ward, that international aid be re-conceptualized as international income tax'.

(iii) Nationalism

Thinking through the implications of this leads to my next general point about the second level of values which dominate at the moment but which need challenging. - The nationalist norms. By nationalism here I do not mean a nasty-minded negativity towards other countries and cultures, but rather an assumption which has a long history in international relations, that the primary duty of governments is to defend the national interest; and that it should do so, so long as it respects the sovereignty of other countries. The idea of a tax suggested above used to benefit people world-wide would only be acceptable if we adopted a more cosmopolitan attitude, and we asked the question: what ought governments to do to facilitate the real reduction of world poverty?

Even if we did not go so far as to support some form of international income tax, governments might come to see that not only do we need to have more generous and better aid, we also need to overhaul the whole way the international economy functions - since as it stands we give in aid with one hand but in effect take rather more with the other in our more general economic relations. The same can of course be said about debt servicing of the debt-burdened poor countries: if we really mean business with our aid, we would cancel the debt whose servicing more than cancels out the debt, in many cases.

The morale of this is this. Just as Tacitus said 'if you want peace prepare for war', so we might say - and I may add more truthfully if you want the alleviation of world poverty, prepare for a new normative basis for international relations'!

(iv) Conclusion

A major determination of how poor countries fare and how far poor people can escape from their poverty is the international normative regime and that, major changes in this by moving to a less libertarian understanding of global economic relations and a more cosmopolitan basis for foreign policy could transform the former situation, could globalization help with this? Despite the actually current trends, I believe it could, though it may well not do so. Someone once said that I was a factual pessimist and moral optimist. I am the latter because I believe that we can change things for the better - hence the point of all this moral argument in this lecture!

Globalization is not a remorseless juggernaut, and is a process which we can push in one direction or another. In many ways the processes of globalization are already loosening the shackles of the nationalist paradigm, as more and more people are entering wider communities of concern and identity and flexing their global citizenship muscles. There is also hope that as time goes on we can humanize the libertarian paradigm of the global free market, and recognize that the real freedom of all people requires a world ordered by rather different ground rules from those prevalent today.

2.3.3 Self Check Questions

1- Which of the following would most effectively act as a primary objective of a business organization?

- A. To make a profit
- B. To procure resources
- C. To Communicate with shareholders
- D. To mediate between the organization and the environment

2- A ____ is a problem, situation or opportunity requiring an individual , group or organization to choose among several actions that must be evaluated as right or wrong.

- A. Crisis
- B. Ethical issue
- C. Indictment
- D. Fraud

3- Successful global initiatives addressing standards for business must begin and end with :

- A. The role of corporate governance and shareholder power in corporate decision making
- B. Social Activism
- C. The implantation of standardized ethics programs
- D. The consolidation of economic and environmental efforts

2.4 -ISSUES IN BUSINESS ETHICS

Business ethics is a form of the art of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment.

Business Ethics is the study of ethical dilemmas, values, and decision-making in the world of commerce. Business ethics can be defined as written and unwritten codes of principles and values that govern decisions and actions within a company. In the business world, the organization's culture sets standards for determining the difference between good and bad decision making and behavior.

In the most basic terms, a definition for business ethics boils down to knowing the difference between right and wrong and choosing to do what is right. The phrase 'business ethics' can be used to describe the actions of individuals within an organization, as well as the organization as a whole.

Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia descriptive approaches are also taken. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have redefined their core values in the light of business ethical considerations.

2.4.1 GENERAL BUSINESS ETHICS

- This part of business ethics overlaps with the philosophy of business, one of the aims of which is to determine the fundamental purposes of a company. If a company's main purpose is to maximize the returns to its shareholders, then it could be seen as unethical for a company to consider the interests and rights of anyone else.[3]
- Corporate social responsibility or CSR: an umbrella term under which the ethical rights and duties existing between companies and society is debated.

- Issues regarding the moral rights and duties between a company and its shareholders: fiduciary responsibility, stakeholder concept v. shareholder concept.
- Ethical issues concerning relations between different companies: e.g. hostile take-overs, industrial espionage.
- Leadership issues: corporate governance.
- Political contributions made by corporations.

2.4.2 PROFESSIONAL BUSINESS ETHICS

Professional business ethics covers the myriad practical ethical problems and phenomena which arise out of specific functional areas of companies or in relation to recognized business professions.

Ethics of Accounting Information

Creative accounting, earnings management, misleading financial analysis. Insider trading, securities fraud, bucket shop, forex scams: concerns (criminal) manipulation of the financial markets.

- Executive compensation: concerns excessive payments made to corporate CEO's.
- Bribery, kickbacks and facilitation payments: while these may be in the (short-term) interests of the company and its shareholders, these practices may be anti-competitive or offend against the values of society.

3 Ethics of Human Resource Management

The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee.

- Discrimination issues include discrimination on the bases of age (ageism), gender, race, religion, disabilities, weight and attractiveness. See also: affirmative action, sexual harassment.
- Issues surrounding the representation of employees and the democratization of the workplace; union busting, strike breaking.
- Issues affecting the privacy of the employee : workplace surveillance, drug testing. See also: privacy.
- Issues affecting the privacy of the employer : whistle-blowing.
- Issues relating to the fairness of the employment, contract and the balance of power between employer and employee: slavery,[5] indentured servitude, employment law.
- Occupational safety and health.

4 Ethics of Sales and Marketing

Marketing which goes beyond the mere provision of information about (and access to) a product may seek to manipulate our values and behavior. To some extent society regards this as acceptable, but where is the ethical line to be drawn? Marketing ethics overlaps strongly with media ethics, because marketing makes heavy use of media. However, media ethics is a much larger topic and extends outside business ethics.

- Pricing : price fixing, price discrimination, price skimming.
- Anti-competitive practices: these include but go beyond pricing tactics to cover issues such as manipulation of loyalty and supply chains. See: anti-competitive practices, antitrust, law.
- Specific marketing strategies: green wash, bait and switch, shill, viral marketing, spam (electronic), pyramid scheme, planned obsolescence.
- Content of advertisements: attack ads, subliminal messages, sex in advertising, products regarded as immoral or harmful.
- Children and marketing : marketing in schools.
- Black markets, grey markets.

5 Ethics of Production

This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Some of the more acute dilemmas in this area arise out of the fact that there is usually a degree of danger in any product or production process and it is difficult to define a degree of permissibility, or the degree of permissibility may depend on the changing state of preventative technologies or changing social perceptions of acceptable risk.

- Defective, addictive and inherently dangerous products and services (e.g. tobacco, alcohol, weapons, motor vehicles, chemical manufacturing, bungee jumping).
- Ethical relations between the company and the environment: pollution, environmental ethics, carbon emissions trading
- Ethical problems arising out of new technologies: genetically modified food, mobile phone radiation and health.
- Product testing ethics: animal rights and animal testing, use of economically disadvantaged groups (such as students) as test objects.

6 Ethics of Intellectual Property, Knowledge and Skills

Knowledge and skills are valuable but not easily "ownable" objects. Nor is it obvious who has the greater rights to an idea: the company who trained the employee or the employee themselves? The country in which the plant grew or the company which discovered and developed the plant's medicinal potential? As a result, attempts to assert ownership and ethical disputes over ownership arise.

- Patent infringement, copyright infringement, trademark infringement.
- Misuse of the intellectual property systems to stifle competition: patent misuse, copyright misuse, patent troll, submarine patent.
- Even the notion of intellectual property itself has been criticized on ethical grounds: see intellectual property.
- Employee raiding: the practice of attracting key employees away from a competitor to take unfair advantage of the knowledge or skills they may possess.
- The practice of employing all the most talented people in a specific field, regardless /of need, in order to prevent any competitors employing them.

2.4.3 International business ethics and ethics of economic systems

The issues here are grouped together because they involve a much wider, global view on business ethical matters.

7 International Business Ethics

While business ethics emerged as a field in the 1970s, international business ethics did not emerge until the late 1990s, looking back on the international developments of that decade.^{6} Many new practical issues arose out of the international context of business. Theoretical issues such as cultural relativity of ethical values receive more emphasis in this field. Other, older issues can be grouped here as well. Issues and subfields include :

- The search for universal values as a basis for international commercial behavior.
- Comparison of business ethical traditions in different countries.
 - Comparison of business ethical traditions from various religious perspectives.
 - Ethical issues arising out of international business transactions; e.g. bioprospecting and biopiracy in the pharmaceutical industry; the fair trade movement; transfer pricing.
 - Issues such as globalization and cultural imperialism.
 - Varying global standards e.g. the use of child labor.
 - The way in which multinationals take advantage of international differences, such as outsourcing production (e.g. clothes) and services (e.g. call centers) to low-wage countries.
- The permissibility of international commerce with pariah states.

8 Ethics of Economic Systems

This vaguely defined area, perhaps not part of but only related to business ethics, [7] is where business ethicists venture into the fields of political economy and political philosophy, focusing on the rights and wrongs of various systems for the distribution of economic benefits. The work of John Rawls is a notable contribution.

Theoretical Issues in Business Ethics

Conflicting Interests

Business ethics can be examined from various perspectives, including the perspective of the employee, the commercial enterprise, and society as a whole. Very often, situations arise in which there is conflict between one or more of the parties, such that serving the interest of one party is a detriment to the other[s]. For example, a particular outcome might be good for the employee, whereas, it would be bad for the company, society, or vice versa. Some ethicists see the principal role of critics as the harmonization and reconciliation of conflicting interests.

Ethical Issues and Approaches

Philosophers and others disagree about the purpose of a business ethic in society. For example, some suggest that the principal purpose of a business is to maximize returns to its owners, or in the case of a publicly-traded concern, its shareholders. Thus, under this view, only those activities that increase profitability and shareholder value should be encouraged. Some believe that the only companies that are likely to survive in a competitive marketplace are those that place profit maximization above everything else. However, some point out that self interest would still require a business to obey the law and adhere to basic moral rules, because the consequences of failing to do so could be very costly in fines, loss of licensure, or company reputation. The economist Milton Friedman was a leading proponent of this view.

Other theorists contend that a business has moral duties that extend well beyond serving the interests of its owners or stockholders, and that these duties consist of more than simply obeying the law. They believe a business has moral responsibilities to so-called stakeholders, people who have an interest in the conduct of the business, which might include employees, customers, vendors, the local community, or even society as a whole. They would say that stakeholders have certain rights with regard to how the business operates, and some would suggest that, this includes even rights of governance.

Some theorists have adapted social contract theory to business, whereby companies become quasi-democratic associations, and employees and other stakeholders are given voice over a company's operations. This approach has become especially popular subsequent to the revival of contract theory in political philosophy, which is largely due to John Rawls' *A Theory of Justice*, and the advent of the consensus-oriented approach to solving business problems, an aspect of the "quality movement" that emerged in the 1980s. Professors Thomas Donaldson and Thomas Dunfee proposed a version of contract theory for business, which they call *Integrative Social Contracts Theory*. They posit that conflicting interests are best resolved by formulating a "fair agreement" between the parties, using a combination of i) macro-principles that all rational people would agree upon as universal principles, and, ii) micro-principles formulated by actual agreements among the interested parties. Critics say the proponents of contract theories miss a central point, namely, that a business is someone's property and not a mini-state or a means of distributing social justice.

Ethical issues can arise when companies must comply with multiple and sometimes conflicting legal or cultural standards, as in the case of multinational companies that operate in countries with varying practices. The question arises, for example, ought a company to obey the laws of its home country, or should it follow the less stringent laws of the developing country in which it does business? To illustrate, United States law forbids companies from paying bribes either domestically or overseas; however, in other parts of the world, bribery is a customary, accepted way of doing business. Similar problems can occur with regard to child labor, employee safety, work hours, wages, discrimination, and environmental protection laws.

It is sometimes claimed that a Gresham's law of ethics applies in which bad ethical practices drive out good ethical practices. It is claimed that in a competitive business environment, those companies that survive are the ones that recognize that their only role is to maximize profits. On this view, the competitive system fosters a downward ethical spiral. Religious Views on Business Ethics
The historical and global importance of religious views on business ethics is sometimes underestimated in standard introductions to business ethics. Particularly in Asia and the Middle East, religious and cultural perspectives have a strong influence on the conduct of business and the creation of business values.

Examples include :

- Islamic banking, associated with the avoidance of charging interest on loans.
- Traditional Confucian disapproval of the profit-seeking motive.
- Quaker testimony on fair dealing

Business ethics is also related to political economy, which is economic analysis from political and historical perspectives. Political economy deals with the distributive consequences of economic actions. It asks who gains and who loses from economic activity, and is the resultant distribution fair or just, which are central ethical issues.

2.5 ETHICAL ISSUES IN BUSINESS

2.5.1 ETHICAL ISSUES ARISING FROM THE NATURE OF MARKETS

- The 18th Century economist Adam Smith demonstrated how in a free market the self interest of producers and consumers will produce an outcome desirable to all concerned. But the market, can also lead to inequality of income, wealth and market power :
- Monopoly suppliers can exploit consumers
- Monopoly buyers can exploit supply firms
- World wide inequality of income can result in unethical practices such as child labour.

2.5.2 ETHICAL ISSUES AND SOCIETY - EXAMPLES

- Involvement in the community
- Honesty, truthfulness and fairness in marketing
- Use of animals in product testing
- Agricultural practices e.g. intensive farming
- The degree of safety built into product design
- Donation to good causes
- The extent to which a business accepts its alleged responsibilities for mishaps, spillages and leaks
- The selling of addictive products e.g. tobacco
- Involvement in the arms trade
- Trading with repressive regimes

2.5.3 ETHICAL ISSUES ARISING FROM INTERNAL AND INDUSTRY PRACTICES - EXAMPLES

- Treatment of customers - e.g. honoring the spirit as well as the letter of the law in respect to warranties and after sales service
- The number and proportion of women and ethnic minority people in senior positions
- The organization's loyalty to employees when it is in difficult economic conditions
- Employment of disabled people
- Working conditions and treatment of workers
- Bribes to secure contracts
- Child labour in the developing world
- Business practices of supply firms

2.5.4 UNETHICAL PRACTICES IN MARKETING - EXAMPLES

- Pricing lack of clarity in pricing

- Dumping - selling at a loss to increase market share and destroy competition in order to subsequently raise prices
- Price fixing cartels
- Encouraging people to claim prizes when they phoning premium race numbers
- "Bait and switch' selling - attracting customers and then subjecting them to high pressure selling techniques to switch to an more expensive alternative
- High pressure selling - especially in relation lo groups such as the elderly
- Counterfeit, goods and brand piracy
- Copying the style of packaging in an attempt to mislead consumers
- Deceptive advertising
- Irresponsible issue of credit cards and the irresponsible raising of credit limits
- Unethical practices in market research and artificial intelligence

2.5.5 UNETHICAL PRACTICES RELATING TO PRODUCTS-EXAMPLES

- Selling goods abroad which are banned at home.
- Omitting to provide information on side effects
- Unsafe products
- Built in obsolescence
- Wasteful and unnecessary packaging
- Deception on size and content
- Inaccurate and incomplete testing of products
- Treatment of animals in product testing

2.5.6 ETHICS AND SUPPLY CHAIN

It would be hypocritical to claim to be a ethical firm if it turned a blind to unethical practices by suppliers in the supply chain. In particular :

- The use of child labor and forced labor
- Production in sweatshops
- Violation of the basic rights of workers
- Ignoring of health, safety and environmental standards

An ethical producer has to be concerned with what is practiced by all firms (upstream and downstream) in the supply chain.

2.6 BRIBERY

This is a key ethical issue in business :

- It first needs to be stated that bribery to secure a contract (especially a contract with a public sector body) is against the law and severe penalties can result
- However, it is sometimes seem (wrongly) as a victimless crime and is often rationalized in terms of "if we don't offer a bribery, others will"
- From a moral or ethical perspective it should be approached not in terms of "can we get away" with it but is it right to offer a bribe to secure a contract.

2.6.1 Self Check Questions

1. The Major types of ethical issues include except ____
 - A. Communication issues
 - B. Systematic issues
 - C. Corporate issues
 - D. Individual issues

- E. None of these
2. Publishing wrong Information in internet is_____
 - A. An issue of Computer ethics
 - B. An issue of Morality
 - C. An issue of Computer equity
 - D. An issue of the Digital divide
 - E. None of these
 3. _____ is not a cyber crime
 - A. Data theft
 - B. Installing Anti virus for protection
 - C. Damage to data and systems
 - D. Forgery
 4. Which of these does not fall under ethical code?
 - A. Legality
 - B. Respect for colleagues
 - C. Lifestyle
 - D. Competence

2.7 Institute of Business Ethics Suggestions for Good Practice

The Institute recommends that organizations issue statements of ethical practice in respect of:

- Relations with customers
- Relations with shareholders and other investors
- Relations with employees
- Relations with suppliers
- Relations with the government and the local community
- The environment
- Relations with competitors
- Issues relating to International Business
- Behavior in relations to mergers and takeovers
- Ethical issues concerning directors and managers
- Compliance and verification

9 What is an Ethical code?

- This is a set of principles governing morality and acceptable behavior.
It is likely to cover :
 1. Personal behavior e.g. when dealing with customers and suppliers
 2. Corporate behavior e.g. when negotiating deals
 3. Behavior towards society e.g. when recruiting
 4. Behavior towards the environment e.g. when deciding on process

2.8 ETHICAL AUDIT

- This is an audit of all the firm's activities

Purpose

1. To check that ethical principles are being pursued
2. To check the extent to which actions are consistent with the organization's stated ethical intentions
- 3- And to establish action plans if they are not

2.9 SUMMARY

In today's world we are witnessing an irresistible and irreversible globalization of economic and cultural exchanges. This is why globalization has become the predominant word to characterize the present situation and like all such words it covers a wide range of meanings. It has its starting point in the interconnectedness of people's political, economic and social lives, and it is pushed forward by trade and the economy, by technology and technological progress as well as political developments.

With any cross border transaction, questions of legal jurisdiction kick in. Which country's law should a contract be drafted in? Where will disputes be resolved? Add three or more countries into the equation and the issue becomes even more complex.

In such environments, the old value of your word being your bond becomes crucial. In business today, speed is everything. High quality, rapid execution has become the hallmark of success. If you had to cross every legal t and dot every legal on the contract before stepping forward, your pace would be too slow. By the time you'd finished the contract, the opportunity would have passed, or someone would have beaten you to it. In this environment, doing business with people you can trust and being a person of high moral standards becomes the lynch pin of success. If you can shake on a deal and know the contract will follow but the essence of the deed will be honored, then you can move forward with confidence and pace. All those operating on the global stage please note. Make sure your ethics and morals stand up to scrutiny and you will succeed. But snakes out there should beware, I believe good shines through in the end and on the whole, the rip-off merchants loose at the very least, their moral integrity and when all is said and done, that is all that matters.

2.10 Keywords

- Homogenization :- the process of making things uniform and similar
- Tyranny :- the cruel and unfair use of power by a person or small group to control a country or state
- Libertarian :- it is political philosophy that upholds liberty as a core value
- Espionage :- the act of finding out secret information about another organization
- Slavery :- the condition of being legally owned by someone else and forced to work for or obey them.

2.11 Short answer type Questions

- Q1- "Subject of ethics is receiving serious attention in management the recent days." Comment.
- Q2- Why does ethics matter in business?
- Q3. Comment on the ethical issues in human resources Management.
- Q4. Do you think celebrity advertisements mislead public? Justify your answer.

2.12 Long answer type Questions

- Q1- Explain the ethical dilemmas in Business.
- Q2- Explain how companies use creative accounting to mislead stake holders.
- Q3- Give a brief account of deceptive marketing practices in Indian business.
- Q4- Explain ethical and social issues in Marketing.
- Q5- "Finance would be impossible without ethics." Do you agree? Comment.

2.13 Suggested Readings

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2.14 Self Check Questions (Answer-key)

- **2.3.3**

1. A. To make a profit
2. B. Ethical issue
3. A.The role of corporate governance and shareholder power in corporate decision making

- **2.6.1**

1. A. Communication Issues
2. A. An issue of Computer ethics
3. B. Installing Antivirus for protection
4. C. Lifestyle

Lesson No. 3

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BUSINESS ETHICS AND MARKET ECONOMY STRUCTURE

- 3.0 Objective
- 3.1. Introduction
- 3.2. Business Ethics and Professionalism
- 3.3. Ethical Issues of Management
- 3.4. Material Plundering by Developed Countries
- 3.5. Dumping (Pricing Policy)
 - 3.5.1 Remedies and Penalties
 - 3.5.2 Anti-dumping Actions
 - 3.5.3 Chinese Economic Situation
 - 3.5.4 Agricultural Support and Dumping
- 3.6. Remedies and Penalties
 - 3.6.1 Anti-dumping Actions
 - 3.6.2 Chinese Economic Situation
 - 3.6.3 Agricultural Support and Dumping
- 3.7 Anti-Dumping Laws
- 3.8 WTO Anti-Dumping Agreement
 - 3.8.1 Public Interest: The WTO Anti-dumping Agreement
 - 3.8.2 Rationale for a Public Interest Clause in the Ad Agreement
 - 3.8.3 Suggestions
- 3.9 Summary
- 3.10 Keywords
- 3.11 Short Question for practice
- 3.12 Long Questions for Practice

3.13 Suggested Readings

3.14 Self Check Questions (Answer key)

3.0 OBJECTIVES

After reading this chapter students come to know about the following:

- Business ethics and professionalism, ethics issue of management, material plundering by developed countries.
- They also come to know about the: dumping, remedies and penalties, anti-dumping laws WTO anti-dumping.

3.1 INTRODUCTION

Firstly, the decline and fall of modern management which is Western in character and outlook must be arrested and game plan of every Executive/Manager to “work against the tide”; and restore the ideals of rectitude and righteousness to the professional management by abiding the principles of ethics in life. 'Ethicality is a compulsory attribute of each citizen. Slipping back from it may call for punishment, but sticking to it can claim no formal reward.'

We have to draw inspiration from four illustrious Indians like Rabindranath Tagore, Swami Vivekananda, Mahatma Gandhi and Aurobindo. Similarly, four eminent thinkers from the West in support of this theory are Bede Griffiths, Arnold Toynbee, Reinhold Niebuhr and David Frawley.

If you want to remain in business, you must give your customers good value for money. For example, the printers with cartridge are attractively priced to entice buyers but refilling cartridges becomes not only costly but its print quality is poor indirectly compelling the user to buy new cartridge. Moreover, the printer (“Smart”) manufacturers also installed smart chips which will lock the printer once the cartridge is empty (when it is still 17% and 38% full -as pointed out by the US Consumer Association) unless another new cartridge is used. So, it is wise to keep printing till the pages come out blank. As regards Coca-Cola and Pepsi it was found that the soft drinks contained residues of four extremely toxic pesticides and insecticides. Why the pesticide residue norms set by the European Union for water used was not followed or checked in India. (in both the above cases, Ethics of user/consumer require here to drive away the cheating product manufacturers from the market in the absence of ethics of manufacture as they do not follow strictest of standards and do business cheating the consumer).

The single biggest cause for failure in providing sea water to people is lack of good governance. Water is public good and belongs to the people that empower the government to govern it wisely. Ethical leadership, availability and sharing of information, mechanisms for dialogue and conflict resolution and connected decentralization are characteristics of good governance.

In a major trade victory for India and several other countries, the World Trade Organization (WTO) has held as violation of global trade rules a controversial US law allowing American companies to collect more than \$470 million in anti-dumping duties from the US government.

People are first and foremost individual moral agents and only secondarily take on social roles and responsibilities as executives, attorneys or physicians. Hence basic principles to be adhered to are: obey the law, keep promises, tell the truth, be true to one's values, and so on. Personal ethical values consist of the duties, commitments and ideals that shape and guide individual's lives. In many respects, the sphere of private ethics seems to be primary, to represent morality in its true and most profound sense.

Individual morality is richer and more complex and often differs from person to person, reflecting factors that are individual. For many people, personal morality is strongly influenced by their religious beliefs, while others find guiding principles and aspirations from their parents or other people they admire, in literature, in philosophy or in convictions developed through their own lives and reflection. For some people, personal ethics revolve heavily around commitments to their families, to work, to political reform or to friendships.

Individuals take on additional responsibilities when they become business executives called "role obligations" which are duties that come with the job. Attorneys have an obligation to defend the interests of their clients: physicians to safeguard the health of their patients. In the case of business executives these duties cannot be summarized like "the defense of client's interests". There are different ways of describing the role responsibilities of business executives.

The basic tenet of corporate law is that Managers/Executives as "economic agents" have a fiduciary and ethical duty to serve the interest of their company's shareholders, to use the owners' resources in the ways that the owners want them used.

Managers as "organization leaders" of the semi-permanent communities that are called "companies" have significant consequences for the lives, livelihoods and wellbeing of their employees by way of recruitment, promotion, measurement and incentives etc. A company's ethical climate encourages employees to speak honestly, to treat each other with respect, to obey both the letter and the spirit of the law and to be responsible citizens of the communities in which the company operates. Conversely, the subtle but powerful influences of company culture can lead groups of otherwise decent and well-intentioned individuals into serious violations of the law and of commonly accepted ethical standards.

Companies are often semi-closed societies; communal groups that enlist the loyalty and trust of employees and envelop much of their lives. People become members of those business

organizations, they devote much of their life's energy to their work and their lives and livelihoods are deeply bound up in company activities.

Other than the 'Traditional functional areas' inside a firm, such as marketing, production and R&D which work closely together, others such as customers, suppliers, local communities, government agencies and other stakeholders are no longer kept at arm's length from a firm but collaborate closely with the firm over the economic and social health of the communities in which they operate.

In large companies, they come together in close and collaborative relationships with each other and blur their boundaries through extensive collaboration with suppliers, customers, government agencies, local communities and other stakeholders. Their executives must decide how to use their 'political power, as well as their economic power, in responsible ways.

In the contemporary world of blurred boundaries, strategic alliances, industrial policy and corporate social responsibility, Managers must find ways to balance their responsibilities to a wide range of stakeholder groups. Hard work, open communication and imagination can open lead to 'win-win' solutions from which all stakeholders benefit. When this is not possible managers should approach these situations ethically assessing the benefits, harms and risks for all the parties and to find a way to resolve the issue that maximize benefits and minimize harms. The ethics of character and value enables the managers to assess their obligations to different stakeholder groups in terms of organizational and personal values.

3.2 BUSINESS ETHICS AND PROFESSIONALISM

Robert Reich, in his book, *The Work of Nations*, notes "we are living through a transformation that will rearrange the politics and economics of the coming century. There will be no national products or technologies, no national corporations, no national industries. There will no longer be national economies...all that will remain rooted within national borders are the people who comprise a nation."

From Kautilya's *Artha Shastra*, "In the welfare of the subjects lies the welfare of the king'. Corporate directors and managers are asking to rulers while shareholders are the subjects and good corporate governance means higher share premiums in the form of benefits to the subjects."

Aristotle called "excess" a moral vice, but one cannot find his book 'The Nicomachean Ethics' on Wall Street newsstands and corporate giants cannot therefore be expected to engage in moral introspection. Although corporate successes are determined by the movement of share prices, in practice, this has no relation to actual performance, which in turn was ignored by shareholders, accountants and regulatory bodies. Except in the Shareholders' meetings, it is extremely difficult for shareholders to get inside line operations of Board of Directors. No one has recommended that board meetings be open to shareholders or that their minutes be published to shareholders although the minutes of audit committees are made available to shareholders. Company law ensures that those who put up the funds for a business enterprise have a say in its operation at least on key decisions. An excess of loyalty from suppliers of capital may mean that they remain supine while their agents destroy long term shareholder value through inappropriate decision making and poor management. Here comes the Business ethics.

Business ethics is a complex subject and the way in which the company leaders resolve ethical issues in "traditional functional area" like marketing, finance, production, accounting, human resource management etc. strongly influence their ability to guide and lead others and it shapes the cultural and ethical climate of their organizations.

Company leaders also have moral responsibilities as their decisions have profound effects on many stakeholders not only in their nations but also around the world often involving issues of conflict or misunderstanding among different political or ethnic groups, communities, cultures or nations. Business ethics is also a vital personal matter for company executives whose performance reveal, define and shape their personal values. Their professional successes and failures, their challenges and frustrations and their relationships with co-workers are an important source of meaning and value in their lives.

Before taking action on an ethical issue, the company leader needs to understand the basic dimensions involving conflicts among different responsibilities that come under "human beings", "territory" etc.

The company leaders'/Executives' responsibilities can be divided into four spheres: Personal ethical values, responsibilities as economic agents, responsibilities as organization leaders and responsibilities in cooperative capitalism. Together, these four spheres provide a map of the moral territory of business management.

3.3 ETHICAL ISSUES OF MANAGEMENT

The ethical issues of management differ in significant ways from conventional management problems. In particular, when managers confront a difficult ethical challenge or a conventional management problem, they must do more than simply analyze the problem. What distinguishes outstanding managers, on both ethical and non-ethical issues, is their ability to devise and implement plans of action that deal effectively with the issue at hand.

The business issues like marketing, manufacturing, finance etc. must be resolved in the process of dealing with the ethical problem. But the ethical elements in a particular situation usually raise the degree of difficulty manager's face.

"Differing judgments" - It is possible that different managers will view the same ethical situation differently based on their own values, experiences and responsibilities. People have strong feelings ("hot buttons") about them and readily personalize discussion and analysis. As a result, ethical issues within companies are more likely to become minefields than accounting or engineering problems. Ethical issues often become crucial tests of a manager's leadership ability and management style. This enables others to assess what kind of person the manager is and the degree to which they will trust this person in the future.

As managers work to create a positive ethical climate—one that respects the rights, duties and interests of people inside and outside a firm—they need to be aware of the obstacles they will meet. The organizational factors that erode individuals' instincts to think and act ethically fall into four categories.

Ethical issues are often regarded as troublesome intrusions in business decision making and pose problems that are not generally easy to solve and involve many emotions and differing personal values. Questioning others' ethical judgment can be viewed as questioning their integrity the simple act of inquiry may be viewed as a breach of group loyalty. Hence, norms of conformity arise from the ways organizations usually integrate members.

Managers should be properly rewarded recognizing and properly evaluating not only their attention to ethics, but also measuring their performance and behavior otherwise they may decide that ethical behavior is not worth the effort, because they focus on short-term, quantifiable results, recruiting fresh hands or promoting existing ones depend upon performance, attitude and values, technical, character and values. Hence, the managers need careful judgment, to decide the best way to bring about change. Measures and rewards might need to be changed to encourage a change in values. Like the company cultures with which they are interwoven, ethical climates resist change.

Two types of factors - commitments/penalties ft. rewards - shape the attitudes and behavior of people in the organization. Unless many members of an organization become personally committed to certain values, the values are unlikely to endure. Members of the organization must be involved in the process

of change and ownership of the changes and commitment to the behavior and values they seek to promote.

"Fragmentation and Deference to Authority" - This encourages people to define their responsibilities narrowly and limits the information they have. Fragmentation buffers people from the consequences of their actions. At worst, people feel little sense of personal responsibility or view themselves as cogs in a machine they cannot control. A related danger is the willingness of many people to defer to the authority of those higher up in an organization.

Performance pressures, deadlines and crises create another obstacle to ethical conduct. Many managers simply keep their ethical concerns to themselves. A positive ethical climate can counter this tendency, but creating and maintaining it is quite challenging.

'Lenses and Levers'- Unless managers work hard to meet these challenges, their company's values, attitudes and norms will weaken the firm and discourage honesty, respect, fairness and a sense of responsibility within its ranks. The company's ethical climate depends on several basic factors. Each is both a lens and a lever. As lenses, each helps clarify what sort of ethical climate a company is encouraging. As levers, each can help managers reshape the climate of a company and counter the organizational obstacles described above.

'Goals and shared values'- What are the company's basic goals-strategic, organizational and financial? How are they communicated? What common purposes do people in a company serve? What basic values guide their behavior?

'Management Example'- Judging from their actions, which speak louder than their words, what do the people in charge of a company believe is the right way to make decisions and communicate and implement them. In reality, managing a company's ethical climate is an ongoing process requiring patience and persistence.

Extensive cooperative relationships among companies and other organizations create a new set of responsibilities for business managers. Ethical responsibilities of individuals have been a topic of reflection and analysis for millennia and managers' responsibilities as economic agents and organization leaders have been studied carefully for many decades. Profitability should not be the sole criterion of judging a corporate performance and it should be looked beyond shareholders' value. It is all about responsibility that should be built by leaders and driven by the people of an organization.

Truth, courage, action and caring are four cultural values, which are required for the success. Corporate sector should take pro-active measures to ensure good corporate governance so as to prevent the government from enforcing new set of guidelines.

Effective leadership is a key to raise development and it is the leaders who bring in changes in institutions.

The current trends in globalization and market economy are driving the developing countries to the precipice of consumerism. When financial scams and frauds are rocking even the affluent and stable economies such as Japan, Korea and Germany; when even the world of sports is tainted with treachery and painted with perversion, where do we look for relief and redemption? Black money is the oxygen of corruption. Corruption is the oxygen of black money. One can wake up a person who is sleeping but not one who is pretending to be asleep. Criminalization of politics is an important aspect of misgovernance of

our country. Political class will not yield without a fight but the indications are that ultimately the eminently fair Supreme Court judgment will prevail and we would have taken the first step: onwards better governance through decriminalization of our politics.

During the past decade, scams, swindles, and rip-offs have become a regular feature of the Indian political and corporate landscape, costing taxpayers, investors and banks thousands of crores of rupees. Enactment of a whistleblowers Protection Act can be a potent tool for promoting good governance in the country. The whistleblower is considered a hero or a traitor, a do-gooder or a crank, a role model or a non-conformist troublemaker—depending on one's point of view. Under normal circumstances, an organization is entitled to total loyalty and confidentiality from its employees. But when there is a serious malpractice or when people's lives are at stake—as in corruption and fraud like creative accounting and false declarations by a company for example, the whistleblower should not be protected.

In a society, if incompetent people are placed in responsible positions, they will not be able to deliver what is expected of one holding that position i.e., the quality as well as the quantity of work will suffer. Those who wield political power will take more and more ad hoc and arbitrary decisions unethically. For those at lower levels, survival becomes the most important and only criterion for all thinking, talking and action, i.e., their thought, word and deed are all conditioned by the sole aim of survival. These are the indicators of a corrupt society and corruption has become a way of life and the people have learnt to live with it. It should be understood that it is because of corruption that worthwhile schemes of the government do not reach the intended persons, points out a senior official of this Directorate of Vigilance and Anti-Corruption. So pathetic is the situation that bribe-takers do not hesitate to torture the public even when they are in distress. In order to control corruption, the ethical competence of the individuals and society as a whole will have to be enhanced. If a society is genuinely interested in controlling corruption, it will foster competence. It will take all steps to improve the efficiency of every one of its members. The corrupting influence is also eternal and hence will always exist but it can be kept under control. If society is able to keep the corrupting influence under control, it will be sustained. Otherwise, it will disappear.

Moreover, East is basically contemplative whereas West is basically action-oriented. There is also a gender perspective on the broad theme of the East-West differential and the need to check the destructive march of masculine centrifugalism (of the West) by reinforcing feminine centripetalism (of the East). Globalization was affecting the poor especially women as mechanization was taking away jobs that were hit by labor-intensive. With no role in decision-making, they have become victims of the changes characterized by flow of foreign capital, technology, mechanization, subsidy cuts and privatization. According to National Commission for Women, for example, use of concrete ready mixers rendered dozens of workers unemployed. Where are ethical standards adopted?

Emotional purity should be a goal of life; the undesirable consequences due to the advances made in the field of biotechnology like 'cloning' technology minus ethics will bring disaster; and the importance of follower snip as against leadership.

Value addition is the primary cause of business. Business should be focused on the core duty of creating value continually to the society and various stakeholder groups. Business profit should not be accumulated at the expense of social responsibility. "What is good for the society may also be good for the business."

1: is time for the developing countries to show their collective power and “paralyse the WTO by not agreeing to a new round of trade liberalization negotiations.’ It is right, time to strike, as the movement against globalization and indebtedness has reached a critical stage. The domination by the IMF and the World Bank is on its last leg and left with residuary strength having lost all its credibility and legitimacy. Its base among the developed countries has been shrinking. The developing countries should try and play off the growing differences between the US and the Europe and the other developed countries.

3.3.1 Self Check Questions

1. The ethical decision ‘Same Job , Same Wage’ is used under which criterion?

- A. Rights
- B. Utilitarianism
- C. Justice
- D. Culture

2. Which legislation relates to the concept of business ethics?

- A. Freedom of Information Act
- B. Food Act
- C. Building Regulations
- D. All of these

3. Successful global initiatives addressing standards for business must begin and end with

- A. the role of corporate governance and shareholder power in corporate decision making
- B. Social Activism
- C. Implementation of standardized ethics programs
- D. Consolidation of economic and environmental efforts

3.4 MATERIAL PLUNDERING BY DEVELOPED COUNTRIES

The historical evidence under the intellectual property rights regime revealed that a lot of germ plasm material, plundered by the developed countries from the developing nations, enabled them to evolve genetically modified and high yielding varieties of foodgrains and cattle. Under the new patent regime, the developed countries claimed large amounts of royalty from the developing ones. (here is Ethics). Punishment should be meted out to those who failed to declare the source

of the genetic materials patented by them. They should also be held responsible for the litigation inflicted by them on the developing countries when the latter fought against the patent laws.

The wealthier countries, which wrote the rules of the current trading system and continue to dominate global trade flows, have a special role to play ethically. Large investments in education, child and maternal health, gender equality and protection of the environment were essential to achieve the MDGs (Millennium Development Goal).

Persons accused of white-collar economic crimes, punishable under the erstwhile Foreign Exchange Regulatory Act (FEKA), are not entitled to benefit of the Foreign Exchange Management Act, 1999 (FEMA), which replaced the FERA, as ruled by the Madras High Court. As per Section 49(4) of the FEMA, all offences committed under the repealed FEKA shall be governed by the FEMA provisions as if it has not been repealed at all. An economic offence is committed with cool calculation and deliberate design with an eye on personal profit, regardless of the consequence to the community. Is it ethical?

Andre ALADI, Geneva fund manager and a leader among European proponents of good corporate governance, said Ebner had made two mistakes. "For one, he gambled in futures speculation and secondly, who was very secretive". Ebner was no shareholder activist. He was in it for his pocket. Is it professionally ethical?

In the case of Elisabeth Salina-Amirani, in 1998, she resigned as Chairman and Chief Executive of Société Générale de Surveillance in Geneva, the world's biggest inspection and testing company, when it hit hard times. The following year, she was ousted from Society's Board after directors met in emergency session an hour before a shareholder meeting and voted to nullify the voting rights of almost half the shares. Salina, sued. In November, three and a half years later, a Geneva court ruled that the directors violated voting rules and fined the company 60,000 francs, about \$44,000/-. Such a decision against unethical behavior of the Board should be appreciated.

Cultivation of genetically modified (GM) crops has become popular in countries like the US, Argentina and China. In India, the approval for commercial production of genetically modified cotton was given after several years of field trials. The Genetic Engineering Approval Committee noted with concern the highly sensitive nature of the cotton hybrid towards curl leaf virus that affects the yield of cotton. According to Arpit Puzta of Rowett Research Institute in Aberdeen rats fed with GM potatoes suffered a damage of their immune system and these rats were said to have smaller brains and showed damage to vital organs. According to him the 'transgenic gene implanted in the new plant may be non-toxic by itself. Hence, it is prudent to follow a cautionary approach while considering the application of large-scale cultivation or import of GM foods. Although GM crops can benefit consumers like it provides new tools to improve crop productivity, reduction in pesticide applications; improve micronutrient content, there are concerns that genetic modifications achieved through transgenic techniques that may result in harm. Developing countries like India must have strong research programmed in biotechnology, so that they are not at the mercy of bigger powers and multinational companies.

According to Mr. M S Swaminathan, Chairman of the MSSRF Foundation, at present there was

no level playing ground for developed and developing countries and the provisions of the WTO agreement were 'grossly' in favor of the developed countries. He was for a transparent and actionable code of conduct with reference to trade distorting subsidies, imposition of quantitative restrictions on import of specific commodities etc. Any unrestricted imports would destroy rural livelihoods and increase distress in the farm sector. He stressed competitiveness of Indian agriculture achievable by improving quality of farm products.

Assocham (Associated Chambers of Commerce and Industry of India) has predicted bright prospects for industries in areas of healthcare, agriculture, environment and good processing and India would be a major global player through export of bio-products. (But any decision should be taken ethically supportive).

According to Joseph E Stiglitz, the chief economist of the World Bank in the late 1990s,

' If the developed countries were serious about paying more attention to the voices of the developing countries, they could help fund a think tank-independent from the international economic organizations that would help them formulate strategies and positions." He disagreed with the World Bank-IMF idea that 'there is one approach that is right for all countries' and said that there is a range of policies that must be selected based on conditions in each country. Trade reform is something that has to be tailored to each country's circumstances, taking into account its geographic advantage, its institutional needs, its relations with its main trading partners'.

With corporate scandals taking heavy toll in the US, the market regulator is reviewing corporate governance practices in India. SEBI was considering a move to place a corporate governance rating instrument. The instrument is aimed at allowing shareholders/ stakeholders to assess the functioning, value creation and value sharing conducted by corporates. A company's Board should not be a congregation of friends and family, since their presence would only be detrimental to the company. Corporates must be judged on three categories: their commitment to society, their adherence to the law and also whether their governance suffers from any jaundice'.

Not only was a nomination committee for Board's a requirement, but having a national committee to oversee board directorships was of utmost importance. He also said that it was a welcome development that all boards were required to publish attendance of board members, which made members more accountable. The regulator along with the Department of Company Affairs needs to lay down a realistic number of meetings that board members must attend.

Importance of agriculture is India's key concern in the WTO negotiations, in particular food security and the livelihood security of the vast numbers of people dependent on agriculture in the country. Referring to the proposed special products of interest to developing countries, the Minister Arun Shourie said that the selection of such products must be on the basis of self-decision given that it was not possible to have multilaterally agreed criteria applicable across the board to all countries.

In the WTO meeting it was emphasized that transparency is important and emphasized that all relevant documents should be made available to member countries well in time so that there could be due deliberation and coordination of positions before the Cancun ministerial meeting, (such kind of ethics is required). Transparency also means that there should be no last-minute surprises sprung on delegates which had characterized the past rounds of multilateral trade negotiations. There should be coordination on substantive modalities and implications must be fully understood. On the contentious Singapore issue- investment, competition, transparency in government procurement and trade facilitation- there should be agreement first on the modalities on the basis of explicit consensus before entering into negotiations. It may be pointed out that attempts are being made by some countries to link agriculture with Singapore issues and no agreement on such issues at the cost of developing countries should be made, (Ethics is required).

On the movement of natural persons, which is the area India is trying to push to enable easier functioning of: LS professionals, especially in the software sector abroad, it may not be easy in view of immigration and unemployment concerns among the European Union countries. At present, there are relatively large sections with long lasting unemployment in the countries such as France. (Will such countries agree for free movement of natural persons from India as they do in the case of GY! foods to India. Ethics works here.)

The globalization process and the WTO regime are only promoting the interests of developed countries at the cost of developing economies, said Dr. A C Muthiah, new President of the Federation of Indian Chambers of Commerce and Industry. As an example, France has imposed a ban on import of Indian unassembled cycles and high duties on assembled ones. Development banks which played a big role in building India's industrial base, had been turned into commercial banks looking for short-term profit. (Where is Ethics).

India has complained to the WTO about the special European union tariff preferences of countries that were combating drug trafficking or those who were complying with labor and environmental standards. EC scheme violated the WTO's fundamental non-discrimination rule (where is Ethics. WTO failed in: Rs Geneva Meet 2002 deadline to reach an agreement on relaxing patent regulations on medicines for developing countries and on measures that would provide general preferential treatment for the poorer members of the WTO (this is because of no-Ethics)

Corporate Social Responsibility: The consideration of public interest is an important consideration in corporate functioning. CSR reflects a wide variety of attitudes and forms of corporate behavior. By way of 'Social Activism', a portion of profit of the company may be diverted to social projects like building schools, hospitals or providing human resources available to such projects. By way of "balancing approach" every decision and action of a company would pay due regard not only to shareholder interests, but equally to the interests of the employees, vendors, customers and creditors of the company. Although it may be found difficult to

implement this approach, (Ethics" will play a great role).

3.5 DUMPING (PRICING POLICY)

In economics, "dumping" can refer to any kind of predatory pricing. However, the word is now generally used only in the context of international trade law, where dumping is defined as the act of a manufacturer in one country exporting a product to another country at a price which is either below the price it charges in its home market or is below its costs of production. The term has a negative connotation, but advocates of free markets see 'dumping' as beneficial for consumers and believe that protectionism to prevent it would have net negative consequences. Advocates for workers and laborers however, believe that safeguarding businesses against predatory practices, such as dumping, help alleviate some of the harsher consequences of free trade between economies at different stages of development (see protectionism). The Bookstein directive, for example, was accused in Europe of being a form of 'social dumping,' as it favored competition between workers, as exemplified by the Polish Plumber stereotype.

A standard technical definition of dumping is the act of charging a lower price for a good in a foreign market than one charges for the same good in a domestic market. This is often referred to as selling at

less than "fair value." Under the WTO Agreement, dumping is condemned (but is not prohibited) if it causes or threatens to cause material injury to a domestic industry in the importing country. [1]

3.5.1 REMEDIES AND PENALTIES

In United States, domestic firms can file an antidumping petition under the regulations determined by the Department of Commerce, which determines "less than fair value" and the International Trade Commission, which determined "injury". These proceedings operate on a timetable governed by U.S. law. The Department of Commerce has regularly found that products have been sold at less than fair value in U.S. markets. If the domestic industry is able to establish that it is being injured by the dumping, then antidumping duties are imposed on goods imported from the dumpers country at a percentage rate calculated to counteract the dumping margin.

Related to antidumping duties are 'countervailing duties.'" The difference is that countervailing duties seek to offset injurious subsidization while antidumping duties offset injurious dumping.

Some commentators have noted that domestic protectionism, and lack of knowledge regarding foreign cost of production, lead to the unpredictable institutional process surrounding investigation. Members of the World Trade Organization can file complaints against anti-dumping measures.

3.5.2 ANTI DUMPING ACTIONS

Legal Issues

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be "dumping" the product. Opinions differ as to whether or not this is unfair competition, but many governments take action against dumping in order to defend their domestic industries. The WTO agreement does not pass judgment. Its focus is on how governments can or cannot react to dumping-it disciplines anti-dumping actions, and it is often called the "Anti-Dumping Agreement*". (This focuses only on the reaction to dumping contrasts with the approach of the Subsidies and Countervailing Measures Agreement).

The legal definitions are more precise, but broadly speaking the WTO agreement allows governments to act against dumping where there is genuine ("material" injury to the competing domestic industry. In order to do that the government has to be able to show that dumping is taking place, calculate the extent of dumping (how much lower the export price is compared to the exporter's home market price), and show that the dumping is causing injury or threatening to do so.

Definitions and degrees of dumping

While not prohibited by the WTO, GATT (Article VI) allows countries the option of taking action against dumping. The Anti-Dumping Agreement clarifies and expands Article VI: and the two operate together. They allow countries to act in a way that would normally break the GATT principles of binding a tariff and not discriminating between trading partner-typically antidumping action means charging extra import duty on the particular product from the particular exporting country in order to bring its price closer to the "normal value" or to remove the injury or domestic industry in the importing country.

There are many different ways of calculating whether a particular product is being dumped heavily or only lightly. The agreement narrows down the range of possible options. It provides three methods to

calculate a product's "normal value". The main one is based on the price in the exporter's domestic market. When this cannot be used, two alternatives are available—the price charged by the exporter in another country, or a calculation based on the combination of the exporter's production costs, other expenses and normal profit margins. And the agreement also specifies how a fair comparison can be made between the export price and what would be a normal price.

Calculating the extent of dumping on a product is not enough. Anti-dumping measures can only be applied if the dumping is hurting the industry in the importing country. Therefore, a detailed investigation has to be conducted according to specified rules first. The investigation must evaluate all relevant economic factors that have a bearing on the state of the industry in question. If the investigation shows dumping is taking place and domestic industry is being hurt, the exporting company can undertake to raise its price to an agreed level in order to avoid anti-dumping import duty.

Procedures in Investigation and Litigation

Detailed procedures are set out on how anti-dumping cases are to be initiated, how the investigations are to be conducted, and the conditions for ensuring that all interested parties are given an opportunity to present evidence. Anti-dumping measures must expire five years after the date of imposition, unless a review shows that ending the measure would lead to injury.

Anti-dumping investigations are to end immediately in cases where the authorities determine what the margin of dumping is insignificantly small (defined as less than 2% of the export price of the product). Other conditions are also set. For example, the investigations also have to end if the volume of dumped imports is negligible (i.e. if the volume from one country is less than 3% of total imports of that product although investigations can proceed if several countries, each supplying less than 3% imports, together account for 7% or more of total imports). The agreement says member countries must inform the Committee on Anti-Dumping Practices about all preliminary and final anti-dumping actions, promptly and in detail. They must also report on all investigations twice a year. When differences arise, members are encouraged to consult each other. They can also use the WTO's dispute settlement procedure.

Actions in the European Union

European Union anti-dumping is under the purview of the European Council. It is governed by European Council regulation 384/96. However, implementation of anti-dumping actions (trade defense actions) is taken after voting by various committees with member state representation.

The bureaucratic entity responsible for advising member states on anti-dumping actions is the Directorate General Trade (DG Trade), based in Brussels. Community industry can apply to have an anti-dumping investigation begin. DG Trade first investigates the standing of the complainants. If they are found to represent at least 25% of community industry, the investigation will probably begin. The process is guided by quite specific guidance in the regulations. The DG Trade will make a recommendation to a committee known as the Anti-Dumping Advisory Committee, on which each member state has one vote. Member states abstaining will be treated as if they voted in favor of industrial protection, a voting system which has come under considerable criticism. (21

As is implied by the criterion for beginning an investigation, EU anti-dumping actions are primarily considered part of a trade defense * portfolio. Consumer interests and no industry related interests

("community interests) are not emphasized during an investigation. An investigation typically looks for damage caused by dumping to community producers, and the level of tariff set is based on the damage done to community producers by dumping.

If consensus is not found, the decision goes to the European Council.

If imposed, duties last for five years theoretically. In practice they last at least a year longer, because expiry reviews are usually initiated at the end of the five years, and during the review process the status quo is maintained.

3.5.3 CHINESE ECONOMIC SITUATION

The dumping investigation essentially compares domestic prices of the accused dumping nation with prices of the imported product on the European market. However, several rules are applied to the data before the dumping margin is calculated. Most contentious is the concept of 'analogue market'. Some exporting nations are not granted "Market Economy Status" by the EU: China is a prime example. In such cases, the DG Trade is prevented from using domestic prices as the fair measure of the domestic price. A particular exporting industry may also lose market status if the DG Trade concludes that this industry receives government assistance. Other tests applied include the application of international accounting standards and bankruptcy laws.

The consequences of not being granted market economy status have a big impact on the investigation. For example, if China is accused of dumping widgets, the basic approach is to consider the price of widgets in China against the price of Chinese widgets in Europe. But China does not have market economy status, so Chinese domestic prices cannot be used as the reference. Instead, the DG Trade must decide upon an analogue market: a market which does have market economy status, and which is similar enough to China. Brazil and Mexico have been used, but the USA is a popular analogue market. In this case, the price of widgets in the USA is regarded as the substitute for the price of widgets in China. This process of choosing an analogue market is subject, to the influence of the complainant, which has led to some criticism that it is an inherent bias in the process.

3.5.4 AGRICULTURAL SUPPORT AND DUMPING

European Union and Common Agricultural Policy

The Common Agricultural Policy of the European Union has often been accused of clumping though significant reforms were made as part of the Agreement on Agriculture at the Uruguay round of GATT negotiations in 1992 and its subsequent incremental reforms, notably the Luxembourg Agreement in 2003. Initially the CAP sought to increase European agricultural production and provide support to European farmers through a process of market intervention whereby a special fund the European Agricultural Guidance and Guarantee Fund (Sagip) would buy up surplus agricultural produce if the price fell below a certain centrally determined level (the intervention level). Through this measure European farmers were given a 'guaranteed' price for their produce when sold in the European community. In addition, to his internal measure a system of export reimbursements ensured that European produce sold outside of the European community would sell at or below world prices at no detriment to the European producer. This policy was heavily criticized as distorting world trade and since 1992 the policy has moved away from market intervention and towards direct payments to farmers regardless of production (a process of "decoupling"). Furthermore, the payments are generally

dependent on the farmer fulfilling certain environmental or animal welfare requirements so as to encourage responsible, sustainable farming in what is termed 'multifunctional' agricultural subsidies - that is, the social, environmental and other benefits from subsidies that do not include a simple increase in production.

3.7 ANTI DUMPING LAWS

ANTI-DUMPING LAWS have been with us since the early decades of the 20th century. Ostensibly aimed at preventing unfair trade practices, they have in recent decades been used mostly to punish foreign producers for offering their products to domestic consumers at low prices. Rather than being used to protect the public (from low prices), they have been used to protect inefficient domestic producers from foreign competition at the expense of the general public. They are a classic example of special-interest legislation, what economists would call rent seeking.

Launching an anti-dumping investigation is not difficult. In many countries, all that is necessary is to petition the government to launch an investigation. Before the 1970s, anti-dumping laws were invoked rarely, but since then they have become more prevalent. Their use was mostly confined to the United States and a few other countries. But now, with the advent of the World Trade Organization, they are likely to become a key part of the trade policy of more than 120 countries. And since tariffs and quotas are being eliminated or reduced, anti-dumping laws are becoming the protectionist tool of choice to prevent foreign producers from competing in domestic markets. Thus, the WTO is rapidly becoming a force for protectionism rather than free trade.

Nearly all of the articles that have been written about anti-dumping laws either look at technical aspects of the anti-dumping laws or discuss specific cases. Ethical issues are largely ignored. Those few articles that do discuss ethical issues limit themselves to utilitarian ethics, the ethical system that the vast majority of economists have adopted. But while applying utilitarian ethics to anti-dumping laws does furnish some insight concerning their justification, it provides an incomplete and even incorrect picture.

Since economists and many lawyers are utilitarians, perhaps a few words should be said about how utilitarian ethics can be applied to the anti-dumping laws. Utilitarian ethics basically states that a policy is good if the majority benefit, even if someone's rights are violated along the way. "The greatest good for the greatest number" is the phrase often used.

A number of studies have been conducted to determine whether the good outweighs the bad in the case of anti-dumping laws. These studies, including a major study by the United States International Trade Commission, one of the organizations involved in prosecuting companies for anti-dumping violations in the United States, concluded that the anti-dumping laws result in a deadweight loss. In other words, the losses exceed the gains. Domestic producers gain something but domestic consumers and foreign producers lose more than the domestic producers gain because of the introduction of inefficiencies and transaction costs. No study to the author's knowledge has ever found that anti-dumping laws produce a net gain.

While the utilitarian ethical system makes an attempt to determine whether particular policies are good or bad, it is a flawed system because it totally ignores property rights. According to a utilitarian, it is perfectly acceptable to violate someone's property rights as long as there is a net gain to society.

A better ethical system to apply to the morality of anti-dumping laws is one that takes account of property rights. Under the property-rights approach, a policy is automatically bad if someone's property rights are violated. If no one's property rights are violated, an action still may be ethical or unethical, depending on the particular case, but it should not be illegal.

For example, prostitution may be immoral but it does not follow that the activity should be illegal, since no one's rights are violated. Similar arguments have been made for legalizing homosexuality, gambling, dwarf tossing, polygamy, and numerous other "victimless" crimes. All of these activities have been illegal at one time or another because of the perception on the part of some people that they are immoral and should therefore be banned. Acts between (or among) consenting adults that do not result in the violation of anyone's rights should not be illegal. Perpetrators should not be punished just for engaging in acts that some people find offensive. It is a perversion of the law to force someone's ethical views down the throats of the general public in cases where no one's rights are violated.

Let's apply the property-rights approach to the anti-dumping laws. Whose rights are being violated by dumping? Domestic producers' rights are not violated because there is no right to sell something to consumers who choose to buy from someone else. Consumers have a right to choose. Certainly, domestic producers stand to be harmed if a foreign producer is permitted to sell in the domestic market. But being harmed is not the same as one's rights' being violated.

The argument has been made that the anti-dumping laws should be reformed to prevent abuses. The problem with this solution is that all anti-dumping laws make it impossible or more costly for consumers to choose. Anti-dumping laws are inherently abusive. The conclusion is clear. Anti-dumping laws violate property rights and the right to contract. Reform is not enough. Anti-dumping laws must be abolished.

3.8 THE WTO ANTI DUMPING AGREEMENT: POSSIBLE REFORM THROUGH THE INCLUSION OF A PUBLIC INTEREST CLAUSE

One issue that was not fully resolved in the Uruguay Round was that of the public interest in antidumping actions. At present, the consideration of producer interests dominates the rationale for antidumping laws and there is nothing to indicate that there is an interface between import-competing interests and the interests of wider society. Many believe that the Doha Round provides an opportunity to make a significant progress in strengthening the law by including a genuine public interest clause. A number of negotiating proposals on anti-dumping submitted to the WTO have covered the 'public interest' issue and have advocated the inclusion of a public interest test in this Agreement. However, none has suggested the modalities to do so. Against this background, this paper addresses the question 'Should this clause be introduced in the Anti-dumping (AD) Agreement, and if yes, in what form?'

3.8.1 PUBLIC INTEREST: THE WTO ANTI-DUMPING AGREEMENT

The current AD Agreement imposes no substantive obligations on the authorities to take the broader public interest into account. Article 6.1 of the Antidumping Agreement requires that notice of an investigation be given to all interested parties. It reads as follows:

'All interested parties in an antidumping investigation shall be given notice of the information which the authorities require and ample opportunity to present in writing all evidence which they

consider relevant in respect of the investigation in the question'. Article 6.11 defines the term interested parties for the purpose of this Agreement. It speaks for the inclusion of

(ii) an exporter or foreign producer or the importer of a product subject to investigation, or a trade or business association a majority of the members of which are producers, exporters or importers of such product.

(iii) the Government of the exporting Member; and (iii) a producer of the like product in the territory of the importing Member or a trade or business association a majority of the members of which produce the like product in the territory of the importing Member in 'interested parties. The term thus includes not only the exporters and domestic producers but also the importers of the product under investigation who are likely to be adversely affected by anti-dumping actions. Article 6.11 goes on to state:

This list does not preclude Members from allowing domestic or foreign parties other than those mentioned above to be included as interested parties.

The Agreement: allows member States to add to the list. Furthermore, Article 6.2 of the Agreement, provides that throughout an anti-dumping investigation, all interested parties shall have a full opportunity to defend their interests. It states:

Throughout the anti-dumping investigation all interested parties shall have a full opportunity for the defense of their interests. To this end, the authorities shall on request provide opportunities for all interested parties to meet those parties with adverse interests so that opposing views may be presented and rebuttal arguments offered Nonetheless, the Agreement does not contain any provision that requires what this input be given any weight in actually making determinations or assessing duties. The Agreement also requires national authorities to provide opportunities for industrial users of the good subject to investigation and representative consumer organizations to provide relevant information during investigations. But this is limited to the cases where the product is commonly sold at the retail level. Moreover, the aim of this provision is to enable consumer organizations and industrial users to provide any information that is relevant to an anti-dumping investigation. Article 6.12 of the Agreement, reads as follows. The authorities shall provide opportunity for industrial users of the product under investigation and for representative consumer organizations in cases where the product is commonly sold at the retail level to provide information, which is relevant to the investigation regarding dumping, injury and causality.

There is no provision in the law that places an obligation on the national investigating authority to act in accordance with the information so supplied. Clearly, the adversely affected parties (including importers, downstream and upstream industrial users and consumers) have no rights but merely privileges and investigating authorities conducting an anti-dumping action are not obliged to take their views seriously. Thus, anti-dumping duties may be imposed even if they are contrary to the public interest. Indeed, some countries including the European Union, Canada, Brazil, Paraguay, Thailand, and Malaysia have public interest test provisions¹. China has also introduced the concept of the public interest as a basis for imposing anti-dumping measures in its new Anti-dumping legislation, which has become effective on June 1, 2004. Most other countries however impose duties without consideration of the public interest whenever the investigation finds the presence of dumping and injury.

Some scholars argue that the inclusion of a public interest clause in the legislation would add to the uncertainty of the proceedings and administrative complexity and would increase cost of investigation to the parties and the government (see, Banks 1993 for the Australian experience). It is also submitted that not only would such an analysis be costly and time consuming, it will likely be politically unacceptable as well (Krishna 1997).

Politically, anti-dumping is seen as a measure imposed by the government in the broader interests of the economy. The emotionally compelling argument is that foreign exporters injure the citizens of a State through dumping and at the same time impose an additional burden on the State to do full cost-benefit analysis to allow such situation to develop.

Finally, it is argued that the public interest test is not effective even in the countries (such as the EU and Canada) which follow this test (Krishna 1997). The public interest provision in Canada was enacted in 1984 at the suggestion of the Consumers' Association of Canada, and followed a House of Commons Report, which found that 'concentration on producer interests is too narrow a focus and the consumer interest must be considered.' An examination of the Canadian International Trade Tribunal's (CITT) AD cases however shows that the provision has been used infrequently, and that when it is used, anti-dumping duties are seldom reduced. Between 1984 and 2000, 315 AD cases were initiated in Canada. Of these, 216 resulted in final measures. Over the same period however, only 11 public interest inquiries were initiated, of which four resulted in duty reduction². EU experience is not convincing either. The pre-Uruguay Round EU antidumping regulation already contained a community interest clause, which was strengthened after the Uruguay round. However, to the best of our knowledge, 'public interest' investigation affected the Commission's decision in only one case³ till date. The above arguments notwithstanding we suggest that a public interest test must be made mandatory. Even if discretionary in nature, it provides for a wider and more complete analysis of the situation in the domestic importing market. It can help in reconciling a country's antidumping policy with its larger national interests. A properly devised public interest test with appropriate substantive provisions could prove to be useful in reforming this highly criticized (see, for instance, Lindsey and Dan Akenson 2002a, Lindsey and Dan Akenson 2002b, Aggarwal 2002a) trade defensive measure. In what follows, we address the question: why should a public interest clause be incorporated in the Anti-dumping Agreement?

3.8.2. RATIONALE FOR A PUBLIC INTEREST CLAUSE IN THE AD AGREEMENT

An investigation to determine the existence, degree and effect, of any alleged dumping is initiated by the national authority upon a written application by or on behalf of the domestic industry. Domestic industry for the purpose of this Agreement is defined to include domestic producers of the like product in import-competing industries. Dumping affects the interest of these producers adversely. They therefore make an appeal to the government: for protecting them from the 'unfair trade practices of foreign firms.

Although it is not stated, the primary objective of the Anti-dumping legislation is to protect these producers from injury caused by imports of the dumped goods⁴. Antidumping investigations therefore focus on establishing dumping, injury to these producers and a causal link.

- One must however note that there is no one-to-one relationship between dumping and the welfare of the importing economy. Even if a domestic industry is being harmed by allegedly dumped imports, other domestic interests—namely, downstream import-using industries and consumers—are benefited by them. This latter group thus has a conflict of interest with the former. An anti-dumping law with no public-interest provision fails to take account of these conflicting interests. The parties who lose from the antidumping provision are marginalized in the system. If the requisite findings of dumping and injury are made, antidumping remedies for the import-competing producers follow automatically—regardless of the consequences for the other interested parties. This is not a rational policy making. If major affected interests are systematically ignored in the decision-making process, the resulting policy will result in protecting the interests of import-competing domestic producers at the expense of all other interested parties. A public interest clause in a revised antidumping agreement could serve as a means of access to socio-economic justice for these adversely affected parties. It is thought to be a way of balancing producer interests with consumer (consumers of the product) interests.

Furthermore, anti-dumping practices may have adverse effects on the national economy and impose a number of costs on the domestic economy by adversely affecting the importing country's price structure and creating difficulty for industries to obtain the supplies they need. USITC (1995) and Gal la way et al. (1999) examined the net aggregate effects of all US AD/CVD orders for 1991 and 1993 respectively using a computable general equilibrium model. While the USITC estimated the loss at \$1.6 billion, the latter found that the welfare loss ranged from 32 to 34 billion annually. The objective of a public-interest clause is to ensure that investigating authorities consider anti-dumping complaints in a wider context, taking into account not only the interests of the affected domestic industry, but also the costs of the anti-dumping intervention to the national economy. But the national economic interest is the simple sum of all the private economic interests in the national economy (Finger and Zlate 2003). To reconcile a country's antidumping policy with its larger national interests therefore, all economic interests need to be taken into account. Here a properly devised and effectively implemented public interest test, can help. There is thus, a clear economic welfare argument for imposing duties only when there is a net gain, that is when producer gain from such duties exceeds consumer loss.

Adding a public interest clause would also impose due restraint in the application of antidumping measures. Such restrictions on antidumping rules are extremely important because the impact of antidumping measures on trade is significant and because these measures are likely to spread with increases in trade volume and direct, investment, particularly in developing countries, which could then generate potential foreign petitioners seeking for antidumping relief. Expanding the power of multiple stakeholders to affect the outcome of anti-dumping investigation proceedings may exert some discipline over the application of this law.

Finally, incorporating a public-interest test is also in accordance with the basic concepts, principles, and objectives of the Antidumping Agreement. Though the present agreement does not require any kind of explicit public-interest test, it does indicate that it is desirable. In that regard, Article 9.1 of the current agreement states, it is desirable that the imposition (of duties) be permissive in the territory of all Members'. This clearly captures the essence of the Agreement.

We therefore suggest here that there is a need to establish a Public Interest Clause' in the strengthened anti-dumping rules. This is necessary not only as a matter of sound economics but also as a matter of

justice. This would also help in exercising restraint on the use of this tool by tightening the initiation conditions of the AD investigations. It is generally argued that the ideal solution to the evil of anti-dumping lies in seeking tighter rules on antidumping in the current round of trade negotiations (see for instance, Panagariya 1999).

The public interest clause is not a completely new concept because it exists in some National Anti-dumping Legislations. It should not therefore be difficult to address various elements of a 'public interest' test and translate the concept into concrete antidumping rules.

3.8.3 Self-Check Questions

1. Anti-dumping investigation occurred when a product is exported to a country with less than_____

- A. Standard price
- B. Exporting Price
- C. Normal price
- D. Production costs

2. India is set to pitch for a strong TFA in services at WTO ? What does TFA stand for ?

- A. Trade Facilitation Agreement
- B. Trade Formation Agreement
- C. Trading Formation Agreement
- D. Trading Facilitation Agreement

3. An Anti-Dumping Workshop for Asian Investigating Authorities was held. It was held in

- A. Kuala Lumpur
- B. Jakarta
- C. Beijing
- D. New Delhi

3.8.4 SUGGESTIONS

There is no doubt that antidumping policy around the world would be greatly improved by mandating the inclusion of a public-interest test. For incorporating this clause in the current Agreement, the following are the principal changes to anti-dumping disciplines that we suggest in the current Doha Round.

(1) Amend the law to make public interest considerations mandatory

The Agreement needs to be amended to require that Members consider the public interest in initiating antidumping cases and assessing final duties in cases where interested parties make submissions to this effect. In other words, this test should be applied both at the beginning of the procedure before

initiation of an anti-dumping duty case, and also at the end of a case before duties are applied for the domestic industry.

(2) Extend the definition of interested parties

The class of persons defined by the Antidumping Agreement as interested parties, with rights to defend their interests in antidumping hearings, to present oral evidence, receive oral information given during a hearing, and see all non-confidential information relevant to the presentation of their cases, should be expanded to include industrial users and representatives of consumer organizations. Under the current rules, representatives of consumer organizations and industrial users can be defined as 'interested parties' only if Members conducting an investigation extend this privilege to them. In addition, the investigating authorities are to allow representatives of consumer organizations (and industrial users) to provide information only in cases where the product under investigation is 'commonly sold at the retail level'.

(3) Specify the criteria for 'public interest'

The criteria for public interest should be articulated more clearly and in a broader sense. Our suggestion is that the term 'public interest' should receive the same treatment as does the term 'injury'. Antidumping provisions state that injury is caused: if domestic competing interests are harmed as a result of a range of factors. The same procedure could be applied to public interest to serve as notice that protection from dumped goods should not be taken for granted. We therefore recommend inclusion of a provision of investigations into public interest that would be parallel to that already there for the 'injury' investigation. For this, a non-exhaustive list of factors to be included would guide the authorities whether and how to conduct a public interest inquiry.

The Antidumping Legislation of Canada, which has a unique feature of explicit public interest inquiries may provide guidance, in this context. Until recently, SIMA provided no guidance to the Tribunal (CITT) as to the issues that were relevant or a determination as to what constituted the public interest. Amendments introduced in SIMA in 2000 prescribed in para 40.1(3) (b) of the Special Import Measures Regulations factors that the Tribunal may consider in public interest inquiries. It provides a list of factors that could be considered by the Tribunal in a public interest inquiry. It also clarifies that 'In their submissions and replies, parties should address all the factors that they consider relevant in assisting the Tribunal to arrive at its opinion.' And that, The Tribunal will take into account any factors that it considers relevant.

(4) Establish procedures for balancing the interests of consumers (including industrial users) and domestic industries

National authorities should consider all the above factors in determining the public interest. Where the costs and benefits of imposing punitive import duties are clearly and substantially out of balance, national authorities should be able to prevent real damage to the economy. In other words, they must ensure that the negative impact of the proposed duty on the Community as a whole should not be disproportionate to the objectives of giving protection to the domestic industry against unfair Trade practices of the exporters. The above test may be applied both before reaching a decision to initiate an anti-dumping investigation and before imposing the duty.

(5) Lesser duty Rule

A soft option to ensure public interest is to make the lesser duty lev/ mandatory. It is argued *bat the lesser duty concept appears to be a worthwhile change that will, if nothing else, at least alleviate some of the harm caused to consumers by the imposition of anti-dumping duties. Currently, the WTO Anti-Dumping Agreement states that 'it is desirable that the imposition of the duty be less than the margin {of dumping}, if such lesser duty would be adequate or remove injury to the domestic industry.' This does not, therefore, appear to be a mandatory provision of GATT, since the provision uses exhortatory language instead of compulsory words like 'shall' or 'must'. Member countries therefore use wide discretion in this matter as well. While in Mexico, Brazil, Argentina and India this rule is not mandatory, the Elf statue has made this rule mandatory. In the US and Canada, on the other hand, AD duty equivalent to the dumping margin is imposed. While examining the effectiveness of the lesser duty rule, Aggarwal [2004] analyzed the duty structure of the US and the EC in a comparative framework. She found that the distribution of ADD imposed against Indian exporters in the EU is more highly skewed than that in the US. Apparently the lesser duty rule in the EU is not very effective. A part of the explanation lies in the fact that the calculation of the extent of injury itself is subject to several ambiguities. The more inefficient the domestic industry the greater is the likelihood of higher injury margins. The system thus protects inefficiency. The lesser duty rule is likely to be ineffective unless there is an unambiguous methodology of calculating injury elimination level.

3.9 SUMMARY

Today India is on the verge of opening its entire domestic market to the whole world at a time when the past experience has shown how relentlessly the Indian market has become a target for dumping. India has been flooded by cheap product from China where it has significantly slowed down industrial growth. Considering such factors, proper business ethics should be adhered to before taking any decision complying with requirements provided specifically for socially responsible behavior for business such as the United Nations Global Compact, OECD guidelines for Multinational Enterprises, Social Accountability 8000, the Global Sullivan Principles, Ethical Trading Initiative, as also the CII Code of Confederation of Indian Industry and the SEBI Code by Securities and Exchange Board of India which is known as Kumar Mangalam Birla Committee Report.

While GATT has been largely successful in reducing barriers to trade, antidumping provisions remain a significant obstacle to liberalized trade that would benefit consumers.

Numerous studies demonstrate the extent to which anti-dumping legislation does not appear to be motivated by anything other than protectionism (see, for instance, Aggarwal 2004b). There is little economic argument that can support the practice of antidumping. It does not prevent predatory pricing, since predatory pricing is an improbable phenomenon at best; nor does it prevent the alleged harm caused by sporadic dumping, since that too is unlikely. Moreover, anti-dumping legislation cannot be supported on social welfare grounds, since the protection of small communities is usually not the focus of an antidumping investigation. However, there does not appear to be a realistic chance of reform of the Agreement in the near future. The decision of the Ministerial Conference of the WTO at Doha emphasizes the preservation of the basic concepts, principles and effectiveness of this agreement, its instruments and its objectives. Perhaps the only hope that consumer welfare advocates can find in this state of affairs is in including a public interest clause in the Agreement. It

is administratively workable and will prove to be highly effective in balancing the interests of the domestic producers and the interests of consumers.

3.10 Keywords

1. Dumping : to get rid of something that you do not want, especially in a place which is not suitable
2. Plundering :to steal or remove something precious from something, in a way that does not consider moral laws or is more severe than it needs to be
3. Fragmentation : the process or state of breaking or being broken into fragments.
4. Utilitarian : designed and intended to be practical and useful rather than attractive.

3.11 Short Questions for Practice

1. What are ethical issues of management?
2. Define Dumping?
3. Define Anti- Dumping Laws.
4. Define WTO Anti- Dumping Agreement.

3.12 Long Questions for practice

1. What are remedies and penalties for dumping?
2. Explain in detail the Anti-Dumping Laws.
3. Describe the importance of consciousness studies in Management of Self.

3.13 Suggested Readings

Armstrong, David. *Managing by Storying Around*. New York: Doubleday, 1992, pp. 135–137.

Arnold, Kristen. *Team Basics: Practical Strategies for Team Success*. Quebec: QPC Press, 2000.

Beer, Michael, and Eisenstat, Russell. "The silent killers of strategy implementation and learning." *Sloan Management Review*, Summer 2000, p. 29.

Belanger, Peter. "How to lose gracefully." *TeleProfessional*, January 1995, p. 52.

Brenner, Steven, and Molander, Carl. "Is the ethics of business changing?" *Harvard Business Review*, January–February 1997.

Nelson, J. (1994). Business Ethics in a Competitive Market. *Journal of Business Ethics*, 13(9), 663–666.
<http://www.jstor.org/stable/25072573>

3.14 Self-Check Questions (Answer key)

3.3.1

1. B Utilitarianism
2. A Freedom of Information Act
3. A the role of corporate governance and shareholder power in corporate decision making

3.8.3

1. C. Normal Price

2. A Trade Facilitation Agreement

3. D

New

Delhi

SOCIAL RESPONSIBILITY OF BUSINESS

STRUCTURE

- 4.1. Objective
- 4.2. Introduction
- 4.3. Economic Value
- 4.4. Criticism of the Doctrine of Positive Responsibility
- 4.5 Socially Responsible Businesses
- 4.6 Summary
- 4.7 Keywords
- 4.8 Short Questions for practice
- 4.9 Long Questions for practice
- 4.10 Suggested Readings
- 4.11 Self-Check Questions (Answer key)

4.1 OBJECTIVE

After reading this chapter students should be able to know about, the social responsibilities of the business, Economic value, criticism of the doctrine of positive responsibility and what is Socially responsible businesses.

4.2 Introduction

Social responsibility is an ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility towards the society. This responsibility can be 'negative', meaning there is a responsibility to refrain from acting (resistance stance) or it can be 'positive' meaning there is a responsibility to act (proactive Stance).

There is a large inequality in the means and roles of different entities to fulfill their claimed responsibility. This would imply the different entities have different responsibilities, states should ensure

the civil rights of their citizens, that corporations should respect and encourage the human rights of their employees and that citizens should abide with written laws. But social responsibility can mean more than these examples. Many Non-governmental organizations (NGOs) accept that their role and the responsibility of their members as citizens is to help improve society by taking a proactive stance in their societal roles. It can also imply that corporations have an implicit obligation to give back to society (such as is claimed as part of corporate social responsibility and/or stakeholder theory).

A second way that businesses can use ethical decision making to strengthen their businesses is by making decisions that affect its health as seen to those stakeholders that are outside of the business environment. (Kaliski, 2001) Customers and Suppliers are two examples of such stakeholders. Take a look at companies like Johnson & Johnson, their strong sense of responsibility to the public is well known. (Hogue, 2001) In particular, take for instance Johnson & Johnson and the Tylenol scare of 1982. When people realized that some bottles of Tylenol contained cyanide they quit buying Tylenol, stocks dropped and Johnson & Johnson lost a lot of money. But they chose to lose even more money and invest in new tamper resistant seals and announce a major recall of their product. There was no 'certain amount' for this situation; Johnson & Johnson had to lose money to be socially responsible, but in the long term they gained the trust of their customers. Now when people look at other products, there is a sense of faith and trust in that Johnson & Johnson would not allow a product to harm people just to meet their own bottom line. The exact opposite picture had been portrayed by Union Carbide in the Methyl Isocyanide gas leak incident in Bhopal, India in 1984.

A third way that business can use ethical decision making to secure their businesses is by making decisions that allow for government agencies to minimize their involvement with the corporation. (Kaliski, 2001) For instance if a company is proactive and follows the United States Environmental Protection Agency guidelines for admissions on dangerous pollutants and even goes an extra step to get involved in the community and address those concerns that the public might have; they would be less likely to have the EPA investigate them for environmental concerns. "A significant element of current thinking about privacy. However, it stresses upon "self-regulation" rather than market or government mechanisms for protecting personal information" (Swire, 1997) Most rules and regulations are formed due to public outcry. If there is no outcry there often will be limited regulation.

4.3 ECONOMIC VALUE

While corporate responsibility holds obvious moral value, it carries with it economic value as well. This economic value can be defined as the total dollar amount individuals are willing to pay for or invest in socially responsible goods or practices. It has been estimated that over \$5300 billion can be extracted from the United States' gross domestic product for the purpose of funding socially responsible practices. Triple bottom line is on the theory that discusses that idea.

4.4 CRITICISM OF THE DOCTRINE OF POSITIVE RESPONSIBILITY

Many, particularly libertarians, assert there is no "social responsibility" to do anything, but to refrain from doing. They argue that social responsibility only exists to the extent that an

individual or business should not initiate physical force, threat of force, or fraud against another. In his famous article *The Social Responsibility of Business is to Increase Profits*, Nobel economist Milton Friedman (Classical View/theory of Social Responsibility) asserts that businesses have no social responsibility other than to increase profits and refrain from engaging in deception and fraud. He maintains that when businesses seek to maximize profits, they almost always incidentally do what is good for society. Friedman does not argue that business should not help the community but that it may indeed be in the long-run self-interest of a business to "devote resources to providing amenities to [the] community..." in order to "generate goodwill" and thereby increase profits.

Another famous economist highly critical of this doctrine is R. Edward Freeman, author of a number of papers on stakeholder theory from an explicitly libertarian's perspective.

4.4.1 Self-Check Questions

1. The four types of social responsibility include:

- A. Legal, philanthropic, economic and ethical
- B. ethical, moral, social and economic
- C. Philanthropic, justice, economic and ethical
- D. Legal, moral, ethical and economic

2. The _____ dimension of social responsibility refers to a business's societal contribution of time, money and other resources.

- A. Ethical
- B. Philanthropic
- C. Volunteerism
- D. Strategic

4.5 SOCIALLY RESPONSIBLE BUSINESSES

For each business, different measures are taken in consideration to classify a business as "socially responsible". (Kaliski, 2007) Each business attempts to reach different goals. There are four areas that should be measured regardless of the outcome needed: Economic function, Quality of life, Social investment and Problem solving, [citation emphasized]

In economic function, the goal that is tried to be achieved should be measured to see if it meets with the cost guidelines that the business is willing to contribute. (Kaliski, 2007) If the business were to try to better the plant by reducing its carbon footprint, it must assess how this can be achieved. (Carbon Footprint, 2006) In the quality of life measurement "should focus on whether the organization is improving or degrading the general quality of life in society". (Kaliski, 2007) Social investment eventually documents the role of the business in its goal towards being 'socially responsible'.

When we hear businessmen speak eloquently about the 'social responsibilities of business in a free enterprise system.' we are reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life. The businessmen believes that they are defending free enterprise when they to claim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the achievements of the contemporary crop of re-formers. In fact they are or would be if they or anyone else took them seriously-preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

The discussions of the 'social responsibilities of business' are notable for their analytical looseness and lack of rigor. What does it mean to say that 'business' has responsibilities or only people can have responsibilities? A corporation is an artificial person and in this sense may have artificial responsibilities, but "business' as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.

Presumably, the individuals who are to be responsible businessmen, which means individual proprietors or corporate executives. Most of the discussion of social responsibility is directed at corporations, so in what, follows I shall mostly neglect the individual proprietors and speak of corporate executives.

In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Of course, in some cases his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary purpose-for example, a hospital or a school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.

In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is towards them.

Needless to say, this does not mean that it is easy to judge how well he is performing his task. But at least the criterion of performance is straightforward, and the persons among whom a voluntary contractual arrangement exists are clearly defined.

Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily-to his family, his conscience, his feelings of charity, his church, his clubs, his city or his country,he may feel compelled by these responsibilities towards part of his income or causes he regards as worthy, to refuse to work for particular corporations, even to leave his job, for example, to join his country's armed forces. Ifwe wish, we may refer to some of these responsibilities as 'social responsibilities.' But in this respect he is acting as a principal, not as an agent; he is spending his own money or time or energy, not

the money of his employers or the time or energy he has contracted to devote to their purposes. If these are 'social responsibilities.' They are the social responsibilities of individuals, not of business.

What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire "hardcore" unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customer's money. Insofar as his actions lower the wages of some employees, he is spending their money.

The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so. The executive is exercising a distinct "social responsibility," rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it.

But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.

This process raises political questions on two levels: principle and consequences. On the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions. We have established elaborate constitutional, parliamentary and judicial provisions to control these functions, to assure that taxes are imposed so far as possible in accordance with the preferences and desires of the public-after all, 'taxation without representation' was one of the battle cries of the American Revolution. We have a system of checks and balances to separate the legislative function of imposing taxes and enacting expenditures from the executive function of collecting taxes and administering expenditure programs and from the judicial function of mediating disputes and interpreting the law.

Here the businessman-self-selected or appointed directly or indirectly by stockholders- is to be simultaneously legislator, executive and jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds-all this guided only by general, exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on.

The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for "social" purposes. He becomes in effect a public employee, a civil servant, even though he remains in name an employee

of a private enterprise. On grounds of political principle, it is intolerable that such civil servants-insofar as their actions in the name of social responsibility are real and not just window-dressing-should be selected as they are now. If they are to be civil servants, then they must be elected through a political process. If they are to impose taxes and make expenditures to foster "social" objectives, then political machinery must be set up to do the assessment of taxes and to determine through a political process the objectives to be served.

This is the basic reason why the doctrine of 'social responsibility' involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.

On the grounds of consequences, can the corporate executive in fact discharge his alleged 'social responsibilities?' On the other hand, suppose he could get away with spending the stockholder's or customer's or employee's money. How is he to know how to spend it? He is told that he must contribute to fighting inflation. How is he to know what action of his will contribute to that end? He is presumably an expert in running his company in producing a product or selling it or financing it. But nothing about his selection makes him an expert on inflation. Will his holding down the price of his produce reduce inflationary pressure? Or by leaving more spending power in the hands of his customers, simply divert it elsewhere? Or, by forcing him to produce less because of the lower price, will it simply contribute to shortages? Even if he could answer these questions, how much cost is he justified in imposing on his stockholders, customers and employees for this social purpose? What is his appropriate share and what is the appropriate share of others?

And, whether he wants to or not, can he get away with spending his stockholder's, customer's or employees' money? Will not the stockholders fire him? (Either the present ones or those who take over when his actions in the name of social responsibility have reduced the corporation's profits and the price of its stock.) His customers and his employees can desert him for other producers and employers less scrupulous in exercising their social responsibilities.

This facet of 'social responsibility' doctrine is brought, into sharp relief when the doctrine is used to justify wage restraint by trade unions. The conflict, of interest is naked and clear when union officials are asked to subordinate the interest of their members to some more general purpose. If the union officials try to enforce wage restraint, the consequence is likely to be wildcat strikes, rank-and file revolts and the emergence of strong competitors for their jobs. We thus have the ironic phenomenon that union leaders-atleast, in the U.S. have objected to Government interference with the market far more consistently and courageously than have business leaders.

The difficulty of exercising 'social responsibility' illustrates, of course, the great virtue of private competitive enterprise-it forces people to be responsible for their own actions and makes it difficult for them to 'exploit' other people for either selfish or unselfish purposes. They can do good but only at their own expense.

Many a reader who has followed the argument this far may be tempted to remonstrate that. It is all well and good to speak of Government's having the responsibility to impose taxes and determine expenditures for such "social" purposes as controlling pollution or training the hard-core unemployed, but that the problems are too urgent to wait on the slow course of political

processes, that the exercise of social responsibility by businessmen is a quicker and surer way to solve pressing current problems.

Aside from the question of fact- I share Adam Smith's skepticism about the benefits that can be expected from 'those who affected to trade for the public good'-this argument must be rejected on grounds of principle: What if it amounts to the assertion that those who favor the taxes and expenditures in question have failed to persuade a majority of their fellow citizens to be of like mind and that they are seeking to attain by undemocratic procedures what they cannot attain by democratic procedures. In a free society, it is hard for "evil" people to do "evil" especially since one man's good is another's evil.

I have, for simplicity, concentrated on the special case of the corporate executive, except only for the brief digression on trade unions. But precisely the same argument applies to the newer phenomenon of calling upon stockholders to require corporations to exercise social responsibility (the recent G.M crusade for example). In most of these cases, what is in effect involved is some stockholders trying to get other stockholders (or customers or employees) to contribute against their will to "social" causes favored by the activists. Insofar as they succeed, they are again imposing taxes and spending the proceeds.

The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his "social responsibility," he is spending his own money, not someone else's. If he wishes to spend his money on such purposes, that is his right, and I cannot see that there is any objection to his doing so. In the process, he, too, may impose costs on employees and customers. However, because he is far less likely than a large corporation or union to have monopolistic power, any such side effects will tend to be minor.

Of course, in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions.

To illustrate, it may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects. Or it may be that, given the laws about the deductibility of corporate charitable contributions, the stockholders can contribute more to charities they favor by having the corporation make the gift than by doing it themselves, since they can in that way contribute an amount that would otherwise have been paid as corporate taxes.

In each of these and many other similar cases, there is a strong temptation to rationalize these actions as an exercise of "social responsibility." In the present climate of opinion, with its wide spread aversion to "capitalism," "profits," the "soulless corporation" and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest.

It would be inconsistent of me to call on corporate executives to refrain from this hypocritical window-dressing because it harms the foundations of a free society. That would be to call on them to exercise a 'social responsibility"! If our institutions, and the attitudes of the public make it in

their self-interest to cloak their actions in this way, I cannot summon much indignation to denounce them. At the same time, I can express admiration for those individual proprietors or owners of closely held corporations or stockholders of more broadly held corporations who disdain such tactics as approaching fraud.

Whether blameworthy or not, the use of the cloak of social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society. I have been impressed time and again by the schizophrenic character of many businessmen. They are capable of being extremely farsighted and clearheaded in matters that are internal to their businesses. They are incredibly shortsighted and muddleheaded in matters that are outside their businesses but affect the possible survival of business in general. This shortsightedness is strikingly exemplified in the calls from many businessmen for wage and price guidelines or controls or income policies. There is nothing that could do more in a brief period to destroy a market system and replace it by a centrally controlled system than effective governmental control of prices and wages.

The shortsightedness is also exemplified in speeches by businessmen on social responsibility. This may gain them kudos in the short run. But it helps to strengthen the already prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces. Once this view is adopted, the external forces that curb the market will not be the social consciences, however highly developed, of the pontificating executives; it will be the iron fist of Government bureaucrats. Here, as with price and wage controls, businessmen seem to me to reveal a suicidal impulse.

The political principle that underlines the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation's benefit or they need not participate. There are no values, no "social responsibilities in any sense other than the shared values and responsibilities of individuals. Society is a collection of individuals and of the various groups they voluntarily form.

The political principle that underlines the political mechanism is conformity. The individual must serve a more general social interest whether that be determined by a church or a dictator or a majority. The individual may have a vote and say in what is to be done, but if he is overruled, he must conform. It is appropriate for some to require others to contribute to a general social purpose whether they wish to or not.

Unfortunately, unanimity is not always feasible. There are some respects in which conformity appears unavoidable, so I do not see how one can avoid the use of the political mechanism altogether.

But the doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why in my book "Capitalism and Freedom", I have called it a 'fundamentally subversive doctrine' in a free society, and have said that in such a society, 'there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.'

4.5.1 Self – Check Questions

1. An Organization's obligation to act to protect and improve society's welfare as well as its own interests is referred to as:

- A. Organizational Social Responsibility
- B. Organizational social responsiveness
- C. Corporate obligation
- D. Business ethics

2. Social Obligation is the obligation of a business to meet its _____

- A. Social and technological responsibilities
- B. Economic and legal responsibilities
- C. technological and economic responsibilities
- D. Economic and Social Responsibilities

3. Under the concept of Social Obligation, the organization _____

- A. does what it can to meet the law
- B. fulfills its obligation to the stakeholders
- C. does the minimum required by law
- D. fulfills its obligation to the law and its stakeholders

4.6 SUMMARY

Social responsibility is an ethical or ideological theory that an entity whether it is a government, corporation, organization or individual has a responsibility towards the society. There is a large inequality in the means and roles of different entities to fulfill their claimed responsibility. Many, particularly libertarians, assert there is no 'social responsibility' to do anything, but to refrain from doing. This facet of 'social responsibility' doctrine is brought into sharp relief when the doctrine is used to justify wage restraint by trade unions.

4.7 Keywords

1. Responsibility : a duty or deal you are required and expected to do
2. Muddleheaded : mentally disorganized or confused
3. Sabotage : damage that is done on purpose
4. Pilferage : the action of stealing things of little value.
5. Self- Regulation : the ability to understand and manage you own behavior and reactions

4.8 Short Questions for practice

Q1- Define Social Responsibility of a Business?

Q2- Why is Social Responsibility Emphasized?

Q3- Why should business assume social responsibility?

4.9 Long Questions for practice

Q1- Explain the forces which are responsible for increasing concern of business enterprises towards social responsibility.

Q2- It is in the interests of the business to fulfill its social responsibilities towards different interest groups. Explain.

Q3- Describe the role of social responsibility in today's era?

Q4- 'Business is essentially a social institution and not merely a profit making activity.' Explain.

4.10 Suggested Readings

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4.11 Self-Check Questions (Answer-key)

4.4.1

1. A legal, Philanthropic ,Economic and Ethical
2. B Philanthropic

4.5.1

1. A Organizational Social Responsibility
2. B Economic and legal responsibilities
3. C Does the minimum required by law

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ETHICAL CONFLICTS AND WHISTLE-BLOWING

STRUCTURE

- 5.1. Introduction
- 5.2. Origin of Term Whistleblowers
- 5.3. Whistle Blowing Process
- 5.4. Whistle Blowing Policy- 2004
- 5.5. Managing Whistle Blowing
- 5.6. Whistleblowers - Risks and Skills
- 5.7. The Golden Quadrilateral - The End of the Road for
- 5.8. Satyendra Dubey
- 5.9. Myths of Whistle Blowing
- 5.10. Advice for Whistle Blowers
- 5.11. Keywords
- 5.12. Short Questions for Practice
- 5.13. Long Questions for Practice
- 5.14. Suggested Readings
- 5.15. Self-Check Questions (Answer key)

5.0 OBJECTIVES

After reading this chapter one should be able to know :

- The origin of the term whistleblower, whistle blowing process and whistle blowing policy - 2004 .

- They also determine how to manage whistle blowing , various risk and skills in whistle blowing and myths of whistle blowing.

5.1 INTRODUCTION

Whistleblowing is speaking out in the public interest, typically to expose corruption or dangers to the public or environment. Whistleblowing, in casual usage, means speaking out from within an organization to expose a social problem or, more generally, dissenting from dominant views or practices.

A whistleblower is an employee, former employee, or member of an organization, especially a business or government agency, who reports misconduct to people or entities that have the power and presumed willingness to take corrective action. Generally the misconduct is a violation of law, rule, regulation and/or a direct threat to public interest, such as fraud, health/safety violations, and corruption. For example, a member of the police might report bribery by colleagues to superiors or a complaints tribunal. A scientist working for a pharmaceutical company might protest to management about certain adverse effects of a drug that had not been reported to regulatory bodies. An auditor working for a government department might leak to the media information about misuse of funds by top management.

5.2 ORIGIN OF THE TERM WHISTLEBLOWER

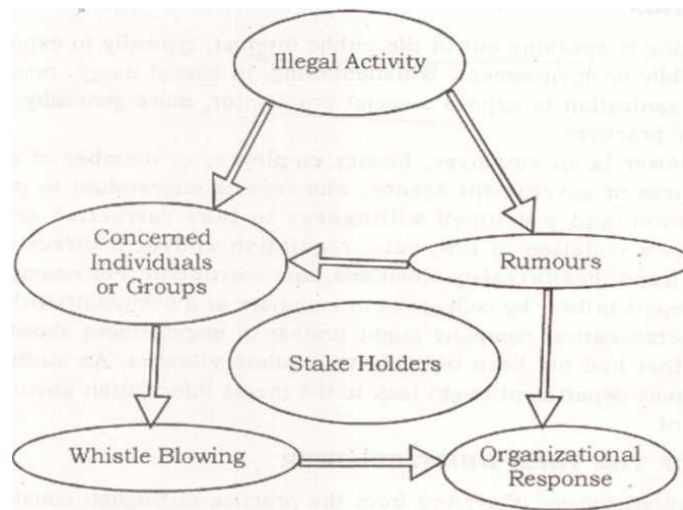
The Term whistleblower is derived from the practice of English constables who would blow their whistle when they noticed the commission of a crime. The blowing of the whistle would alert both law enforcement officers and the general public of danger.

5.5 WHISTLE BLOWING PROCESS

Experts define whistle blowing as the disclosure by organizational members (former or current) of illegal, immoral or illegitimate practices under the control of their employers, to persons or organizations that may be able to affect action. While the reporting of sensitive issues may be part of the individual's role within the organization (e.g., internal auditors, inspectors), when the individual finds it necessary to reveal such findings to organizational members outside the normal chain of command, it is also considered whistle-blowing through internal channels. Whistle blowing also encompasses situations where individuals go out of the organizational hierarchy and make information available to public or other external authorities to get a positive action.

There are four factors involved in the process. To begin with, there is a misdeed or illegal activity in the organization, and a perception that either the management can prevent it or that it has been initiated by management or certain employees. Another important factor is the presence of an individual or group of people who view that some action should be taken against the illegal activity. Finally, there is a process by which the individuals or group try to expose the problem to the authorities who can take action. The four factors have organizational and individual dependence. The unclear part would be why only some employees act as whistle blowers. One obvious reason would be the availability of the information. The sensitive information would be available only to a selected few or understanding the issues in the information is possible only by particular individuals. The second reason which points at the organizational dependence and culture would be the issue of conformity. Employees at large feel that the information or the illegal activity is part of the organizational functioning

and tend to avoid making bold moves to correct them. Considering both of these factors, we can generalize to a certain level that whistle blowers have a high level of moral responsibility, guts and concern for the organization and society at large.



In the organizational context, some of the activities which the employees feel are misdemeanors will be exposed in the form of rumors in the organization. For example, this would be something like misconduct, individual actions, socially unacceptable practices etc. The rumors at a particular stage can elicit organizational response. However in cases of intentional activities this has little chance of occurring and creates a possibility of evoking response from the whistleblowers. Interestingly, The trade unions, opposition parties and socialactivists are whistle blowers in this context and whistle blowing is considered an essential part of their effective functioning. In the other case, where the whistle blower comes across serious manipulations or illegal activity, the reaction is of a different type due to two reasons. Either the employee has firsthand information of the activity and goes through a variety of decision making challenges, or the response is difficult and may be against a set system.

In the whole process the various stakeholders play a major role. The managers, other employees and the society at large can be seen as major stake holders. The whistle blowers are often treated as traitors by the organization. Other employees tend to treat them as outcasts and blame the whistle blowers for putting the organization in a difficult position. Study of some of the cases show that whistle blowers often leave the organization or face employer or coworker retaliation. This creates an unsafe and difficult situation for whistle blowers and employees often don't indulge in this practice to avoid getting into trouble. In an article titled "What, can you learn from Enron", various perspectives are put forth on why things go wrong in organizations. A major factor is complacency from the part of the board, ethics officers, internal auditors, executives and employees. Even though there is some feeling of discomfort in the way in which some division or managers is making huge profits, employees tend to be reluctant about asking how it can be done

as they don't want to be portrayed as Trouble makers. Organizational culture too plays a major role. An organization which emphasizes on innovation tends to regulate their managers and employee less for the sake of free thinking. However this may lead to managers exploiting the system. The increased emphasis on team working and group thinking has led to the development of very cohesive groups inside organizations. This is reflected as an all-out commitment and a feeling of cult.. It would be difficult for employees to voice their individual concerns in this situation.

The relevant part would be what organizations can do to support whistle blowers and take actions at the right point of time. From the management point of view the important aspect would be keeping the issue from getting out of control, avoiding criticism from public and preventing image loss. Responding at the right time to issues and encouraging people to bring out problems concerning the functioning and governance of the organization would be critical here.

HR is considered a neutral department in organizations and can play a critical role in hearing the voice of employees. For HR, setting up channels and other mechanisms that not only allow but also promote healthy, open communication will be important for setting up an employee friendly culture. Training which explicitly states the ethics policy in organizations and the means that employees can take to handle issues of corruption in organizations will be relevant. Assigning accountability officers and providing special telephone numbers and e-mail accounts encourage employees to bring out issues and will help in maintaining anonymity. Meindcrsma, an expert, in whistle blowing litigation suggests that it is important for organizations to formulate a zero tolerance policy and should be ready to respond quickly, encourage employees in bringing forth issues, understand the legal implications and provide training to managers and supervisors regarding whistle blowing. Independent and neutral provision for reporting may be critical. Selling up a clear value system in the organization which is implied in recruitment, training, performance appraisal etc. would help to develop and sustain an open, honest culture.

5.3.1 Self Check Questions

1. _____ are those individuals who raise ethical concerns or issues to others inside or outside the organization.

A. Entrepreneur

B. Whistle blowers

C. Social Entrepreneur

D. Social Impact Management

2. A whistle-blower is primarily motivated by_____.

A. Retaliation

B. Ethical Concern

C. Personal gain

D. Fear of Retribution

5.4 WHISTLEBLOWING POLICY - RAISING CONCERNS

"To provide for protection from criminal or civil liability, departmental inquiry, demotion, harassment and discrimination of whistle blowers, i.e., the persons who bring to light specific instances of illegality, criminality, corruption, miscarriage of justice, any danger to public health and safety in any Government, public or private enterprise to an authority designated for the purposes and matters connected therewith and incidental thereto."

Employees are often the first to realize that there may be something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimization. In these circumstances it may be easier to ignore the concern rather than report what may be a suspicion of malpractice.

The Council is committed to the highest possible standards of conduct and, in line with that commitment, the Council encourages employees with serious concerns about any aspect of the Council's work to come forward and voice those concerns.

This process is commonly referred to as 'whistleblowing' and this policy gives detailed advice and reassurance to staff. This policy intends to give confidence to employees to whistle blow and it incorporates statutory provision for protection under the Public Interest Disclosure Act which applies to certain kinds of disclosure. The Council also has to act in accordance with the Regulation of Investigatory Powers Act 2003. The Council approved the policy applicable to this Act on 29 September 2003.

Provided that you are acting in good faith, it does not matter if you are mistaken. You do not have to prove anything. The message the Council wishes to get across to you is "if in doubt - raise it.

The Council will investigate any matters raised to prove or disprove the concern raised. It is not possible within the confines of this policy to identify the specific path to be considered for the outcomes of the investigation.

5.4.1 Aims and Scope

(a) This Policy aims to

- provide avenues for employees to raise concerns and receive feedback on any action taken
- allow employees to take the matter further if they are dissatisfied with the Council's response to the concerns expressed
- reassure employees that they will be protected from possible reprisals or victimization

(b) All organizations face the risk of things going wrong or of unknowingly harboring malpractice. The Council believes it has a duty to identify such situations and take the appropriate measures to remedy the situation. By encouraging a culture of openness within the Council, the Council believes it can help prevent malpractice - "Prevention is better than cure". That is the aim of this policy.

(c) This policy is not the normal grievance procedure, which enables employees to raise complaints about a variety of issues. It is intended to cover concerns that fall outside the scope of

the grievance procedure. Thus any serious concern that you have about any aspect of service provision or the conduct of members of the Council can and should be reported under this policy.

This concern may be about something that is :

- unlawful
- against the Council's Standing Orders, Financial Regulations and policies
- against established standards of practice
- improper conduct
- amounts to malpractice
- a criminal act
- a failure to comply with a legal duty (such as a breach of a statutory duty)
- a miscarriage of justice
- a danger to individuals health and safety
- damage to the environment
- deliberate cover up of any of the above

(c) Health and Safety representatives are covered by this policy in acting on behalf of Union members and staff. Staff do have a duty to report Health and Safety concerns to management and there are agreed procedures for raising concerns.

If there is anything that you think the Council should know about you should use the procedure set out in this policy. By knowing about malpractice at an early stage the Council stands a good chance of lacking the necessary steps to safeguard the interests of all staff and protect the Council.

Any concerns raised maliciously may be dealt with under the Council's disciplinary procedure. If you are already the subject of redundancy, disciplinary or Other internal proceedings these will not be halted as a result of raising a concern.

Policy

(1) The Council's Guarantee

The Council is committed to this policy. If you use this policy to raise a concern the Council gives you its assurance that you will not suffer any form of retribution, victimization or detriment. The Council will act according to this policy.

You will not be asked to prove anything.

General points

1. Although concerns can be raised verbally or in writing it is better to put them in writing setting out the background and history of the concern giving names dates and places where possible. You may wish to involve your Union representative at this stage.
2. You are encouraged to put your name to your concerns. Concerns expressed anonymously will be considered at the discretion of the Council. In exercising the discretion the Council will take into account the seriousness of the issues raised, the credibility of the concern and the likelihood of corroboration from attributable sources.
3. Although you are not expected to prove anything you will need to show to the person contacted that there are sufficient grounds for your concern.
4. The Council will do its best to protect your identity when you raise a concern and do not want your name to be disclosed. However the investigation process may reveal the source of the information and a statement may be required from you as part of the evidence.
5. Advice and guidance on how matters of concern may be pursued can be obtained from Personnel and Training Services or your Trade Union.

How to raise concern internally?

1. Tell your line manager-

If you are concerned about any form of malpractice you should normally first raise the issue with your line manager or Service Unit Head. There is no special procedure for doing this - you can tell that person about the problem or put it in writing if you prefer. The Service Unit Head will notify the Chief Executive that a concern has been raised under the policy without identifying the employee.

2. If you feel unable to tell your line manager-

If you feel you cannot tell your line manager or Service Unit Head, for whatever reason, please raise the issue with the Head of Personnel and Training Services the Monitoring Officer, the Chief Internal Auditor or the Chief Financial Officer. These officers will notify the Chief Executive that a concern has been raised under the policy without identifying the employee.

3. If you still have concerns-

If you have raised your concerns and you are still concerned, or the matter is so serious that you feel you cannot discuss it with any of the persons named above, you should raise the matter with the Chief Executive.

4. After the outcome is known-

If you are dissatisfied with the process of the Council investigation into your concern misled under this policy then you may raise your concern with the Standards Committee. Your written submission should be sent to the Monitoring Officer and the Standards Committee will scrutinize the process. If the Committee has doubts about the process then the matter will be referred back to the Responsible Officer for further consideration. The Responsible Officer will report back to the Standards Committee who may refer the matter to the Cabinet.

How the council will respond?

1. After you have raised your concern the Council will decide how to respond under this policy. This may involve making internal enquiries first, but it may be necessary to carry out an investigation at a later stage which may be formal or informal depending on the nature of the concern raised. The employee's trade union will be consulted on the terms of reference of the investigation subject to the employee's consent. Because it is impossible to predict the nature of matters raised it will be necessary to identify investigation officers according to the circumstances of the matter.

2. Some concerns may be resolved by agreed action without the need for investigation. 3. Within 10 working days of a concern being received the Council will write to you

- acknowledging that the concern has been received
- indicating how the Council proposes to deal with the matter
- giving an estimate of how long it will take to provide a final response
- telling you whether any initial inquiries have been made
- telling you whether further investigations will take place and if not why not. Where necessary further information will be sought from you.

b. When any meeting is arranged you may if you wish be accompanied by Union representative or a work colleague who is not involved in the area of work to which the concern relates.

6. Where you require personal advice and/or support you can contact Personnel and Training Services.

7. As far as possible, The Council will keep you informed of the decisions taken and the outcome of any enquiries and investigations carried out. However, the Council will not be able to inform you of any matters which would infringe the duty of confidentiality owed to others.

8. It is possible that the disciplinary' procedure will need to be used subsequently. The investigation may form part of this process.

9. The employee expressing the concern is entitled to a meeting with his/her manager after the outcome of the investigation is known. The purpose of the meeting is to explain the process is concluded.

Raising concern externally (exceptional cases)

1. The main purpose of this policy is to give you the opportunity and protection you need to raise your concerns internally. The Council would expect that in almost all cases raising concerns internally would be the most appropriate action for you to take.

2. However, if you feel threatened or your safety is at risk and you feel unable to raise a concern internally you should consider raising the matter with the appropriate regulator. The matter needs to be serious and you should honestly and reasonably believe the information and allegations are true. For a list of those bodies that are recognized for this purpose see the Appendix. Employees can also contact These bodies where they have an honest and reasonable

suspicion that a malpractice to which this Policy relates has occurred, is occurring or is likely to occur and honestly and reasonably believes that the information and any allegation contained in it are substantially true. However, the Council hopes that this policy and procedures give to employees The reassurance to raise matters internally at the first instance. Alternatively employees may wish to contact the independent charity Public Concern at Work who have lawyers who can give independent advice at any stage about how to raise a concern about seriousmalpractice at work.

The responsible officer:

The Chief Executive has overall responsibility for the maintenance and operation of this policy and maintains a record of concerns raised and the outcomes but in a form which does not infringeconfidentiality and will report as necessary to Members.

Support for employee

If an employee has to be relocated as a consequence of assisting the Council in applying this policy then he/she will not suffer financially. His/her salary will be protected indefinitely and any additional expenses (e.g. travelling) will be paid by the Council. Personnel will assist the employee to ensure that he/she is given full support in adjusting to changed working circumstances.

Safeguards

Harassment or Victimization

The Council recognizes that the decision to report a concern can be a difficult one to make, not least because of the fear of reprisals from those who may be guilty of malpractice or from the Council as a whole. The Council will not tolerate any harassment or victimization (including informal pressures) and will take appropriate action which could include disciplinary action in order to protect a person who raises a concern in good faith even if they were mistaken. In addition, employees have statutory protection against reprisals under the 1998 Act and can refer their case to an Employment Tribunal.

Confidentiality

As far as possible, the Council will protect the identity of any employee who raises a concern and does not want his/her name to be disclosed but this confidentiality cannot be guaranteed. It must be appreciated that any investigation process may reveal the source of the information and a statement by the person reporting the concern may be required as part of the evidence. Where an employee has requested that their identity not be revealed, the Council will discuss the matter with them before embarking on any course of action whereby their identity will need to be disclosed.

Anonymity:

Concerns expressed anonymously will be considered at the discretion of the Council although it must be appreciated that it is difficult to investigate concerns in this way. It is hoped that the guarantees contained in this policy will provide sufficient reassurance to staff to enable them to raise concerns in person. However in exercising discretion, the factors to be taken into account would include

- the likelihood of obtaining the necessary information;

- the seriousness of the issues raised;
- the specific nature of the complaint;
- the duty to the public

False and Malicious Allegations

The Council will protect itself and its employees from frivolous, vexatious false and malicious expressions of concern or those made for personal gain by taking disciplinary action where appropriate. In addition, a concern which is genuinely believed may prove to be unfounded on investigation. The Council will try to ensure that the negative impact of either a malicious or unfounded allegation about any person is dismissed.

How the policy will be monitored?

The Council has a responsibility for registering the nature of all concerns raised under this policy and to record the outcome. The Monitoring Officer and the Head of Personnel and Training Services will jointly produce an annual report which identifies any patterns of concern and assesses the effectiveness of the Policy.

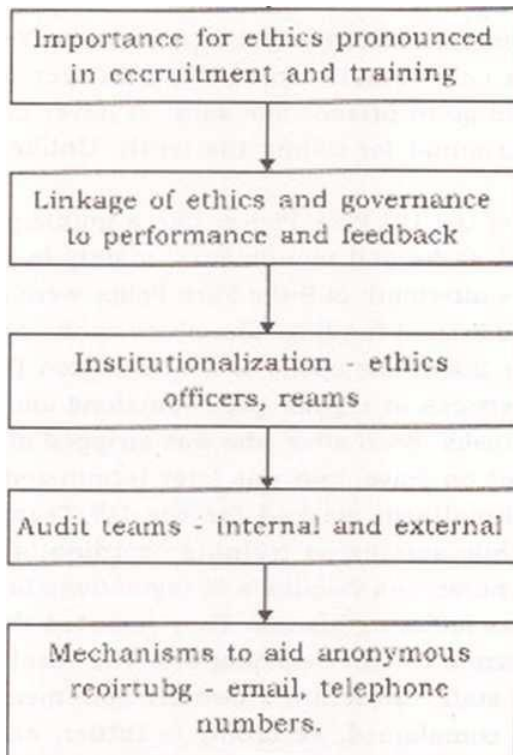
Responsibility for implementation

The responsibility for ensuring the Council adheres to this Policy rests with the Management Team and the Standards Committee.

Review

This procedure will be kept under review and any amendments will be subject to consultation with staff representatives.

5.5 Managing Whistle blowing



As employees or former employees, it is important to make sure that, certain aspects are taken into consideration before whistle blowing. Whistle blowers should confirm whether the practice followed in the organization will cause harm to an individual or the general public if unconnected, make sure that the facts in hand are reliable and not mere rumors, be fairly certain that by bringing the matter before or outside group the problem can be corrected and harm avoided. Finally, weigh the personal risks that are to be encountered if the choice is made to be a whistle blower (quite often this will be the critical factor which makes the process difficult. However, this will help to deal with the future problems in a much easier way.

5.6 WHISTLEBLOWERS : RISKS AND SKILLS

Whistleblowing means speaking out in the public interest, and in bioweapons research there are many potential reasons for doing this. Perhaps a rogue researcher is pursuing dangerous experiments, or defensive research is being subtly oriented in offensive directions. Perhaps someone is releasing sensitive information without authorization; safety systems are being neglected; data are being forged; or the lab is pursuing research, under government instructions, that the government is denying publicly.

Is it wise to Speak out? What are the risks? Consider These examples.

On 22 July '2005, Charles de Mcnezes, having just entered a train, was shot in the head seven times by London police. The police claimed he was wearing a bulky coat and had jumped over the ticket barrier and had run to the train. But Lana Vandenberghe knew the police were lying. She worked for the Independent Police Complaints Commission and had access to evidence presented at the commission's inquiry into the shooting. She leaked information to a television journalist - and then was

subject to reprisals by the police. In a dawn raid on 21 September 2005, ten police officers broke down her door and arrested her. She was kept in a cell without access to a lawyer for eight hours and threatened by police that she could go to prison. She said: It never crossed my mind that I would be treated as if I was a criminal for telling the truth. Unlike the police, I hadn't killed an innocent person.

Teresa Chambers was chief of the US Park Police, like a municipal police department but with responsibility for national parks and monuments, mainly in the Washington, DC, area. It had over 600 officers. In the aftermath of 9/11 the Park Police were given additional antiterrorism responsibilities, but no additional funding. Chambers spoke regularly to the media; it was part of her job. In December 2003, she spoke to a Washington Post journalist, saying anti-terrorism duties meant less services in regular park functions and asking for a greater budget to cover all of the service's tasks. Soon after, she was stripped of her gun and badge - a tremendous humiliation - and put on leave, and was later terminated.

Thomas Bittler and Ray Guagliardi worked for the US Transportation Security Administration (TSA). In 2003, while serving as training coordinators at Buffalo Niagara International Airport, they noticed numerous violations of regulations for inspecting baggage, for example, inadequate inspections following alarms. They reported their concerns to their boss, which led nowhere, so they wrote to TSA headquarters. The result: they lost their jobs two months later, officially due to a staff restructure. However, 'both men say TSA officials told them that they should never have complained. According to Bittler, one supervisor said: "If you people would just learn to shut your mouths, you would still have your jobs".

Richard Levernier was a nuclear security professional with 23 years' experience. After 9/11, he raised concerns with the Department of Energy about the vulnerability of US nuclear power plants to terrorist attack, for example pointing out that contingency plans assumed terrorists would both enter and exit facilities, therefore not addressing the risk of suicide attacks. His security clearance was withdrawn and he was relegated to a basement office coordinating departmental travel, his career in nuclear security terminated. Levernier went to the Office of Special Counsel (OSC), the body responsible for US federal whistleblower matters. Four years later, the OSC vindicated Levernier and ruled that the Department of Energy's retaliation was illegal - but the OSC had no power to restore Levernier's security clearance, which remained revoked.

Whistleblowing definitely is a risky business. These examples are just a sample of thousands of similar cases, although each one is far more complicated than can be conveyed by a short summary. The typical whistleblower is a conscientious employee who believes the system works. When such an employee sees something wrong, their natural response is to report it. This is often a serious mistake.

Some of the common methods used against whistleblowers are ostracism, harassment, spreading of rumors, reprimands, punitive transfers, threats, referral to psychiatrists, demotion, dismissal and blacklisting. To simply list these methods gives only a faint indication of the tremendous damage they do. Ostracism is a common experience: bosses

Shun the whistleblower and so do most other workers out of fear for their own jobs. Because validation by peers, and supervisors is vital for a worker's self-esteem, is extremely hard to handle. Yet, this is just one of many reprisals commonly suffered by whistleblowers.

Many whistleblowers trusted the system. That, after all, is why they spoke out: they expected to be treated seriously, perhaps even lauded for their efforts. Indeed, many thought they were just doing their job: reporting a discrepancy in accounts, pointing out a conflict of interest, reporting on a hazard at work. They assumed people in authority would look into the matter, decide whether their concerns were valid and, if so, take appropriate action. Often they do not think of themselves as whistleblowers.

When, instead, they come under attack, this shakes them to the core of their being: because the system turns against them for being public-spirited, their world is turned upside down. The system turns out to be unfair rather than just, and this is psychologically devastating.

The damage to whistleblowers is extensive. Many lose their jobs and have huge legal bills: the economic impact is enormous. Health and relationship problems are common. Many are forced out of their field and are unable to begin a new career.

Reprisals against whistleblowers usually involve attacks on reputation, working conditions and employment. Physical attacks are relatively rare. But in a few areas, there is a greater risk of assault, frame-ups and imprisonment, including whistleblowing about, police corruption, organized crime, military abuses and national security issues. Because bioweapons are linked to national security, speaking out about problems and violations is likely to be especially risky. Hence, exceptional caution and care are needed.

In my reading about suppression of dissent over several decades and my discussions with hundreds of whistleblowers, I have come across cases in just about every field: government, corporations, professions, indigenous organizations, police, military, churches, and feminist and environmental groups, among others. There seem to have been few prominent bioweapon-related whistleblowers - but that does not mean there are no problems to expose. For every public case, there are probably 10 or 100 known only to insiders. The most reasonable assumption is that suppression of dissent occurs in bioweapons research at about the same rate as other scientific fields (Martin, 1999b). The treatment of whistleblowers is remarkably similar across diverse occupations. This chapter presents general insights and advice concerning whistleblowing, which is almost certainly relevant to exposing problems related to bioweapons.

In attacking a whistleblower, there is also great damage to the organization. A talented employee is damaged or lost. There may be extensive legal or compensation costs. Reprisals against whistleblowers send a powerful message to other employees: speak out and you too will suffer. The result is often greater acquiescence to managerial directives. And this may be the biggest cost of all.

Whistleblowers can be considered a part of a warning system for society to fix problems before they become worse. Pain is one of the body's warning systems: it can signal danger. Sometimes the pain is superficial and it is sensible to take a few painkillers. But pain can also signal something deeper: ignore it and the problem gets much worse.

Whistleblowers can cause a sort of pain to organizations. Sometimes their warnings are misguided and others, their concerns point to deeper problems. Think of Enron, in which massive fraud persisted without checks, leading to the firm's demise, which also brought down Enron's accountants, Arthur Andersen.

It is easy to sympathize with whistleblowers when one agrees with their concerns. Enron bit the dust and therefore has few supporters today. But matters are seldom so clear cut at the time. Managers, co-workers and others often see whistleblowers as both misguided and as serious threats to a worthwhile enterprise. For these managers and coworkers, 'whistleblower' is too complimentary a term: these individuals are malcontents and traitors.

Daniel Ellsberg worked for the US Defense Department during the Indochina war, helping to write a massive inside history. He gradually became disillusioned with the justifications for the war and leaked the history, called the Pentagon papers, to the media. He could easily have gone to prison but by the time the Pentagon papers were published, in 1971, there was sufficient public opposition to the war that imprisoning Ellsberg would have been counterproductive. But there was no way that he could have retained his job with the government.

It can be hard to appreciate the power of loyalty within organizations. Anyone who goes against the group may be treated as the enemy. Stepping out of line may mean ending one's career. Few individuals are able to break such a big story as Ellsberg and create a new network of support.

So what should be done? The instinctive response of most whistleblowers is to seek justice somewhere else: from a higher-level boss, an internal grievance procedure or an outside agency, such as an ombudsman or the courts. Whistleblowers who speak out because they believe the system works, but experience reprisals instead, often assume that the problem is local and that justice can be found somewhere else. Unfortunately, this is usually misguided.

Official channels

Surely, if whistleblowers suffer reprisals for speaking out, the solution must be laws protecting whistleblowers. It seems straightforward. But the reality is disturbingly different.

What is a reprisal? Dismissal, certainly. But what if there is a restructure in the workplace several months down the track - as in the case of Bittler and Guagliardi - and the whistleblower, perhaps along with a few others, is pushed to take a redundancy payment or accept a less attractive post? An employer could easily argue, perhaps sincerely, that the restructure was unrelated to anything the employee did.

There are other, more insidious, ways of getting at whistleblowers. Ostracism is potent but easily denied, as is petty harassment. In a workplace, quick acceptance of changes to working hours might be standard; a slower and less helpful response might be within the rules, but is incredibly frustrating, although it may not seem like much to outsiders. Damaging rumors are similarly difficult to attribute to reprisals.

Another problem is that the whistleblower, usually a lone individual, has to confront the full power of the organization. A dismissed whistleblower who takes the employer to court for wrongful dismissal has to spend large amounts of money on lawyers while surviving without a salary, confronting an organization with virtually unlimited funds and time. The scales are heavily tilted against the whistleblower.

Official channels tend to be very slow. Court cases can take months or years; even if a court judgment is favorable to the whistleblower, the organization can appeal, spinning out the process. Ombudsmen, auditors general, anti-corruption bodies and the like are also slow to move. As the months pass, the whistleblower may suffer further reprisals or be out of a job.

Official Channels are procedural: cases are often decided on technicalities. Whistleblowers usually seek moral justice but courts and agencies are seldom in a position to provide it.

Worse of all, the slow, procedural and reactive processes of official channels put all attention on the treatment of the whistleblower, neglecting the organizational problems the whistleblower originally spoke out about. Even when the whistleblower is successful (e.g. in obtaining a generous compensation payment), the original problems are unaddressed.

These problems with official channels - reprisals under the radar of laws, an imbalance of power in the whistleblower-organization conflict, slowness, a procedural orientation and lack of attention to the original organizational problem - explain their appalling record in helping whistleblowers. The shortcomings are well known to experienced advisers of whistleblowers. Jean Lennanc, for many years president of Whistleblowers Australia, says the only thing you can rely on concerning official channels is that they will not work. William De Maria, in the most significant study of whistleblowers' experiences with official bodies, found that they reported being helped in less than one out of ten approaches, and in many cases they were worse off.

Tom Devine, in *The Whistleblower's Survival Guide*, the most comprehensive advice manual for US whistleblowers, finds serious flaws with even the most effective laws and agencies. The US has by far the longest experience with whistleblower protection, beginning during the 1970s. The pattern is that laws are passed but dodged by employers, un-enforced by agencies and subverted by courts.

The Office of the Special Counsel, set up to receive whistleblowing disclosures from federal employees, seldom exercises its power to demand investigation of charges made by whistleblowers: 'The OSC's annual report for fiscal 1995 reveals that out of 333 whistleblowing disclosures, the office forwarded only two for agency investigation'.

Devine Paints a Gloomy Picture

On balance, in practice US whistleblower laws have been Trojan horses, creating more retaliation victims than they helped achieve ... the system has been rigged so that realistically it routinely endorses retaliation.

After Congress passed a stronger law in 1989 and with amendments in 1994, the problems continued, according to Devine :

... The pattern of futility persists. Between passage of the 1994 amendments and September 2002, whistleblowers lost 74 of 75 decisions on the merits at the Federal Court of Appeals, which has a monopoly on judicial review of administrative decisions.

The law is filled with loopholes and the court regularly interprets the law to favor the government. Meanwhile, in the private sector, there is seldom any legal protection to start with.

One explanation for governments' enthusiasm for whistleblower protection is that laws give the appearance of dealing with the problem without any substantive change in the way organizations deal with dissent. Several governments have considered or passed whistleblower laws without any consultation with whistleblowers.

Most whistleblowers know nothing about the track record of laws and agencies. With their belief in the system, many of them approach one agency and, after an unsatisfactory response, go on to another, sometimes trying half a dozen bodies in a futile quest for justice. Some of them eventually get in touch with a whistleblowers' group and find, to their surprise, that others have had identical experiences.

The faith in official channels runs deep. It is to be expected that politicians and agency officials believe in them, but so do quite a few whistleblower activists who argue for stricter laws, better funded agencies and stronger enforcement.

Ethics Codes

What about codes of professional ethics, such as the Hippocratic Oath for doctors? Promoting such codes seems like a good idea, but do they work? This is a difficult question because there seems to be virtually no research on the effectiveness of codes. Codes seldom feature in whistleblower stories: I do not recall any case in which codes played a significant role except for one in which a whistleblowing engineer was charged with violating the professional code.

A code of professional ethics is most likely to be effective when it is well established and there are consequences for those who violate it. The Hippocratic Oath therefore should be the standard bearer, but in many cases it has been inadequate to prevent grievous abuses. The most famous example is the behavior of Nazi doctors in carrying out gruesome experiments. More recently, doctors overseeing the treatment of prisoners at Guantanamo Bay and other US prisons - said by many to involve torture - have come in for criticism.

Engineers commonly subscribe to codes of professional ethics. But this seems not to have discouraged engineers from designing and building nuclear weapons, land mines, cluster bombs and other antipersonnel weapons. There is no record of engineering bodies reprimanding or expelling members for involvement in such activities. The suspicion is that codes of ethics are, in practice, more about protecting the status of the profession than encouraging ethical behavior in any wider sense.

For example, one analyst of professional codes says: 'Almost every code of professional ethics includes a provision imposing a responsibility on members of the profession to report violators. Yet, professionals have a poor track record in this regard.' The main reason is that maintaining harmony in the profession is a priority. The likelihood of reprisals is also important in discouraging reporting.

The process of promoting and implementing a code of ethics may be a useful one if it involves intense discussions among those concerned. But until there is solid evidence that codes work in practice, it would be unwise to rely on them.

A number of statements about bioweapons work put trust in codes - and some of the codes promote whistleblowing. For example, the Inter academy Panel on International Issues put out a statement on biosecurity. One of its five points, accountability, states: 'Scientists who become aware of activities that violate the Biological and Toxin Weapons Convention or international customary law should raise their concerns with appropriate people, authorities and agencies.' Somerville and Atlas advocate a 'code of ethics for the life sciences,' one of whose points says persons and institutions should 'Call to the attention of the public, or appropriate authorities, activities (including unethical research) that there are reasonable grounds to believe are likely to contribute to bioterrorism or biowarfare.' The International Committee of the Red Cross put out a statement on Preventing hostile use of the life sciences'.

The statement's principle of 'voicing concern' includes two action points: Encourage people who work in the life sciences to voice concern about issues relating to poisoning and the deliberate spread of infectious disease and 'Ensure that adequate mechanisms exist for voicing such concerns without fear of retribution.' The International Centre for Genetic Engineering and Biotechnology, in a working paper on a code of conduct for biological scientists, states: 'Whenever any suspicion about the possible hostile use of their research arises, the involved scientists must raise the issue at the appropriate level. Such statements sound good on paper, but as I have outlined, the practical reality for those who speak out is grim, and formal systems give only an illusion of protection.

Skills

Rather than rely on codes of ethics, laws and official bodies to prevent or address problems, an alternative is to mobilize support through alliances and publicity. The basic idea is to win over people who will apply pressure to deal with the problem.

Which people? It could be members of the general public who have no particular concern about the issues involved. It could be particular groups or movements with commitments to relevant goals. It could be co-workers.

Before proceeding further, it is best to step back a bit and ask: 'What is my goal?' A person who speaks out thinks there is a problem and reports it, assuming that authorities will investigate and, if necessary, act. But if it is naive to trust the authorities, then the alternative is to find some other way of addressing the problem either that, or sit back and do nothing.

The fundamental flaw in the idea of whistleblowing is the assumption that a single person, by speaking the truth, can bring a powerful organization to account. But organizational elites are unlikely to change unless there is a countervailing power. That means that some other people, and the resources they can bring to bear, need to believe, along with the whistleblower, that something must be done. The whistleblower's task, then, is to win allies: to convince them that something is wrong and they should act.

It may be that the problem is a rogue scientist who is violating protocols without management's awareness. Speaking out about this may not seem risky. But what if managers actually know about the activity? Even if they oppose it, they may not appreciate being shown up for poor oversight.

A scientist, working in the lab, comes across documents suggesting the illicit use of biomaterials. Report it immediately, and the consequence could well be denial, destruction of evidence, and reprisals. So, pause and think: how can I convince others that this is serious? Which others should I approach? Who can I trust?

To convince others, three crucial components are evidence, personal credibility and packaging. Evidence needs to be ample, solid and convincing. The best evidence is physical: letters, emails, recordings and samples. It is unsafe to rely on people's verbal testimony. The boss may have clearly stated at the meeting that the experiment is going ahead regardless; but it is unwise to rely on the other dozen people present to back up your account - they might all lie, fearing the consequences of stating the truth.

Another problem is that perpetrators will say the documents have been superseded or that they are being misinterpreted - in other words, they will claim the documents do not indicate what is really happening. In a straight credibility context, most people will believe the director of a lab over a single employee. As a result, it is important to have plenty of documents: enough to show convincingly what is going on. It is commonly recommended to whistleblowers to obtain ten times as many documents as they think they will need.

The second crucial component in convincing others is personal credibility. A person known for telling lies, getting drunk, shouting abuse or undermining colleagues will have much less credibility than one known for honesty, sobriety, politeness and generosity.

There are ways around a bad reputation. One of the best is anonymity. Instead of speaking out, leak documents to those who will act on them. The documents will need to be good enough to stand on their own, without personal recommendation and interpretation. Leaking has the great advantage of lowering the risk of reprisals. Nevertheless, it is not easy to be an effective 'leaker' because employers have so many ways of tracking them down. Some photocopiers leave distinctive marks: taking photocopies of photocopies is a wise precaution. Even without a direct physical link, the leaker can sometimes be identified by the documents revealed. A nasty employer will retaliate by dismissing one or more people, even if they are not responsible, making the leaker feel guilty for causing damage to the careers of co-workers.

An intermediate option is to be a leaker and be known to a few individuals who are in receipt of the leaked documents. In this case, personal credibility is again important, as is secrecy when communicating with contacts. The other option is to go public. This can lead to dismissal or denial of privileges, which reduces or terminates access to documents. As a result, it is vital to collect all possible documents first.

Once whistleblowers are identified, it is almost certain that efforts will be made to tarnish their reputation. Any blemish will be uncovered and publicized. School principals have been known to go through personal files of whistleblowing teachers and unearth and make known pupil complaints against the teacher dating five or ten years earlier. Having a totally unblemished record is not full protection because damaging documents may be manufactured and fictitious stories created to discredit the whistleblower. But such attempts are less likely to be successful if the person has a good reputation and good relationships.

The third crucial element in convincing others is packaging - namely, putting relevant information into an accessible and appealing form. All too often, whistleblowers send off a pile of printed material or giant electronic files. The likely recipient - a journalist, politician or activist - seldom has the time or energy to go through a large volume of material to figure out what it's all about. Therefore, a crucial skill for mobilizing support is to summarize the case clearly and briefly, preferably in a single page. This sounds easy enough, but can be extraordinarily difficult for someone very close to the issue. The temptation is to give chapter and verse of every sordid incident. Far better is something written for an outsider, assuming no prior knowledge and highlighting only essential, well-documented points.

Another temptation is to pass judgement - for example, accusing others of malign motivations and unsavory conduct. A simple recitation of facts is far more effective, leaving it for the reader to make judgements.

In summary, in order to convince others, a substantial body of sound evidence is needed. This needs to be packaged with a short and simple outline of the key issues, and it must be conveyed by someone with a reasonable degree of credibility in terms of who they are and how they present themselves.

The next question is who to approach. This is where good judgement is at a premium. For something trivial, it is best to use the usual channels. It looks silly to go straight to the auditors about a missing £10. But something seemingly trivial is occasionally linked to something bigger: The missing £30 might be part of a long-running scam.

The general rule is that it is unwise to trust anyone who has a vested interest in hiding the truth. This means that the safest people to approach are the ones right outside the Organization. But rather than rule anyone out automatically, it is worth considering all possible allies.

Co-workers are an obvious possibility. Half a dozen workers making a claim are far more powerful and convincing than a single one; finding even a single other person as an ally is far better than going it alone. Who to approach? This is the tricky part. Approaching the wrong person could be disastrous: the boss is quietly informed and suddenly all your access to materials is denied, your co-workers stay away and your security clearance is withdrawn. Or, the other hand, finding the right person can make an enormous difference, with access to additional information, contacts and wise advice.

In such situations, caution is advisable. There are one or two people you trust implicitly, you earn confidence in them and share ideas about who else to approach. But if you do not have a good sense of who is trustworthy, it may be worth seeking advice. Often there are some experienced members of the organization who have a good sense of people and organizational dynamics. Getting to know these experienced members is worthwhile. You can start by asking some innocent questions, such as how to help a colleague who is having difficulties with an experiment or a dispute over co-authorship some sort of dilemma that is different from, but with structural similarities to, the one that concerns you. In this way, you can learn about, who is trustworthy, who is self-seeking and who should be avoided. If one or more co-workers can be brought into a circle of concern, this is a great beginning. If not, you will have to operate alone in the organization. The next step is whether to approach anyone else. One possibility is

unions and professional associations. Logically, they should be allies against abuses at work, but the available evidence suggests that unions are unreliable allies for whistleblowers. Sympathetic union officials can be tremendous supporters: they typically have experience and skills to manage conflict situations well. However, in many cases, union officials are useless or worse: sometimes they are tools of management or are aspiring managers themselves and will undermine or sacrifice the whistleblower. The basic way of assessing a union is by its track record. Is it mainly concerned about wages and conditions, or does it also tackle civil liberties issues? Does it support unpopular employees or only mates of union officials? Has it ever stood up for whistleblowers in the past?

Professional associations are even less likely to be helpful. Associations for engineers, chemists, biologists and the like are mainly concerned about professional status, not taking stands on contentious issues. During the cold war, US scientific organizations were outspoken about the suppression of dissident Soviet scientists, but were silent about the suppression of the scientists.

Scientists who report fraud by other scientists in other words, whistleblowers about scientific fraud - often are treated as the guilty parties, suffering the usual set of reprisals. In such situations, professional associations have not been valiant defenders of those who speak out. This is probably the best analogy to the situation faced by a scientist blowing the whistle on biosecurity hazards associated with bad laboratory oversight practices.

Rather than go to professional organizations, it is far more promising to approach social responsibility and whistleblower groups, where there are people with experience of similar situations. The UK group Freedom to Care is primarily made up of whistleblowers, as is Whistleblowers Australia. In the US, there is no equivalent national group, but there are quite a number of advocacy groups - most prominent is the Government Accountability Project (GAP) - and occupation-based social responsibility groups, such as Public Employees for Environmental Responsibility. Within such groups, there are experienced figures who can offer advice, although within limits: there are usually far more people needing help than there are advisers. The capacity of these groups to advocate on behalf of individuals is limited. GAP has enormous experience and expertise for using formal channels, but has the resources to support only a few of the many individuals who approach it for assistance. Whistleblowers Australia, as a voluntary organization, does not formally advocate on behalf of individuals: it can only offer information, contacts and advice. Outside of Australia, the UK and the US, there are even fewer groups dedicated to supporting whistleblowers. The upshot is that whistleblowers seldom have the luxury of having someone else to run with their case: usually they have to do most of the work themselves.

Another promising avenue for whistleblowers is to approach activist groups concerned with the issue. In relation to bioweapons, peace groups are an obvious possibility; environmental groups are another. But it would be unwise to appear at the offices of War Resisters' International or Women's International League for Peace and Freedom - two of the oldest peace groups - and expect to find ready support. Most peace groups are made up of volunteers, with only a few paid office staff. They are chronically under-funded and the staff are usually focused on a variety of immediate matters, such as answering correspondence, holding meetings, producing newsletters and organizing actions. It would be unusual to find someone on hand who is knowledgeable about bioweapons issues or with

experience in handling inside information. But it is quite likely that activists could put job in touch with a good person to talk to about this.

Another valuable source of support for whistleblowers is the media coverage or, more generally, publicity. The media relay stories to a wide range of people, most of whom have no connection with the organization. Therefore, the typical person hearing about the story through the media is likely to approach the matter with a relatively open mind - much more open, certainly, than bosses or watchdog agencies, which have a stake in what happens. If the whistleblower seems to have raised an important issue or has been unfairly treated, many people will be sympathetic or outraged. This is the reason why bureaucrats hate media coverage more than anything. They would much rather spend millions fighting a court case and settling out of court than suffer damaging publicity.

The mass media are big business and are often indifferent or hostile towards labor or other challengers to dominant groups. Major newspapers have business pages, but nothing equivalent for labor issues. In news reporting, some wars receive extensive coverage, but few peaceful protests ever do. Consumers of mainstream news know about Palestinian suicide bombers in Israel but few are aware of peaceful protests in Palestine and Israel nearly every day by Palestinians, Israelis and international participants. Therefore, it might seem that whistleblowers - as challengers to organizational elites - would have a hard time obtaining coverage.

But in the media, journalists and editors are constantly on the search for good stories. The standard news values emphasize factors such as prominence, conflict, proximity and timeliness. Stories about corruption and organizational malfeasance are attractive because they are manifestations of conflict and scandal that attract audience interest. They are not deeply subversive because the usual assumption is that a few individuals, or perhaps an entire organization, are corrupt, but not the entire system: a few apples are bad, not the barrel. Whistleblower stories add the spice of personality and can provide a disturbing story of a public spirited person who is unfairly treated. In the past few decades, the idea of whistleblowing has become widely understood in the media and is routinely used to frame stories. This means that the media can provide tremendous support, for whistleblowers.

But media coverage does not happen automatically. People who want to speak out need to know how the media operate and how to present their stories effectively. This includes being able to write a concise summary of one's case - as described above; knowing how to contact trustworthy journalists; knowing how much information to provide and when to provide it; being prepared for interviews (if one goes public): being prepared for the boom bust pattern of coverage (with a burst of intense coverage typically followed by very little); understanding the interests of print, radio and television journalists; and much else. Most people have few regular interactions with the media except as consumers and therefore have little idea of how the media operate. As a result, it is worthwhile gaining tips from activists, sympathetic public relations staff, other whistleblowers and from journalists themselves.

It is important to realize that the media are not automatic supporters of whistleblowers. A good journalist will seek comment from both sides in a dispute, so no one can expect to have an entirely sympathetic story. On the other side, organizational elites are typically very unhappy about even a little negative coverage.

Sometimes the media turn against a whistleblower, joining organizations power-brokers in the attack. It's best to be prepared for this too.

Far more likely, however, is a lack of interest from the mass media. The story may be too old, too complex or not considered important enough - or perhaps the whistleblower simply has not provided enough damning evidence. But it is still possible to take the story to a wide audience using alternative media, such as action group newsletters, community radio stations and internet news sites (e.g. Indymedia). Furthermore, dissidents can tell their own story through the internet by writing it up and putting it on a website, sending emails or writing blogs.

There are many options. One is to compose a sober message about the problems in an organization and to send it to all the staff using a standard list. Another is to put a substantial amount of information summaries, documents and pictures on a website (in another country for better security) and then send an email to interested parties.

C. Even the likelihood of reprisals, it is safest, to leave the organization and find a new, sympathetic employer before making disclosures. And it is worth making sure that every single statement is factual, backed up by documents, in order to reduce the risk of being sued for defamation.

As well as the options being a whistleblower - an open critic - and being a leaker, there is the possibility of being an open but anonymous dissident. It is possible to send email to members of the organization - and perhaps to outsiders, as well, including journalists - revealing problems, using anonymous remailers to hide one's identity. There could well be a search through all employee accounts to find the sender, so it would be wise to use an internet cafe and a specially created email account for the single message.

The aim in this chapter is not to cover every possibility, but rather to point out that there are options and that having the knowledge and skills to pursue them is crucial to being an effective organizational dissident. Sadly, doing one's job, including reporting abuses and dangers, may require becoming a dissident.

A final skill of crucial importance is understanding oneself: one's motivations, strengths, weaknesses and goals. For example, it is vital to be able to separate a personal desire for recognition or revenge from a more altruistic concern about dangers to the public because speaking out in the public interest is far more likely to win support. Knowing that one is, for example, good at collecting documents, but poor in summarizing the arguments, is important and can guide one's search for allies.

An effective organizational dissident thus needs many skills for collecting information, writing coherent accounts, understanding organizational dynamics, liaising with groups, using the media and understanding oneself. Few of these skills are acquired in scientific or indeed most other jobs.

It is possible to imagine an enlightened management that decides to empower employees so they are better able to document and expose organizational problems, and proceeds by distributing information about whistleblowing, running workshops on speaking and writing, and inviting speakers from activist groups. A skilled and networked workforce would be a powerful protection against abuses. But just to spell out this vision is to highlight how distant it is from the usual practice. Managements, instead, prefer to set up hotlines, grievance procedures and codes of ethics, all of which make employees dependent upon others, without any special skill development.

Therefore, the best hope for fostering the skills needed to address abuses lies with workers themselves and with outside groups, including whistleblower and activist groups.

5.6.1 Self- Check Questions

1. The main motivation for there to be whistle-blower protection laws is that whistleblowers_____

- A. Represent a Minority
- B. are likely to be oppressed
- C. Benefit Society
- D. should enjoy freedom of speech

2. Which of the following is necessary for whistle blowing to occur?

- A. Information
- B. Legal protection
- C. A non-disclosure Agreement
- D. Managing Authority

3. Loyalty to a corporation can sometimes lead to whistle blowing if _____.

- A. the corporation is a large one
- B. the whistleblower enjoys legal protection
- C. the whistleblower wants to see change in the corporation
- D. the government is paying the employee for their information

5.7 THE GOLDEN QUADRILATERAL - THE END OF THE ROAD FOR SATYENDRA DUBEY

Whistle-blower isn't exactly a felicitous term, but all of us understand what it means: someone who is an insider, wanting to expose the rot within the system. It needs courage to do that because you are risking the wrath of people you work with and much else. Like vindictiveness from the system leading to possible victimization; the loss of job, career and livelihood.

5.8 SATYENDRA DUBEY

Satyendra Dubey was the bright son every lower middle-class family prays for. He was, in the best sense of the term, their ticket to the future, their only means to fulfil their aspirations. And Satyendra Dubey seemed to be all that, a bright, young man with a bright, young intelligence who went to the Indian Institute of Technology and came out with idealism intact. Dubey's letter to the Prime Minister giving details of the corruption in the Golden Quadrilateral higher project, was routinely circulated. This in spite of the writer's earnest request that his name should not be disclosed as he feared vengeful reaction from the people involved in the scam. As it happens, Dubey's courage was not foolhardy: he anticipated trouble and wrote a second letter, again requesting anonymity. That too was ignored. Whether the Prime Minister's Office

[PMO) did this deliberately or just through the usual carelessness isn't established, but the net result was that the whistle-blower's name fell into the hands of the very people against whom the whistle was being blown leading to his killing.

5.9 MYTHS OF WHISTLEBLOWING

Nonna, an accountant, noticed that funds in the company president's special account were being diverted to an overseas account. She reported this to the company's auditor.

Suddenly her access to accounts was removed, malicious rumors about her personal life and dishonesty were spread, co-workers avoided her and she was demoted. She got off easy.

Norma noticed that some sympathizers referred to her as a whistleblower. She hadn't thought of herself that way before. Norma was entering the realm of myths about whistleblowing.

MYTH 1 : whistleblowing is dobbing. Dobbing, a derogatory term, usually means informing out a mate. Whistleblowing means speaking out in the public interest.

When Korina unwittingly stumbles across the boss's corrupt operations, is that dobbing? When residents participate in Neighborhood Watch and inform police of break-ins, is that dobbing? When a witness reports a brutal assault, is that dobbing?

Dobbing simply is the wrong way to describe most cases of whistleblowing.

MYTH 2 : whistleblowers always set out to the whistleblowers. Actually, a great number of them, like Norma, were just doing their jobs. They were conscientious and productive workers. They believed in the goals of the organization.

When they saw evidence of corruption or dangers to the public, they reported it fully expecting the problem to be dealt with. They are incredibly shocked when they are attacked as a result.

Many of them still don't adopt the label of whistleblower, preferring to think of themselves as workers who were just doing their jobs.

MYTH 3 : whistleblowers are malingerers, alien lion-seekers, radicals or ratbags. Actually, most whistleblowers are serious and hard-working. Many are conservative, socially and politically.

The only attention they usually desire is on the problem they are concerned about, not themselves. For their efforts, most of them come under sustained attack and suffer enormously, often spending large amounts of money defending themselves, experiencing serious health problems and break up of relationships.

MYTH 4 : the best way to protect whistleblowers is through whistleblower legislation. Actually, it doesn't work. There are whistleblower laws on the books in several Australian states, yet there is not a single whistleblower known to have benefited from any of them.

The United States has had whistleblower laws for much longer, with the same experience. The Office of the Special Counsel (OSC) was set up in 1978 as a formal channel for

whistleblower disclosures. Congress has repeatedly amended the laws because they have not been working, being undermined by OSC administrators.

Tom Devine of the Government Accountability Project and author of the authoritative *The Whistleblowers Survival Guide*, concludes that 'flaws in the system mean that an OSC whistleblowing disclosure is likely to be unproductive or even counterproductive.' In other words, the OSC on balance has been useless or harmful.

Some critics have argued that whistleblower laws are passed by governments to give the appearance of action without the substance. That's certainly what seems to have happened.

MYTH 5 : official channels are available to deal with problems reported by whistleblowers.

Official channels include internal grievance procedures, appeal bodies, ombudsmen, courts, human rights commissions, antidiscrimination bodies, anticorruption commissions and parliaments.

Whistleblower researcher Dr William De Maria surveyed hundreds of whistleblowers. He found that official channels helped in less than one out of ten cases. In many instances, official channels were actually harmful.

Whistleblowers Australia has contacted dozens of whistleblowers who have made complaints to the NSW Independent Commission Against Corruption, and has found only one who was helped at all.

Dr Jean Lennane, president of Whistleblowers Australia, has concluded it would be better to abolish 1CAC. She is not the only one to reach this surprising conclusion.

Dr Lennane also thinks that any anticorruption body should have a finite life of about three years, since it can't be expected to be any use after that even if it was before.

Many workers in appeal bodies do their best. The problems arise due to serious overload, cumbersome bureaucratic procedures, limited mandate, government cut-backs (especially of agencies that seriously challenge corruption), and accommodation with the system.

5.10 ADVICE FOR WHISTLEBLOWERS

- Before taking any action that may lead to attack, consult with family and close friends. You need their support.
- Before taking action, see if there is some way to achieve your goal by working within the system.
- Try to find out if there are other people, especially co-workers, who share your concerns.
- Behave fairly with other staff. They may also have encountered harassment from bosses and be able to testify on your behalf.
- Keep a detailed record of events. When something really important happens, write up a statement and sign it in front of a witness if possible.
- Find honest supporters, including politicians, journalists and community organizations. Develop a plan for taking the initiative; don't just respond to actions by the other side.

- Make copies of all important documents that you can. Your case depends on them.
- Obtain advice about taking legal action. Don't overstate your case.

5.11 Keywords

1. Illegal : Not According to or Authorized by law
2. Skills : A type of activity or work which requires special training or knowledge
3. Bureaucratic : Connected with a bureaucracy or bureaucrats and involving complicated rules and processes.
4. Whistle blower :a person who informs on someone engaged in illegal activities

5.12 Short Questions for Practice

- Q1- What do you mean by Whistleblowing?
- Q2- How do you manage Whistleblowing ?
- Q3- What are skills required for Whistleblowing?

5.13 Long Questions for Practice

- Q1- Discuss in detail the aim and scope of Whistle blowing.
- Q2- Explain the process of Whistle blowing.
- Q3- What are the myths involved around Whistle blowing? Discuss.

5.14 Suggested Readings

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5.15 Self-Check Questions (Answer-key)

5.3.1

1. B Whistle-Blowers
2. B ethical concern

5.6.1

- 1.C Benefit the society
2. A Information
- C. C Whistle blower wants to see change in the corporation

MORAL RESPONSIBILITY AND BLAME

STRUCTURE

- 6.1 Introduction
- 6.2 Corporate Responsibility
- 6.3 Subordinates' Responsibility
- 6.4 Keywords
- 6.5 Short Questions for Practice
- 6.6 Long Questions for Practice
- 6.7 Suggested Readings
- 6.8 Self Check Questions (Answer Key)

6.1 INTRODUCTION

Up to now, our discussion has focused on judgments of right and wrong and of good and evil. Moral reasoning, however, is sometimes directed at a related but different kind of judgment: determining whether a person is morally responsible, or culpable, for having done something wrong or for having wrongfully injured someone. A judgment about a person's moral responsibility for a wrongful injury is a judgment about the extent to which the person deserves blame or punishment, or should pay restitution for the injury. For example, if an employer deliberately injures the health of her employees, we would judge the employer morally responsible for those injuries. We are then saying the employer is to blame for those injuries and perhaps' deserves punishment and should compensate the victims.

It is important not to confuse this meaning of moral responsibility with a second meaning that the words sometimes have. The term moral responsibility is sometimes used as an equivalent to moral duty or moral obligation. For example, if we say that "Vandiver had a moral responsibility not to lie," we use the term moral responsibility to mean moral obligation. This is not the kind of mora) responsibility that we are presently discussing. The term moral responsibility! sometimes is also used to express that a person is to blame for an action. For example, if we say that ' Vandiver was morally responsible for die deaths of five pilots who

crashed when trying to land the A 7D airplane," we use the term morally responsible to mean "to blame.* It is this second meaning of moral responsible that we discuss here.

People are not always morally responsible for their wrongful or injurious acts. A person, for example, may inflict an injury on an innocent human being, but do so without, knowing what he or she was doing (perhaps the person did it by accident). We would not hold the person morally responsible for that injury: What the person did was wrong, but the person is excused by virtue of his or her ignorance. When is a person morally responsible- or to blame- for having done something?

A person is morally responsible only for those acts and their foreseen injurious effects (a) which the person knowingly and freely performed or illout and which it was morally wrong for the person to perform or bring about, or (b) which the person knowingly and freely failed to perform or prevent and which it was morally wrong for the person to fail to perform or prevent. For example, Stefan Golab, a 50-year-old Polish immigrant who spoke little English, died from cyanide poisoning after working for 2 months over open vats of fuming cyanide for Film Recovery Systems, a company that recovered silver from old film. In a landmark case, Steven O'Neil, president of the company, together with Charles Kirschbaum, the plant supervisor, and Daniel Rodriguez, the plant foreman, were judged responsible by a court for Golab's death on charges of murder.⁶³ The judgment was based on testimony that the managers maintained the hazardous working conditions knowing the life-threatening dangers of breathing the cyanide fumes, that they failed to warn or protect workers like Golab who could not read English, and that they had skull- and-crossbones warning symbols scraped off cyanide drums. Thus, they were held responsible for knowingly and freely maintaining the dangerous workplace and for defacing the pictorial warnings, both of which were wrongful actions. They were also held responsible for Golab's death because it was held that they "knew there was a strong probability of bodily harm" resulting from their actions.

One can also be held morally responsible for failing to act or failing to prevent an injury if one's omission is free and knowledgeable and if one could and should have acted, or could and should have prevented the injury. Several manufacturers of asbestos, for example, were recently judged responsible for the lung diseases suffered by some of their workers. The judgment was based in part on the finding that the manufacturers had a special duty (a duty they were assigned by their position) to warn their workers of the known dangers of working with asbestos, but that they knowingly failed to perform this duty, and the lung diseases were a foreseen injury that they could have prevented had they acted as they had a duty to act.

There is wide agreement that two conditions completely eliminate a person's moral responsibility for causing a wrongful injury : (1) ignorance and (2) inability. These are called excusing conditions because they fully excuse a person from being held responsible for something. If a person was ignorant of, or unable to avoid, what he or she did, then that person did not act knowingly and freely and cannot be blamed for what he or she did. Asbestos manufacturers, for example, have claimed that they did not know that conditions in their plants would cause lung cancer in their workers. If this is true, then it would be wrong to blame them for the diseases that resulted. Other asbestos manufacturers have

said that they tried to prevent these diseases by trying to get their workers to wear protective masks and clothing, but they were unable to enforce these protective measures because the workers refused to adhere to them. If these manufacturers truly tried everything they could to prevent these diseases, but they were unable to do so because of circumstances they could not control, then again they are not morally responsible for these injurious effects.

It is important to understand exactly when ignorance and inability remove a person's responsibility. Ignorance and inability do not always excuse a person. One exception is when a person "deliberately keeps himself ignorant of a certain matter to escape responsibility. For example, if an asbestos manufacturer told the company's doctors not to tell him the results of the medical examinations they carried out on his workers so that he would not be legally liable for leaving conditions in his factory unchanged, he would still be morally responsible for any injuries if the tests turned out positive. A second exception is when a person negligently fails to take adequate steps to become informed about a matter that is of known importance. A manager in an asbestos company, for example, who has reason to suspect that asbestos may be dangerous, but who fails to inform himself on the matter out of laziness, cannot later plead ignorance as an excuse.

A person may be ignorant of either the relevant facts or the relevant moral standards. For example, I may be sure that bribery is wrong (a moral standard) but may not have realized that in tipping a customs official I was actually bribing him into canceling certain import fees (a fact). In contrast, I may be genuinely ignorant that bribing government officials is wrong (a moral standard), although I know that in tipping the customs official I am bribing him into reducing the fees I owe (a fact).

Ignorance of fact generally eliminates moral responsibility completely for the simple reason that a person cannot be obligated to do something over which he or she has no control: Moral obligation requires freedom.⁶⁶ Because people cannot control matters of which they are ignorant, they cannot have any moral obligations with respect to such matters, and their moral responsibility for such matters is consequently nonexistent. Negligently or deliberately created ignorance is an exception to this principle because such ignorance can be controlled. Insofar as we can control the extent of our ignorance, we become morally responsible for it and, therefore, also for its injurious consequences. Ignorance of the relevant moral standards generally also removes responsibility because a person is not responsible for failing to meet obligations of whose existence he or she is genuinely ignorant. However, to the extent that our ignorance of moral standards is the result of freely choosing not to ascertain what these standards are, we are responsible for our ignorance and for its wrongful or injurious consequences.

Inability can be the result of either internal or external circumstances that render a person unable to do something or unable to keep from doing something. A person may lack sufficient power, skill, opportunity, or resources to act; a person may be physically constrained or prevented from acting; or a person's mind may be psychologically impaired in a way that prevents him or her from controlling his or her actions. A manager working under extremely stressful circumstances, for example, may be so tense that one day he is overcome by rage at a subordinate and genuinely is unable to control his actions toward that subordinate. An engineer who is part of a larger operating committee may be unable to prevent the other committee members from making a decision that the engineer feels will wrongfully injure

other parties. An assembly-line worker with an undiagnosed malady may suffer muscle spasms that cause the assembly line to malfunction in a way that inflicts physical injuries on other workers. In all of these cases, the person is not morally responsible for the wrong or the injury as a result of the person's inability to control events.

Inability eliminates responsibility because again, a person cannot have any moral obligation to do (or forbear from doing) something over which the person has no control. Insofar as circumstances render a person unable to control his or her actions or to prevent a certain injury, it is wrong to blame the person.

In addition to the two excusing conditions (ignorance and inability) that completely remove a person's moral responsibility for a wrong, there are also several mitigating factors that can lessen a person's moral responsibility depending on the severity of the wrong. Mitigating factors include (a) circumstances that leave a person uncertain but not altogether unsure about what he or she is doing (these affect the person's knowledge); (b) circumstances that make it but not impossible for the person to avoid doing it (these [affect](#) the person's [freedom](#)); and (c) [circumstances](#) that minimize but not completely remove a person's involvement in an act (these affect the degree to which the person actually caused or helped to cause the wrongful injury). These can lessen a person's responsibility for wrongdoing depending on a fourth factor: the seriousness of the wrong. To clarify these, we can discuss each of them in turn.

First, circumstances can produce uncertainty about a variety of matters. A person may be fairly convinced that doing something is wrong, yet may still be doubtful about some important facts, or may have doubts about the moral standards involved or doubts about how seriously wrong the action is. For example, an office worker who is asked to carry proprietary information to a competitor might feel fairly sure that doing so is wrong yet may also have some genuine uncertainty about how serious the matter is. Such uncertainties can lessen a person's moral responsibility for a wrongful act.

Second, a person may find it difficult to avoid a certain course of action because he or she is subjected to threats or duress of some sort or because avoiding that course of action will impose heavy costs on the person. Middle managers, for example, are sometimes intensely pressured or threatened by their superiors to reach unrealistic production targets or to keep certain health information secret from workers or the public, although it is clearly unethical to do so. If the pressures on managers are great enough, then their responsibility is correspondingly diminished. Although they are to blame for the wrong, their blame is mitigated (those who knowingly and freely impose pressures on subordinates that can be expected to issue in wrongful acts are also responsible for those wrongful acts).

Third, a person's responsibility can also be mitigated by circumstances that diminish the person's active involvement in the act that caused or brought about an injury. An engineer may contribute to an unsafe product, for example, by knowingly drawing up the unsafe design and thus being actively involved in causing the future injuries. In contrast, the engineer may be aware of the unsafe features in somebody else's design, but passively stand by without doing anything about it because "that's not my job." In such a case, the engineer is not actively involved in causing any future injuries. In general, the less one's actual actions contribute to the outcome of an act, the less one is morally responsible for that outcome (depending, however,

on the seriousness of the act). However, if a person has a special (an officially assigned) duty to report or try to prevent certain wrongdoings, then that person is morally responsible for acts he or she refrains from reporting or trying to prevent even if the person is not otherwise involved in the act. An accountant, for example, who was hired to report any fraudulent activity observed cannot plead diminished responsibility for a fraud the accountant knowingly failed to report by pleading that she did not actively carry out the fraudulent act. In such cases where a person has a special (specifically assigned) duty to prevent an injury, freely and knowingly failing to prevent it is wrong. One is responsible for it (along with the other guilty party or parties) if one should and could have prevented it but did not.

Fourth, the extent to which these three mitigating circumstances can diminish a person's responsibility for a wrongful injury depends on the seriousness of the wrong. For example, if doing something is very seriously wrong, then even heavy pressures and minimal involvement may not substantially reduce a person's responsibility for the act. If my employer, for example, threatens to fire me unless I sell a used product that I know will kill someone, [it would be wrong for me to obey him even though loss of a job will impose some heavy costs on me. However, if only a relatively minor matter is involved, then the threat of a job loss might substantially mitigate my responsibility. In determining one's moral responsibility for a wrongful act, therefore, one must judge one's uncertainties, the pressures to which one is subjected, and the extent of one's involvement and then weigh these against the seriousness of the wrong. Obviously such judgments are often extremely difficult and rationally painful to make.

It may be helpful to summarize here the essential points of this somewhat lengthy and complicated discussion of an individual's moral responsibility for a wrong or an injury. First, an individual is morally responsible for those wrongful acts he performed (or wrongly omitted) and for those injurious effects he brought about (or wrongly failed to prevent) when this was done knowingly and freely. Second, moral responsibility is completely eliminated (excused) by ignorance and inability. Third, moral responsibility for a wrong or an injury is mitigated by (a) uncertainty, (b) difficulty, and (c) minimal involvement (although failure to act does not mitigate if one has a specific duty to prevent the wrong), but the extent to which these lessen one's responsibility depends on (d) the seriousness of the wrong or the injury: The greater the seriousness, the less the first three factors mitigate.

Before leaving this topic, we should note that critics have contested whether all of the mitigating factors really affect a person's responsibility. Some have claimed that evil may never be done no matter what personal pressures are exerted on a person. Other critics have claimed that I am as responsible when I refrain from stopping a wrong as I am when I perform the wrong myself because passively allowing something to happen is morally no different from actively causing it to happen. If these critics are correct, then mere passive involvement in something does not mitigate moral responsibility. Although neither of these criticisms seems to be correct, the reader should make up his or her own mind on the matter. Discussing all the issues the criticisms raise would take us too far afield.

6.2 CORPORATE RESPONSIBILITY

Within the modern corporation, responsibility for a corporate act is often distributed among a number of cooperating parties. Corporate acts normally are brought about by several actions or

omissions of many different people all cooperating together so that their linked actions and omissions jointly produce the corporate act. For example, one team of managers designs a car, another team tests it, and a third team builds it; one person orders, advises, or encourages something and others act on these orders, advice, or encouragement; one group knowingly defrauds buyers and another group knowingly but silently enjoys the resulting profits; one person contributes the means and another person accomplishes the act; one group does the wrong and another group conceals it. The variations on cooperation are endless.

Who is morally responsible for such jointly produced acts? The traditional view is that those who knowingly and freely did what was necessary to produce the corporate act are each morally responsible. On this view, situations in which a person needs the actions of others to bring about a wrongful corporate act are no different in principle from situations in which a person needs certain external circumstances to commit a wrong. For example, if I want to shoot an innocent person, I must rely on my gun going off (an external circumstance). If I want to defraud the stockholders of a corporation, I must rely on others to do their part in the fraud. In both cases, I can bring about the wrongful injury only by relying on something or someone other than myself. In both cases, if I am knowingly and freely trying to bring about the fraud, then I am equally morally responsible for the wrongful injury. Bringing about a wrongful act with the help of others, then, does not differ in a morally significant way from deliberated bringing about a wrongful act with the help of inanimate instruments:

The person is fully responsible for the wrong or the injury even if this responsibility (i) shared with others. If, for example, as a member of the board of directors of a corporation, with full knowledge and complete freedom, I act on insider information to vote for some stock options that will benefit me but unfairly injure the other stockholders, then I am morally responsible for the wrongful corporate act of the board even if I share this responsibility with other members of the board (By my vote, I was trying to bring about the illegal corporate act and I did so knowingly and freely).

Critics of this traditional view of the individual's responsibility for corporate acts have claimed that when an organized group such as a corporation acts together, their corporate act may be described as the act of the group and, consequently, the corporate group and not the individuals who make up the group must be held responsible for the act. For example, we normally credit the manufacture of a defective car to the corporation that made it and not to the individual engineers involved in its manufacture. The law typically attributes the acts of a corporation's managers to the corporation (so long as the managers act within their authority) and not to the managers as individuals. Traditionalists, however, can reply that, although we sometimes attribute acts to corporate groups, this linguistic and legal fact does not change the moral reality behind all such corporate acts. Individuals had to carry out the particular actions that brought about the corporate act. Because individuals are morally responsible for the known and intended consequences of their free actions, any individual who knowingly and freely joins his actions together with those of others, intending thereby to bring about a certain corporate act, will be morally responsible for that act.

More often than not, however, employees of large corporations cannot be said to have "knowingly and freely joined their actions together" to bring about a corporate act or to pursue a corporate objective. Employees of large-scale organizations follow bureaucratic rules that link their

activities together achieve corporate outcomes, of which the employee may not even be aware. The engineers in one department may build a component with certain weaknesses for example, not knowing that another department plans to use that component in a product that these weaknesses will render dangerous. Employees may feel pressured to conform to company rules with whose corporate outcomes they may not agree, but which they feel they are not in a position to change. A worker on an assembly line, for example, may feel there is no choice but to stay at the job even though knowing that the cars he or she built with the help of others are dangerous. Obviously, then, a person working within the bureaucratic structure of a large organization is not necessarily morally responsible for every corporate act he or she helps to bring about. If I am working as a secretary, clerk, or janitor in a corporation, or if I become a stockholder in a corporation, then my actions may help the officers of the corporation commit a fraud. If I know nothing about the fraud or if I am in no way able to prevent it (e.g., by reporting it), then I am not morally responsible for the fraud. Here, as elsewhere, the excusing factors of ignorance and inability, which are endemic to large-scale bureaucratic corporate organizations, will completely eliminate a person's moral responsibility.

Moreover, depending on the seriousness of the act, the mitigating factors of uncertainty, difficulty, and minimal involvement can also diminish a person's moral responsibility for a corporate act. Sometimes employees in a corporation go along with a wrongful corporate act although they know (to some extent) that it is wrong and they have the ability (to some extent) to withdraw their cooperation: They unwillingly go along because of pressures placed on them. Traditional moralists have argued that a person's responsibility for unwillingly cooperating with others in a wrongful act should be determined by weighing the various factors that mitigate individual responsibility. That is, one must weigh the seriousness of the wrongful act against the uncertainty, difficulty, and degree of involvement that were present (but again, those who have a moral duty to prevent a wrong cannot plead that their omission constitutes "minimal involvement"). The more seriously wrong a corporate act is, the less my responsibility is mitigated by uncertainty, pressures, and minimal involvement.

6.2.1 Self- Check Questions

1. Which of the following does the term Corporate Social Responsibility relate to?
 - A. Ethical Conduct
 - B. Environmental Practice
 - C. Community investment
 - D. All of the above
2. Which of the following is not one of the underlying principles of the corporate governance Combined Code of Practice?
 - A. Openness
 - B. Integrity
 - C. Accountability
 - D. Acceptability
3. What is meant by the phrase CSR?
 - A. Corporate Social Responsibility
 - B. Company Social Responsibility
 - C. Corporate Society Responsibility
 - D. Company Society Responsibility

6.3 SUBORDINATES' RESPONSIBILITY

In a corporation, employees often act on the basis of their superiors orders. Corporations usually have a hierarchical structure of authority in which orders and directives pass from those higher in the structure to a variety of agents at lower levels. A vice president tells several middle managers that, they must reach certain production goals and the middle managers try to attain them. A plant manager tells the foremen to close down a certain line and the foremen do it. An engineer tells a clerk to write up a certain report and the clerk does it. Who is morally responsible when a superior orders a subordinate to carry out an act that both of them know is wrong?

People sometimes suggest that when a subordinate acts on the orders of a legitimate superior, the subordinate is absolved of all responsibility for that act: Only the superior is morally responsible for the wrongful act even though the subordinate was the agent who carried it out. Several years ago, for example, the managers of a national semiconductor plant allegedly ordered their employees to write a government report that falsely stated that certain computer components sold to the government had been tested for defects. Some employees objected, but when the managers allegedly insisted, the employees complied with their orders. When the falsified reports were discovered, the managers argued that only the corporation as a whole should be held responsible for the falsified reports. No individual employee should be held morally responsible, they argued, because each employee was simply an agent who was following orders.

It is clearly mistaken, however, to think that an employee who freely and knowingly does something wrong is absolved of all responsibility when he or she is 'following orders.' Moral responsibility requires merely that one act freely and knowingly, and it is irrelevant that one's wrongful act is that of freely and knowingly choosing to follow an order. For example, if I am ordered by my superior to murder a competitor and I do so, I can hardly later claim that I am totally innocent because I was merely "following orders.' The fact that my superior ordered me to perform what I knew was an immoral act in no way alters the fact that in performing that act I knew what I was doing and I freely chose to do it anyway and so I am morally responsible for it. As we noted when discussing the 'loyal agent's argument,' there are limits to an employee's obligation to obey his or her superior: An employee has no obligation to obey an order to do what is immoral. Of course, a superior can put significant economic pressures on an employee and such pressures can mitigate the employee's responsibility but they do not totally eliminate it.

Thus, when a superior orders an employee to carry out an act that both of them know is wrong, the employee is morally responsible for that act if he or she carries it out. Is the superior also morally responsible? Obviously, the superior is also morally responsible because in ordering the employee, the superior is knowingly and freely bringing about the wrongful act through the instrumentality of the employee. The fact that a superior uses a human being to bring about the wrongful act does not change the fact that the superior brought it about.

6.3.1 Self- Check Questions

Q1. Where an Organization takes into account the effect its strategic decisions have on society, this is known as:

- A. Corporate governance
- B. Business policy
- C. Business Ethics
- D. Corporate Social Responsibility

Q2. The boss of A Ltd., Mr. K gave one of his employees some of his work to do and gave him the following instructions : “You are in charge of this project”. If you need me, I’m here.

Which aspect of delegation is emphasized by Mr.K.

- A. Absoluteness
- B. Responsibility
- C. Accountability
- D. Power

6.4 Keywords

1. Moral Responsibility :- It is the status of morally deserving praise, blame, reward or punishment for an act or omission in accordance with one’s moral obligations.
2. Subordinate :- having less power or Authority than somebody else
3. Restitution :-the act of giving back something that was lost or stolen to its owner.
4. Mitigate :- to make something less serious,painful, unpleasant etc.

6.5 Short Questions

- Q1. What do you mean by Corporate Responsibility ?
- Q2. What do you mean by Subordinate Responsibility?
- Q3. Define Moral judgement.

6.6 Long Questions

- Q1. Is Moral judgement descriptive or evaluative ? Expound critically.
- Q2. Explain Morals, Values and Ethics.
- Q3. Analyse the moral judgement and explain the nature of any of its elements.

6.7 Suggested Readings

- JaduNathSinha : A manual of Ethics, New Central Book Agency, Calcutta,2003
- William Lillie, And Introductions to Ethics, Surjeet Publications, Delhi,2007
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- W.D. Lamonth, The Principles of Moral Judgement, Oxford at the Clarendon Press,1946.

6.8 Self Check Questions (Answer-key)

6.2.1

1. D All of the above
2. D Acceptability
3. A Corporate Social Responsibility

6.3.1

1. D Corporate Social Responsibility
- 2.

C

Accountability

MBA-CC (Second Year)

Semester-III

BEV 303 BUSINESS ETHICS AND VALUES

ETHICS AND HUMAN RESOURCE MANAGEMENT

Lesson No. 7 AUTHOR : DEEPIKA JINDAL

STRUCTURE

- 7.1. Objective
- 7.2. Introduction
- 7.3. Ethical Issues in Human Resource Management
- 7.4 A Brief Introduction to Promotion
- 7.5. Ethical Standards for a Sound Promotional Policy
- 7.6. Discrimination on the basis of Gender
- 7.7. Ethical issues in Seniority Considerations
- 7.8. Racial Discrimination
- 7.9. Other Major Ethical Issues in Promotional Management
- 7.10. Laws and Remedies To Prevent Promotional Discrimination
- 7.11. Other case related to Promotional Ethics
- 7.12. Summary
- 7.13 Keywords
- 7.14 Short questions for practice
- 7.15 Long Questions for practice
- 7.16 Suggested Readings
- 7.17 Self-Check Questions (Answer-key)

7.1 OBJECTIVES

After reading this chapter, the students should be able to :

- ◆ Determine the ethical issue in Human resource management, promotion and ethical standards.

- They also able to know the discrimination on the basis of gender, ethical issues in seniority considerations and racial discrimination and other major ethical issues in promotional management.

7.2 INTRODUCTION

A few years ago, sociologist Raymond Baumhart asked business people. 'What ethics meant to them.' Among their replies were the following :

'Ethics has to do with what my feelings tell me is right or wrong.' 'Ethics has to do with my religious beliefs.'

'Being ethical is doing what the law requires.'

'Ethics consists of the standards of behavior our society accepts.* " I don't know what the word means.'

These replies might be typical of our own. The meaning of 'ethics' is hard to pin down, and the views many people have about ethics are different.

1. **Feelings** - Like Baumhart's first respondent, many people tend to equate ethics with their feelings. But being ethical is clearly not a matter of following one's feelings. A person following his or her feelings may recoil from doing what is right. In fact, feelings frequently deviate from what is ethical.

2. **Religion** - Nor should one identify ethics with religion. Most religions, of course, advocate high ethical standards. Yet if ethics were confined to religion, then ethics would apply only to religious people. But ethics applies as much to the behavior of the atheist as to that of the saint. Religion can set high ethical standards and can provide intense motivations for ethical behavior. Ethics, however, cannot be confined to religion nor is it the same as religion.

3. **Law** - Being ethical is also not the same as following the law. The law often incorporates ethical standards to which most citizens subscribe. But laws, like feelings, can deviate from what is ethical. For example, pre-Civil War slavery laws and the apartheid laws of present-day South Africa are grotesquely obvious examples of laws that deviate from what is ethical.

4. **Social Acceptance** - Finally, being ethical is not the same as doing "whatever society accepts." In any society, most people accept standards that are, in fact, ethical. But standards of behavior in society can deviate from what is ethical. An entire society can become ethically corrupt. For example, Nazi Germany is a good example of a morally corrupt society.

Moreover, if being ethical were doing "whatever society accepts," then to find out what is ethical, one would have to find out what society accepts. For example, to decide what one should think about female foeticide, one would have to take a survey of society and then conform one's beliefs to whatever society accepts. But no one ever tries to decide an ethical issue by doing a survey. Further, the lack of social consensus on many issues makes it impossible to equate ethics with whatever society accepts. Some people accept female foeticide, but many others do not. If being ethical were doing whatever society accepts, one would have to find an agreement on issues which does not, in fact, exist.

Then to actually know' what ethics are, we can say that Ethics are two things: -

First, ethics refers to well based standards of right and wrong that prescribe what humans ought to do, usually in terms of rights, obligations, benefits to society, fairness, or specific virtues. For example, ethics refers to those standards that impose the reasonable obligations to refrain from rape, stealing, murder, assault, slander, and fraud. Ethical standards also include those that enjoin virtues of honesty, compassion, and loyalty. And, ethical standards include standards relating to rights, such as the right to life, the right to freedom from injury, and the right to privacy. Such standards are adequate standards of ethics because they are supported by consistent and well founded reasons.

Secondly, ethics refers to the study and development of one's ethical standards. As mentioned above, feelings, law's, and social norms can deviate from what is ethical. So it is necessary to constantly examine one's standards to ensure that they are reasonable and well-founded. Ethics also means, then, the continuous effort of studying our own moral beliefs and our moral conduct, and striving to ensure that we, and the institutions we help to shape, live up to standards that are reasonable and solidly-based.

7.3 ETHICAL ISSUES IN HUMAN RESOURCE MANAGEMENT

A large area of human relations management is concerned with various ethical issues, both on the part of upper-level management in its business decisions and lower level management in the treatment of individual employees. Philosophic decisions on the relocation of areas of production or entire plants can have a major impact on the company but also can be devastating to individual employees and the communities in which they live. Management decisions must be made honestly taking all factors into consideration, including social responsibility as well as stockholder concerns. On a lower level, supervisors must, if they are to retain any spirit de corps within their unit of the organization, treat those they supervise fairly in matters of promotion and compensation.

In secular human resource management, generally ethics is treated as being relative, i.e. whether an action is moral or immoral, or right or wrong depends on the prevailing view of the particular individual human resource manager. Such view is certainly molded by the culture. A human resource manager may well consider decisions to be ethical if all consequences are considered in the light of business needs balanced with consequences to all concerned, including the employees.

In making decisions the human resource manager should consider alternative solutions to the needs of the business as well as the effects the decisions will have on the lives of the employees. Frequently a human resource manager will be given instructions from higher level management to take action which will be oppressive to the employees and the manager must either present arguments to higher management for alternate solutions which will have less impact on the employee morale or determine the best method for implementing the instructions which have been given. Business ought to conform to the best ethical practices, not just, for a religious reason or for principles of human dignity, but also to keep from violating federal laws. Though the laws may not be known, they would not be violated if the business were operated by ethical principles. Experience has shown that in the long term business profits will be greater for businesses that practice good ethical behavior than those which do not.

One of the most challenging aspects of human relations management is to maintain objectivity in hiring, promotion, and compensation. For example, a male supervisor must refrain from promoting or

increasing the compensation of an attractive woman who pays undue attention to him, but who consistently is late in arriving for her job and whose work is second rate.

7.4 A BRIEF INTRODUCTION TO PROMOTION

Promotion can be defined as advancement of an employee in an organization to another job which commands better pay/wages, better status/prestige and higher opportunities/challenges and responsibilities, a better working environment, hours of work and facilities, etc. Thus, it has been observed that promotion is usually associated with the assignment of an individual to a position of more responsibility or to one which requires the application of his particular education or experience in a better way.

Forms of Promotion

i. Informal promotion - The informal form of promotion or the promotion at the discretion of the employer is the oldest form of promotion, which enables the employer to promote those employees who have the requisite ability and merit.

Unethical Issue - This form of promotion may sometimes result, in promotion on the basis of prejudices of the employer and the abilities of the employees which should form the basis of promotion may be overlooked. In this form of promotion, the problem is that the senior managers may recommend for promotion only those individuals with whom they already have worked, or who for one or the other, have impressed them by their activities or presence.

ii. Formal promotion - The formal form of promotion is also known as the standardized or systematic form. Because in this significance of all the positions in the organization structure is considered with a view to facilitate the objective appraisal of the capabilities of the individuals in the context of promotion. Seniority and length of service serve as the criteria to qualify for promotion under this form.

iii. Open form - In this form, organizations do not restrict themselves to the existing employees only for the purpose of filling promotional vacancies.

iv. Close form - This restricts the candidacy for filling promotional vacancies to the existing employees only of the organization concerned.

7.5 ETHICAL STANDARDS FOR A SOUND PROMOTIONAL POLICY

The Indian Institute of Personnel Management has suggested the following statements as standard promotion policy :

(a) A statement regarding promotion from within the organization with a view to filling vacancies in higher posts. Obviously the statement would be worthless if it is not faithfully followed. If it is likely to be necessary to go outside to fill specific skilled or professional jobs, these should be identified in advance.

(b) A statement regarding the promotional bases like ability and seniority.

(c) A well drawn organization chart in order to help all concerned understand the ladder of promotion as well as the structural relationship of the employees working in the different positions

among various professionals/functions and within their own profession/function. As an example, the Cooperative Wage System(CWS) developed by the basic steel companies and the Steelworkers Union provides such job descriptions and in specific plants there are ladders of promotion for departments or production units within the plant or mill.

(d) A statement clearly mentioning the officials who may initiate and handle cases of promotion in order to help all concerned. Line responsibility for making promotions, with the advice and assistance of the personnel department in a staff capacity. This procedure serves as a 'check on the fairness of promotions and ensures that the policy will be consistently administered.

(e) A statement regarding provision for reversion in case a promotee's performance is not satisfactory.

Other elements in promotion policy

1. Encouragement for supervisors to leave the department or plant if better opportunities are available elsewhere. Capable employees who are kept back are likely to be dissatisfied.
2. Posting of openings for promotions, so that interested employees may apply within a specified period, usually several days or a week.
3. Provision for training as a means preparation of promotion. Special on-the-job training, vestibule schools, night classes or vocational courses should be available, as well as special retraining programs.
4. All employees want promotions, particularly if they will be required to leave a congenial work group or if they feel inadequate about taking a more responsible job. Promotions should not be forced on the reluctant employees.

7.6 ETHICAL ISSUES IN SENIORITY CONSIDERATIONS

The most important policy question in promotion within the bargaining unit, because of the great importance that workers attach to length of service.

This raises two basic questions: Is the employee with the longest service necessarily the most competent? If workers automatically qualify for better jobs by accumulating seniority, will new employees be motivated to improve performance?

The management should stress competence above seniority in promotion when two or more candidates are being considered. No supervisor can get effective results with people if there are bars to an opportunity to make the best use of each person's capacities. Promotions should be fairly and capably used by management to place on each job the most competent and productive workers available.

Promotions should be a reward to encourage those employees who make a successful effort to increase their knowledge or skill and who maintain a high level of productivity. When seniority is made the sole basis for promotion, it becomes a straightjacket. Seniority should be considered, but becomes decisive only when the qualifications of two candidates for a better job substantially equal.

For example. The Japanese concepts of Nenko Seido(i.e., promotion on the basis of age and length of service) and Shike Seido(i.e., status ranking), reflect, nothing, but seniority considerations in promotional decisions, hi USA and in UK, seniority is an important factor of promotion. In India, seniority consideration in promotional decisions has not received much cognizance from organizations until recently. But due to pressure from unions and subsequent change4s in government policies regarding promotional matters, seniority is fast emerging as an important consideration in the public sector.

Seniority being quantifiable, provides an objective means of identifying the personnel eligible for promotion :

(1) Since biased managerial decisions on promotion can be averted to the fullest extent, seniority criterion is widely accepted by employees. As promotion is predictable in seniority system, it greatly reduces employee-turnover.

(2) Since merit or ability is altogether ignored, it does not guarantee quality staffing of promotional vacancies. Even though, it is believed that, through experiential learning an individual develops his knowledge that aids in 'skill formation', during his long tenure of service, due to 'trained incapacity', he may be incapable of Undertaking new assignments.

(3) Basis of seniority is not clear as yet. Is it the total number or years of experience already gained in present organization plus the experience already gained in his past employments with other organizations? Seniority unit is occupation, department, plant or company

(4) In reality, seniority discourages creativity and innovation.

In unionized Firms

Management will not usually be able to win acceptance for this kind of policy, unless it succeeds in establishing confidence of its procedure for selecting the employees to be promoted. Many times the decision for promotions was influenced by personal acquaintance, favors performed and recent events, rather than by objective records of output or a systematic subjective procedure for appraising employees, or after careful interviews with several candidates for higher positions.

Management needs these records and performance appraisal procedures if it is fairly to administer a promotion policy based upon employee competence. This means that, in most cases, slight differences in competence should not be considered as decisive.

In Nonunion Firms

In nonunion firms, these difficulties over promotion decisions are usually not serious. Presumably, management has more latitude in selecting the most competent employee for promotion to a better job, and the decision is not likely to be openly challenged. But senior employees who have been passed over may nurse grievances unless they understand the reasons for such a decision.

Even in firms in which blue-collared workers are unionized, there are substantial groups of employees not represented by the union: white-collar, technical and professional employees. These employees are typically less concerned with seniority than with merit as a basis for promotions.

- NOTE-Seniority systems will be discriminatory if past discrimination has eliminated minorities and women from the higher, more senior positions on the advancement ladder. To rectify the situation, individuals who have specifically suffered from discrimination in seniority systems should be given their rightful place in the seniority system and provided with whatever training is necessary for them.

7.6.1 Self-Check Questions

Q1- The perceived justice of all the procedure required to make decisions about individual employees is called

- A. Destructive Justice
- B. Procedural Justice
- C. Distributive Justice
- D. Constructive Justice

Q2-The rights based on special agreement between employees and employer are called

- A. Statutory Rights
- B. Non Statutory Rights
- C. Contractual Rights
- D. Separation Agreement

Q3- The document that consists of all the ethical standards that employer expects from employees is classified as

- A. Ethics Code
- B. Descriptive Code
- C. Procedural Code
- D. Distributive Code

7.7 DISCRIMINATION ON THE BASIS OF GENDER

Gender discrimination

When promotions rely on the subjective recommendations of immediate supervisors,

promotion policy will be discriminatory to the extent that supervisors rely on racial or sexual stereotypes. Fewer chance of promotions and are of little prestige. Supporting the theory that working women usually make it to mid-level management positions, the U.S Department of

Labour (Glass Ceiling Report, 1995) measured that there are some industries where women dominate employment, especially in mid-level positions, then do males (as in Avon company & Sara Lee). Also, on average, finance, insurance, wholesale/retail and real estate industries have been employing 75% women and only 25% men.

CASE STUDIES

Case-1

Study of Massey University, New Zealand Gender and academic promotion

In 2004, the Association of University Staff (AUS) commissioned the New Zealand Council for Education Research (NZCER) to undertake a research study of gender and promotion at one New Zealand University. It addressed two core questions:-

- I. Do male and female academics have different experiences and perceptions of promotion?
- II. If male and female academics do have different experiences and perceptions of promotion, what factors may be involved?

From the analysis of data of the research, the following findings were obtained :-

A. Women’s aspirations regarding promotions

TABLE 1

Satisfied	
Men	26%
Women	12%

GRAPH 1



Women were only half as likely as men to feel that they have reached the level they aspired to.

B. Opportunities of promotion for women

Satisfied	
Men	29%
Women	20%

Satisfaction with Promotion Opportunities Available



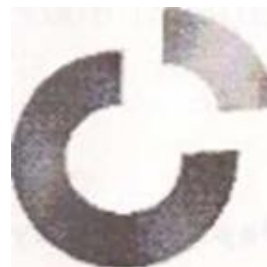
C. Advice from department w.r.t promotion and progression

GRAPH 3

TABLE 3

Dissatisfaction	
Men	14%
Women	46%

Dissatisfaction with Support From the Department



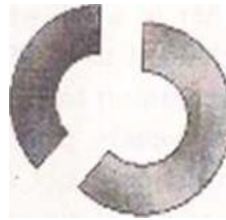
D. Factors barrier to women’s promotion

TABLE 4

Factors	X (Mean)
Family Support	5X
Affordable Childcare	3X

GRAPH 4

Factors a Barrier
for Women
Promotion



Around a third of the Massey academics responding to the survey felt they had been disadvantaged or discriminated against in relation to promotion.

Recommendations to improve satisfaction of women with the promotion process :

- An examination of positions at lowest level and possible new pathways from that level to the lecturer level
- Making promotion application exemplars available within each college.
- Providing written feedback to all unsuccessful candidates for promotion.
- Giving more recognition to career mentoring in the promotion criteria.
- Ensuring that the lack of good quality, affordable childcare is not a barrier in women's aspirations and opportunities.

Case-2

After being denied a promotion, a federal government employee claimed discrimination on the basis of gender and retaliation. She had expressed interest in the Acting Technical Advisor position but was not allowed an opportunity to volunteer for that job. Although the position would not have resulted in a pay increase, it offered a valuable opportunity for growth and experience.

A male employee volunteered for the position during a meeting held on the female employee's day off. For six months, the employee asked her supervisor if the male was ATA but was told he was not. After uncovering indisputable written evidence of the male being ATA, she confronted her supervisor. He denied the action again, but the next day gave the male ATA a temporary promotion. She filed an EEO complaint. A year later, a permanent GS-14 position opened up and the male employee was selected. The promotion panel explicitly relied upon the ATA duties and those acquired by the male employee during his temporary promotion for his selection. The female employee filed another complaint, which was consolidated for hearing with the first complaint. After a one-day hearing, the EEOC Administrative Judge found intentional discrimination and retaliation, and awarded the employee a retroactive promotion to the GS-14 position with backpay, interest and attorney fees.

Case-3

Japanese pay and status

Twelve women from the gigantic Sumitomo group of companies took their employers to court for sexual discrimination against women in wages and promotion. YATANI-SAN is one of them.

'Yatani have been working for Sumitomo Chemical Industries for 29 years. All her male counterparts have been promoted to become managers, and are getting paid accordingly, while she has been kept on clerical work at about half their wages. She asked her superior about her prospects for getting promotion, but was only told that she has not shown any results. So she asked him to put her in a job where she could prove her ability, but nothing changed. She just felt like she belonged to a different class.

"She appealed to the company union to take up the issue of sex discrimination, but she was just told that because she is a woman, she did not have sufficient skills, or she was just not talented enough, therefore she should not expect her superior to recommend her.' She also applied for mediation through the Ministry of Labour's Women and Young Workers' Office. They took up her case, but the company simply turned it down.

"The women of the company have been trying every avenue they can use to publicize their case and raise awareness of discrimination against women at work. They took their report to the ILO and the UN Human Rights Centre. Last year, they participated in the Japan- EU Symposium even though they weren't invited.

"They had a very positive response on all these visits. Also, in Japan, the Human Rights Defense Committee of Japan's Lawyers' Association issued a recommendation to the trade unions of the Sumitomo group to provide information to their members fighting in court to end discrimination against women as requested. This is very significant as it is not common that they issue a recommendation in relation to a specific case in process, and also it is the first recommendation issued to trade unions!

"They are determined to see it through. This is not about just their promotion and wages, but for everybody. Their victory will open ways for all other women to win equal treatment-

Case-4

Women's dissatisfaction in professional career due to lack of family support study

New Delhi : A study conducted by the Associated Chambers of Commerce and Industry of India (ASSOC 11 AM) has claimed that women in their academic career perform well but when it comes to profession they lose out to their male counterparts.

The study found that only a meagre 3.3 per cent women get elevated to the top most positions in their entire professional career while 17.7 per cent women end up to the middle levels.

The study titled as 'Women Top in Education Why Miss Top Positions' • said over 78.9 per cent which is the largest segment of working women remained at the lowest working level without getting promotions and other facilities. Due to lack of family support, the women get less recognition from their male bosses, the study said.

The main challenges, the women face in their professional career, come from their family. The study claimed that about 73 per cent women felt that Their husbands were not supportive enough and family responsibilities stopped them from giving their best to the work field.

While releasing the study country's first women IPS officer Kiran Bedi said, 'The fear of displacement among men makes them feel threatened towards a qualified woman. Men are good in dinner diplomacy while the women face a weakening support of family.' Awareness should be increased at school, colleges and university level *o increase the economic growth of women, Bedi added.

The study claimed that, women face an increasing bias at the workplace as the male bosses do not give them the approval compared to the male professionals.

Case-5

Costco Latest in Wave of Gender Bias Suits

California's Impact Fund on Tuesday filed a second lawsuit against a major corporate chain store, this time a class action accusing Costco Wholesale Corp. of gender discrimination.

Filed in San Francisco federal court, by a Costco assistant manager who claims women are consistently denied promotions to higher paying managerial positions, the suit comes on the heels of a similar sex discrimination case against Wal-Mart Stores Inc. also filed by The Impact Fund that was recently certified as a class action.

Employment law experts say the latest case is part of a growing backlash against sex discrimination at corporations similar to scores of race based discrimination suits filed in the 1970s.

The cases also reflect a strategy shift: Instead of pursuing individual wrongful termination claims, plaintiffs attorneys are now favoring class actions, which are considered more likely to succeed - and much more lucrative.

In addition to the Costco and Wal-Mart suits, Morgan Stanley Dean Witter & Co. recently agreed to a \$54 million sex discrimination settlement.

The latest, suit seeks class action status and could include as many as 650 former female Costco workers across America subjected to gender discrimination.

Fewer than one in six of Costco's senior store managers are women, yet the company's workforce is roughly 50 percent female, according to the suit.

Monetary damages were not specified, but attorneys said damages could reach into the millions. There is no clearer example of a glass ceiling than how Costco promotes workers into assistant manager and general manager positions. There is no promotion system at Costco. Women must rely on the subjective and arbitrary decisions of Costco's all-male senior management. The complaint which is also being litigated by San Francisco firms Lieff, Cabraser, Heimann & Bernstein and Davis, Cowell & Bowe alleges that Costco has no job-posting or application procedures for assistant manager and general manager positions, nor any written promotion standards and criteria for these jobs. Such standards do exist in lower-paying jobs.

7.8 RACIAL DISCRIMINATION

Promotions, job progression and transfer practices are discrimination when employers place White males on job tracks separate from those open to minorities.

A matter involving a Federal employee in Washington, D.C. Since being assigned to the position of "Special Assistant," complainant was discriminated in the area of assignments, evaluations, promotions, working space and proposed termination. Complainant was the only African American in his department and forced to take a disability retirement as a result of the hostile work environment created by his supervisors. Complainant was misled into believing that his "promotion" would greatly benefit his career, when in actuality it was nothing more than a trap door to termination.

CASE STUDY

Police promotions are designed to sow racial divisions

The ANC in KwaZulu-Natal has accused white police management of favoring whites and Indians over African officers.

A native Captain has been a policeman for 29 years. But when he applied to be head of a police station he was told that only superintendents could be considered for the job. This area in south of Durban, has a population of about 50,000 people, mainly black Africans, served by a force of 120. Such was the resentment when an Indian, Anesh Sukdeo, was given the job, that policemen of that place greeted him with placards saying: Go home to India and locked him out of the station.

The story ended happily for the. It transpired that Sukdeo's promotion to superintendent had been suspended pending the outcome of a misconduct investigation and that he had reported to that police station without authorization. Mkhize has since been appointed acting station commissioner.

But African police have been sufficiently angry on occasions to take the law into their own hands. Captain Deena Padayachee, the newly appointed commissioner of Thornville police station outside Pietermaritzburg, was locked out of his station on January 9 by police members protesting the transfer of Captain Bonginkosi Ngubane, their former station commissioner.

Ngubane had worked in this predominantly black area since 1990 and was promoted to station commissioner in January 1997 before being transferred to Mpumalanga.

The promotion of Indian and white officers over Africans is a long-standing grievance.

Since its inception in 1994, the provincial government's safety and security portfolio committee, which has representatives from all seven of the provinces political parties, has repeatedly voiced its concern about racially-biased police promotions and appointments. They have criticized the lack of affirmative action policies in the force, of training programmes and of transparency especially the failure to provide accurate statistics on the racial breakdown of police management.

A Provincial Commissioner, finally released statistics to the committee on February 2 showing that out of 182 police stations in the province only 29 had African station commanders. He said that he had tried to provide the necessary documents for a previous meeting of the portfolio committee in

Ulundi, but they had not been delivered by the driver, while further figures could not be downloaded from the computer in Pretoria.

The dissatisfaction over promotions policy has been made worse by the transfers which are part of a national restructuring programme. Ironically this aims to distribute resources more evenly throughout South Africa and to place the right people in the right job. Officers who take part are asked to select three possible areas for transfer. According to Serforntein, of the 378 African officers who have taken part in the programme so far, 215 were moved to their first choice destination, 72 their second and 51 their third. The transfer of Captain Ngubane of Thornville was part of this programme.

But black officers chafe that competent African officers are being overlooked, and in some cases, removed from stations serving predominantly African citizens in direct opposition to the programmed aims. Siza Doncabe, who is provincial secretary for the ANC-aligned police trade union, said that the en masse programme was tantamount to the manipulation of transformation. The policy of management was to promote its own people so there would be no space for Africans. There is no hostility between races, we are just not promoted. He felt that African members should have been consulted on the transfer of Indian officers to black areas. The problem is these officers have been posted to black locations and rural areas where there are members who were progressing and should have been promoted.

The provincial ANC has accused KwaZulu Natal police management of racism in its deployment, and promotion of officers. In a statement on January 11, it demanded that the police honestly begin to implement the policy of affirmative action and transformation. By promoting and sending only Indian officers to African areas, police management was extending its racial thinking. The ANC provincial leader at a party meeting the following week accused the police of deliberately attempting to sow racial divisions between Africans and Indians. The promotion of Indian police officers into senior positions had been designed to raise tensions between them and their African colleagues.

7.9 OTHER MAJOR ETHICAL ISSUES IN PROMOTIONAL MANAGEMENT

1. Efficiency as curse

The most common reason why capable and productive workers are ignored at the time of promotions is because they are doing such good jobs that the management wants to keep them there. For example Stan Fitzgerald is good at his job. He is creative, articulate and often sought by senior staff for his input on high profile projects. The next logical step in his career is a promotion to a more responsible and authoritative position.

2. Fake Promises

In any business relationship, forgetting what has been promised erodes trust. Each time a manager makes a commitment and reneges on his/her promises; his self-esteem goes for a toss. It happens most of the time that promises are being made regarding promotions which are probably never met. Next time the person you said these words to will not take your words seriously.

3. Indifference of Employers

Employees who stay in an organization do not get their due. There is little or very slow vertical movement by way of promotional avenues for them. With companies preferring new blood' employees have begun switching jobs merely to gain monetary benefits or perks. If you work in a company for over two or three years, you get label of 'being out of demand'. Your employer starts taking you for granted. They may offer a new recruit a 25 percent salary raise but they would never reward their existing employee with an equivalent hike even for an exceptional stint. Loyal employees also need to move horizontally and vertically.

4. Designation Web

One should be careful because the majority of the MNCs operating in India, see these titles and fancy designations, merely as motivating tool at no extra cost to the company. The people who are offered promotional opportunities from outside are attracted by using these fancy designations. Whereas people with fancy designations do the same work which their juniors do. According to some brand managers, companies resort to this practice to project a balanced organization structure to business associates or to instill confidence in the company's operations. This is, however, not a very healthy practice.

5. Merit Rating

The weaknesses of the seniority based promotion system have resulted in developing the merit based promotion system because that encourages excellence in an organization. Merit is defined as efficiency and capacity of an individual judged in the light of his past performance. However integrity of managerial personnel vis-a-vis determination of merit criteria objectively is suspect from the employees' side in general.

6. Quota System

This system of promotion is mainly practiced in government departments and public sector undertakings. The government of India has framed rules/regulations regarding promotion of SC/ST employees who enjoy fixed quota. The SC/ST candidates have to be promoted without consideration of either seniority or merit, promotion by examination.

7. Personal Attributes

In many organizations, the system of writing annual confidential reports about employees exists. Certain columns in this report pertain to personal attributes. This report which is usually written by the superior concerned, serves an important purpose of the management, i.e. considering the personal attribute of an employee for the purpose of taking promotional decisions. This may be written on the basis of personal relations.

8. Performance Appraisal

Although there are various methods of performance appraisal, the most widely used method is ranking. Under this method, ranking of an employee is done on the basis of comparison with others. An employee, who gets the highest numerical value to his credit, is considered most suitable for promotion. This can be subjective or biased.

9. Discrimination on the basis of Age

A job applicant or an employee cannot be discriminated against because of his/her age. Both federal and state laws prohibit age-related discriminatory practices in regard to hiring, employment, wages, promotion, compensation, employee benefits, health care coverage, etc.

10. Quid pro quo

This type of harassment would involve a tangible job benefit that is offered in exchange for unethical behavior. An example of quid pro-quo harassment would be an employee threatened with a demotion for not complying, or promised a promotion for complying, with unethical behavior.

Ethical harassment works because of threats explicit and implicit, and penalties imposed upon the individual. External pressures are exerted to cause individuals to act unethically, in the service of the organization or in support of another interest.

Ethical harassment is effective for much the same reasons that other types of harassment, such as sexual harassment are effective, and harasses are reluctant to contend the harassment. Fear of possible job loss or other retaliation such as slowed promotion, elimination of salary increases or salary reduction, or loss of security clearance can be a concern of the harasser. (Retaliation can take many other forms, including verbal abuse, non-cooperation from coworkers, poor performance evaluations/recommendations/references, poor job evaluations/bonus ratings, impossible performance standards, excessive demands for unpaid overtime, demotion or downgrading, transfer to less satisfactory work, worsening of work schedule, and termination of employment, in some cases, there is fear of embarrassment or humiliation, ranging from embarrassment at being perceived as stupid in not understanding the unwritten rules of the game, to fear of not being taken seriously, to fear of loss of professional standing.

11. Disabled

Discrimination based upon retaliation by a Federal employer. The employee had filed several discrimination complaints based upon his non-promotion due to his disability. In addition, the employee was responsible for "Whistle Blowing", in that he reported the organization to the U. S. Department of Labor for various Occupational Safety and Health Administration ("OSHA") violations. Employer contended that such promotions were given to employees more geographically centrally located to the facility in accordance with a union contract. However, this contention was disputed by the Union Steward.

7.10 LAWS AND REMEDIES TO PREVENT PROMOTIONAL DISCRIMINATION

Steps which should be taken by the promotion seeker :

1. **Ask for a promotion** - If one never makes a desire for a new position known, it may never dawn on one's boss to consider that person for a new role.
2. **Show your potential** - If an incumbent's talents are not being used in the current role, then one should give examples of how you will contribute more to the company at a higher level.
3. **Juggle jobs well** - One surefire way to prove that you can handle a new job is to actually do it. By offering to juggle both jobs for a short period of time. You can prove that you understand the need for your current responsibilities to be handled, you can manage your

current responsibilities of a higher position and you are an impressive employee for being able to do both jobs at the same time.

4. **Train your replacement** * When one person is promoted, a position must be filled. By offering to take an active role in finding and training one's replacement, you can assure your boss that you will do your best to make this new person as good as you have been.

5. **Not up, but over** - When a promotion is simply not available, consider making a lateral career move. Other positions may offer opportunities to acquire new skills and chances to broaden your experience and networking base. Also if you have been in the same company for a long time, a lateral move can give you the varied professional experience to round out your resume.

6. If it seems a person is on a road to nowhere despite your efforts to advance in your company, it may be time to cut your losses and move on. If you have not been promoted in three to five years, you have been legitimately ignored for a promotion, you are consistently hearing through a grapevine that you would not be promoted, the chemistry between you and your boss is not good and your boss does not care for you on a personal level, the chances are that he or she will not promote you.

7.10.1 Handling Promotions

1. Communication of the firm's promotion policy is important. Employees expect to be informed about ladders of promotion, how they can prepare themselves for advancement and what will be expected of them on the higher-rated jobs.

2. In selecting candidates for promotion, careful review of any objective records of performance as well as subjective appraisal is necessary.

3. The individual slated for promotion should not be chosen casually or on the basis of something that happened last week.

4. Senior employees who have been bypassed in the promotion process are entitled to an explanation of the reasons.

5. People have a right to know in advance about the changes that will affect them and negative.

6. Employees who are unable to handle more skilled and responsible jobs should not be falsely encouraged.

7. The presence of a union serves as a check on the fairness and correctness of management's decisions in promotion. Of course, strong unions may push weak managements in the direction of unwise and exclusive reliance on seniority in promoting employees to jobs of higher responsibility and earnings.

7.10.2 Promotion Alternatives

(1) Promotion from within as a regular process, apart from resulting in-breeding, lack of dynamism and innovativeness etc., has an inevitable danger of over-staffing of an organization. Japanese organizations, which follow this system compulsorily even without 'objective assessment of employees' performance, have introduced an excellent promotion alternative, known as "status ranking system", in order to avoid the problem of over-staffing.

(2)The problem of structure plateauing remains unless suitable restructuring of the organization, with due emphasis on reducing the importance of promotion and increasing the value of challenge is attempted.

(3)Ensuring timely promotion of employees is a major problem even for well organized and professionally managed organizations in India. Governmental organizations, for the low paid white-collar employees, relate their promotional decisions to the availability of vacancies, while for the direct recruits in the officers cadre, they have a system of promotion based on time scale. This clearly indicates poor career planning, which results in serious motivational problems in the government organizations.

(4)Stagnation in different cadres for years together is a result of such ill-framed policy which should be renewed.

7.10.3 Remedies

a.Lateral transfer is the vertical movement of employees and denotes significant Change in the work content. Cross functional or cross lateral transfers, throughout the career of an employee, keep him fresh and receptive to new ideas and make him more creative and productive.

b.Horizontal transfer is the movement within the same job family. While job enrichment and job enlargement exercises do not involve, in reality, any movement from one job to another, lateral and horizontal transfer indicate physical movement from one job to another and some potential to motivate employees intrinsically.

Examples of redressal of discrimination In promotions

There should be no discrimination on the basis of sex, race, religion, or national origin. The fact is that in the past, many firms and organizations have not made these decisions on the basis of competence alone and in the case of blacks the result has been the nationwide drive for "equal rights" in employment as well as in other areas of American life. The handicap which faces minority groups of employees in seeking promotions is, in some cases, the lack of an adequate educational background. But this is not true of all such candidates for promotion and management needs to pay more attention to seeking out for promotions qualified blacks and other members of minority groups as well as women and to develop training programs and upgrading which might prepare them for subsequent promotions. But these employees should not be given "preference" in promotions, as some civil rights proponents have argued. This would be 'discrimination' in reverse, even though it might be considered redress for past discrimination.

In 1970s there has been increasing governmental pressure on organizations to establish goals or timetables for recruiting and promoting blacks, other nonwhites and women to entry-level and higher positions as a method for redressing past discriminatory practices. Since 1972 the Equal Employment Opportunity Commission (EEOC) has had statutory power to bring individual as well as "class action" suits in court against firms that are charged with continuing discriminatory practices.

Examples

I. A settlement reached with AT&T early in 1973. The company agreed to give \$15 million in back pay and \$23 million in a year in raise to women and minority males against whom it had allegedly discriminated in job assignments, pay and promotion.

II. The promotion system in a US Steel plant in Utah was found by a US circuit court, to have discriminated against Spanish surnamed workers because the selection criteria used were "subjective and vague", relying mostly on foremen's recommendations for promotions, rather than on objective promotion procedures.

III. Under the leadership of Kewal Krishan Nohria, Crompton Greaves Limited established an open, transparent and fair performance evaluation system. For example, a manager who reduced a loss making unit was viewed more favorably than one whose profit levels or market share had declined. According to the chief executive :

I have made the performance evaluation system so open that I have taken away from myself the prerogative to promote anybody. I have to promote people based on their relative performance, which is known to everybody. The track record of managers and their relative rankings are common knowledge.

IV. Bhilai Steel Plant of Steel Authority of India Ltd (SAIL) had been incurring losses since several years before V.Krishnamurthy took over as Chairman in 1985. He also implemented some personnel policies associated with promotion which were:

- Promotions based also on merit rather than seniority alone.
- Better promotional opportunities for meritorious employees.
- Imparting personnel mobility - horizontally and vertically- to enable the development of a trained work force.

7.10.4 Law against Age Discrimination

The laws are designed to promote the employment of older persons based on their abilities and qualifications, irrespective of age. The federal Law-the Age Discrimination in Employment Act (ADEA- protects employees over 40 from being discriminated against at the work place due to their age

- Actions prohibited by federal and state law:
- Denial of promotions, transfers, or assignments because of age.

The Age Discrimination in Employment Act (ADEA)

The ADEA protects individuals who are 40 years of age or older from employment discrimination based on age. The ADEA's protections apply to both employees and job applicants.

It covers public as well as private sector employees, companies employing at least 20 people, and unions and employment agencies. The ADEA does not apply to elected officials or independent contractors.

It is unlawful to discriminate against a person because of his/her age with respect to any term, condition, or privilege of employment, including, but not limited to, hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training.

It is unlawful to retaliate against the employee for opposing employment practices that discriminate based on age, or for filing an age discrimination charge, or for testifying or participating in any way in an investigation, proceeding or litigation under the ADEA.

The law is enforced by the Equal Employment Opportunity Commission (EEOC). It has the authority under the ADEA both to investigate complaints and to file lawsuits. However, individuals may file lawsuits in either state or federal court alleging violations of ADEA

It is generally unlawful for apprenticeship programs, including joint labor-management apprenticeship programs, to discriminate on the basis of an individual's age. Age limitations in apprenticeship programs are valid only if they fall within certain specific exceptions under the ADEA or if the EEOC grants a specific exemption.

7.10.5 Performance appraisal - As a tool of enhancing ethics in promotions

The competencies needed for the new role is fundamentally different from the past role. No matter how well you've done the performance appraisal for the current role, promoting on its basis for the next role is fraught with danger. One thing you could do before a promotion is assess the person for the competencies for the next role. However that, is easier said than done, especially when there are 40,000 employees up for promotion.

Assessment for next role should be based on weighted average assessment of current performance, and then the potential assessment for the higher role before the promoting the employee. If an employee knows that his promotion to the next level will not depend on his current performance but based on the assessment, of how successfully he is likely to perform the higher role, chances are that the employee will not be able to focus completely on his current role.

Employers are generally aware of federal laws prohibiting discrimination in hiring and firing, but they often do not realize that similar considerations apply to promotions.

Basically, it is as illegal to apply different standards for promotion to different members of your work force as it is to apply them to hiring. You may not use subjective standards that have a disparate impact on protected groups in either case.

Under federal law, protected groups are defined in terms of race, national origin, sex, age, handicap (with disabled veterans a separate category), and military service in the Vietnam era. All criteria that you use in deciding who is to receive the promotion must be free of bias toward any and all workers who fall into any of those divisions.

One set of guidelines with which you should be familiar was handed down in a decision by the U.S. Circuit Court of Appeals for the 5th District. In it, the court held that these practices were unacceptable in selecting individuals for promotion :

- A foreman's recommendation was the key to the promotion.

- Foremen were not given any written instructions pertaining to qualifications necessary for promotion.
- Standards were vague and subjective.
- Hourly employees were not notified of promotion opportunities or of the qualifications necessary to qualify for the higher position.
- There were no safeguards established by the company to avoid discriminatory practice.
- Employers must be constantly on guard to be sure that promotion policies that appear to be neutral on paper actually avoid any discrimination when put into practice.
- Here are positive Steps that can be taken to avoid costly and disruptive lawsuits by employees who allege discrimination after having been denied promotion:
 - Provide opportunities through a job-bidding procedure or during a performance evaluation for employees to declare their interest in specific promotion opportunities.
 - Notify your employees that they are expected to identify a higher position in which they are interested and that a general statement that they would someday like to have a better job is not sufficient.
 - Conduct performance evaluations on all employees on the basis of written specifications and standards related to the job. The appraisal should also be in writing. Schedule meetings with individual employees so they can review and sign their evaluations. (If an employee refuses to sign an evaluation, have a management representative witness that it was presented to the employee and have the witness sign a statement to that effect.) Remember: The performance appraisal the supervisor fills out today can be the difference between winning and losing a charge of discrimination or lawsuit tomorrow.
 - Let employees know what is expected of them in terms of job performance.
 - Give employees a chance to improve once they are put on notice that performance is below par.
 - Maintain records of promotions according to protected groups.
 - Train supervisors to keep a diary on employees' work performance and behavior. This can assure that employees are not measured on the basis of most recent actions, either good or bad, that the supervisor remembers.
 - Maintain accurate logs of attendance and tardiness.
 - Develop a system to alert employees to promotion opportunities as well as to give them an opportunity to state their interest in openings of which they become aware.

There are also some actions that you should avoid in selecting employees for promotion.

Most important, you should not :

- Base promotion decisions exclusively on the supervisor's visual observations and comments without reference to objective documented factors.
- Make decisions without giving employees an opportunity to express interest.
- Summarily dismiss an employee's interest in a promotion opportunity.
- Tell employees that they would not be considered because of such generalizations as "It's a man's job" or that they would not like the environment of the new job because "It's male" or "It's white."
- Use educational levels as criteria for promotion unless specific educational requirements have been professionally certified as related to the job.
- Maintain the status quo if statistics reflect underutilization of minorities and females at higher levels.
- Make promotional decisions without input from employees on their particular interests.
- Evaluate on such Subjective measures as altitude.
- Allow one person to make promotion decisions.
- Impose barriers not related to the job, such as depriving a person of seniority when promoted from one department or plant to another. (It is permissible, however, to require specified periods in company employment or in a current position as qualifications for being considered for promotion.)

Provided there are no discriminatory elements involved, an employer may establish preferences for considering candidates for promotion on the basis of documented, objective criteria. For example, a preferential listing might apply in this order: to employees in the work group where the opening exists; in the department where the opening exists; in related occupation groups outside that department; and to those in any department whose training, experience, education, and seniority would seem to warrant whatever expenditures may be required to qualify them for a higher position.

7.11 OTHER CASE RELATED TO PROMOTIONAL ETHICS

1. State of Kansas Employee Survey

In the fall of 2000, the State of Kansas began designing a first ever survey of its employees to determine levels of employee satisfaction. The Kansas State Employee Survey was a self administered survey mailed to nearly 27,000 state employees.

Promotion opportunities - After pay, the greatest source of employee dissatisfaction is promotion opportunities. Employees are concerned with too few opportunities for promotion and the way promotions are given. About 76% of state employees believe that there is usually too little chance for promotion in their agency. Only about 20% say that promotion opportunities encourage them to remain state employees. Also of great concern is that many state employees are not satisfied with the way promotions are handled by their agencies. Only 37% believe that promotions are given in a fair manner by their agencies. About 75% perceive that "you have to know the right people to go

ahead in the stale system.' Overall, state employees are skeptical that merit based promotions exist in Kansas state employment.

2. Job Promotions Bring Added Stress

You think you would be happier if you finally got that long sought-after promotion. You might want to think again.

Getting a promotion is more challenging than nearly any other major life event, including divorce or the death of a loved one, according to managers and executives surveyed by Development Dimensions International, a consulting firm based in Collier, Pa.

"Mail Paese, vice president of executive solutions at DDI surveyed 800 leaders and asked. 'What's stressing them out the most?'. And they said more often than not, 'Their job transition, " When an organization thrust people into a job with more pressure, what happens is that most people don't know how to succeed.

The new study from DDI. 'Leaders in Transition: Stepping Up. Not Off,' makes the case that companies woefully underprepare their employees to handle the increased responsibilities of promotions. Once someone is deemed worthy of a promotion, said Paese. companies tend to take a 'sink or swim' approach to the employee's success, rather than a nurturing approach.

In fact, JUST 27.8 percent of the American managers and executives surveyed said their companies were doing a good job preparing employees for job transitions.

What can make the transition to a new job so difficult, said Paese, is that as employees rise to higher levels, they find more of their day is being taken up with internal politics and planning, leaving less time for their actual work.

The problem is likely to grow more severe as baby boomers retire, and people get promoted faster than they otherwise would have.

What the companies are going to be forced to do is put more and more people into jobs before they are ready. Its just going to keep happening more and more.

The employees are in relative agreement about what would improve their experiences when they get a promotion. More than half of managers and executives surveyed said having clear performance expectations would have helped them in transitioning to a new role.

Other popular answers for what would help ease the transition were better role models within the Organization and having the boss be more focused on the employees development. These are not things where you have to go out and buy technology, or make a big capital investment. This is just like to take a closer look at the people who have been promoted.

Because promotions generally are treated as a universal positive, companies often are unaware of the need for more support. And despite the possibility of a hard road ahead, DDI surveys show that the number of people who want to be promoted continues to grow. In terms of what motivates an employee to take a promotion, 52.7 percent of Americans surveyed listed more money as a key factor vs. 26.2 percent in Europe, Asia and Latin America.

Outside the United States, workers were more interested in having a greater opportunity to make things happen (62.8 percent vs. 53.2 percent of Americans) and respect from their peers (40.9 percent of foreigners vs. 31.2 percent of Americans).

The irony of the dissatisfaction with promotions is that managing the work force is growing increasingly important.

"Where the war for talent has really settled is in the ability to grow talent from within," Pease said. "If you talk about leadership, the real game that's going to make a difference is to make people grow within your organization."

3.Tertiary Education Institute, University of Queensland, 4067 St. Lucia, Queensland, Australia

Research studies conducted in the USA, Britain, Australia and New Zealand which examine academic staffs attitude to the promotion procedures in their institutions have all found dissatisfaction with existing promotion practices. In particular academics are reported to be dissatisfied with the undervaluing of teaching excellence in promotion decisions.

This paper discusses studies of job satisfaction and staff motivation as background to an interview study at an Australian university. Data concerning promotion issues from interviews with 104 academic staff members are presented and discussed.

Interviewed staff at that university see their institution as actively encouraging research through rewards and incentives. But they perceive the university as paying only lip- service to teaching by requiring documentation of teaching performance without rewarding good performance adequately. Many also perceive the university as interested more in publications than in scholarship and some adjust their activities accordingly.

4.SEATTLE

The U.S. Equal Employment Opportunity Commission (EEOC) announced a major settlement of a sex discrimination lawsuit under Title VII of the 1964 Civil Rights Act for \$475,000 and significant remedied relief against Trendwest Resorts, Inc. a leading company in the timeshare industry whose headquarters are located in Redmond, Washington. The EEOC's suit alleged that Trendwest failed to provide promotional opportunities for a class of 25 female sales employees in its Northwest facilities because of their sex.

The settlement, in the form of a Consent Decree was filed with the U.S. District Court for the Western District of Washington (Civil No. C04-503L). In addition to the monetary relief for the class of women, Trendwest also agreed to the following measures as part of the comprehensive settlement :

- Reaffirm its commitment to comply with laws against employment discrimination;
- Retain a consultant to review and audit its promotional and advancement practices and implement a new written policy setting out criteria for advancement opportunity which will be distributed to all employees in the Northwest facilities;
- Oversee management training regarding discrimination; and

- Provide EEOC with information concerning any future complaints of discrimination. All individuals deserve the freedom to compete and advance in the workplace as far as their talent and abilities will take them, without facing discriminatory barriers such as glass ceilings.

In addition to Title VII of the Civil Rights Act of 1964, the EEOC enforces the Age Discrimination in Employment Act; the Equal Pay Act; prohibitions against discrimination affecting individuals with disabilities in the federal government; sections of the Civil Rights Act of 1991; and Title I of the Americans with Disabilities Act, which prohibits discrimination against people with disabilities in the private sector and state and local governments.

7.11.1 Self-Check Questions

Q1- The Concept that focuses on the availability of jobs to all the individuals without any discrimination is classified as

- A. Equal Employment Opportunity
- B. Non Discrimination Opportunity
- C. Opportunity of Equality
- D. All of the above

Q2- The type of discrimination in which the applicants for a job are refused and the protected class individuals are prioritized, is classified as

- A. Individualistic Discrimination
- B. Affirmative Discrimination
- C. Diversified Discriminations
- D. Reverse Discrimination

7.12 SUMMARY

In order to curtail ethical harassment, similar approaches might be taken to those already taken with some success against sexual harassment. We need to name it, we need to discuss ethical harassment widely, we need to publicly deny the acceptability in any form of ethical harassment. If we can achieve having it widely acknowledged that ethical harassment is not acceptable in the professional community, this may come to pass. We might even hope eventually to get legislation against ethical harassment introduced and passed.

In the meantime, it is time that we name ethical harassment for what it is, arrange to get it identified and forbidden in ethical codes and personnel handbooks, and otherwise do what we can to deter ethical harassment. We should take action to make 'ethical harassment' become regarded as an unwelcome and formally undesirable feature of the employment scene, and begin to take whatever further action is necessary to make ethical harassment become only an unpleasant memory, to make it disappear.

7.13 Keywords

1. Discrimination :-prejudiced or prejudicial outlook, action; the act or practice of discriminating categorically rather than individually

2. Ethical Harassment :-It includes unwelcome and persistent attention, and other verbal or physical conduct which creates a hostile or offensive work environment.

3. Promotion :- a move to a higher position or more important job

4. Job Stress :-the harmful physical and emotional responses that occur when the requirements of the job do not match the capabilities, resources or needs of the worker.

7.14 Short Questions for Practice

1. Define briefly ethical issues in Human Resource management.

2. Write a short note on Human Emotions at work.

3. What is Promotion?

4. What does equal employment opportunity indicate?

7.15 Long Questions for practice

1. What ethical standards are required for a sound promotional policy?

2. What are the laws and remedies to prevent promotional discrimination?

3. Discuss the pro's and con's of promotion policy based on merit, seniority and merit cum-seniority.

7.16 Suggested Readings

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7.17 Self-Check Questions (Answer-key)

7.6.1

1.B Procedural Justice

2.C Contractual Rights

3. A Ethics Code

7.10.1

1. A Equal Employment Opportunity

B. D Reverse Discrimination

ORGANISATIONAL CULTURE AND ETHICS

STRUCTURE

- 8.1. Objective
- 8.2. Introduction
- 8.3. P'I(PPPP)
- 8.4. Self-check exercise
- 8.5. Personalities and Ethical Organizations
- 8.6. Ethical and Responsibility
- 8.7. Stakeholders and Ethical Organizations
- 8.8. Ethical Organizations-Providers. Information and Ethical Compliance
- 8.9. Ethical Leadership and Governance
- 8.10. Integrating Applied Ethics And Social Responsibility
- 8.11 Case of Ethical Leadership
- 8.12 Summary
- 8.13 Self check exercise II
- 8.14 Keywords
- 8.15 Answers to self check exercise
- 8.16 Short answer type questions
- 8.17 Long answer type questions
- 8.18 Suggested readings

8.1 OBJECTIVES

After reading this chapter the readers should be able to know:

- About the P4 s, personalities and ethical organizations and ethical and responsibility.
- They should also come to know about the ethical leadership and governance and integrating applied ethics and social responsibilities.

8.2 INTRODUCTION

Today business is subject to new and greater pressures and external factors, including regulatory changes. One of the biggest challenges comes from globalization. As such, companies are confronted with different standards of values and practices.

In view of a growing string of failures of dubious business ethics, world's business leaders have been awoken to the necessity of ethical leadership. Nevertheless, ethical leadership is not merely a necessity, it is now an opportunity a source of competitive advantage for companies and a tool with which to add business value

Once an organization is regarded as corrupt, its level of legitimacy declines. With declining legitimacy, the call for more regulation will grow louder, stifling the organization concerned and the whole economy. More laws will come into effect, making business even more difficult. The corollary is that, in a system when one organization subverts the law, it becomes much harder for other companies to operate cleanly.

This is where ethical leadership is a necessity. Only if management sets clear, unequivocal policies and controls stipulating zero tolerance, can management ensure good practice.

But by seizing on ethical leadership as an opportunity, a manager could actually enhance his or her reputation inside the firm. By exercising ethical leadership, managers inspire and generate confidence in individuals at all levels of the company.

Anyone who works in the aviation industry understands not just the necessity but the value of gaining passengers' trust. With ever growing competition in the market, place, and today's airlines must win their customer with more than a safe flight and a good meal. We need to create and defend and enhance 'Reputation' and 'Confidence in our brand', and the most effective way to achieve this is through transparency, free flow of information, and good governance.

Ethical governance presents us with a great opportunity to differentiate from the competition in the market - to add value. A company which is known to be secure and run on ethical principles will be more trusted by customers, shareholders and investors, and it will be more successful than those less ethical companies.

In summary, by operating with a social conscience, the ethical leader does not just build confidence and loyalty with staff, but builds goodwill in the market, community and society at large.

Ethical leadership is not without its challenges. For instance, ethics are often highly personal. Nor can ethical leadership be instilled in an organization or corporation overnight.

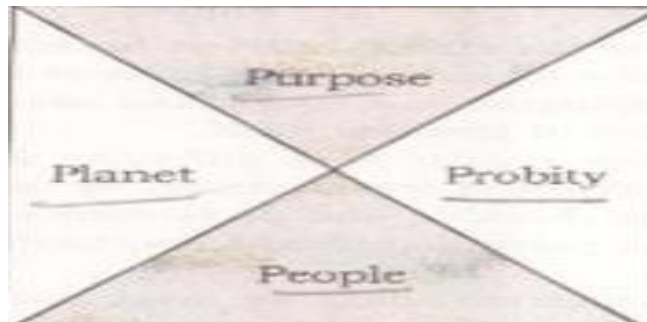
Ethical leadership requires habit, and it requires proper regulations.

The leadership of groups within business organizations'- whether these groups be boards or management teams - powerfully shapes organizational behaviour, perceptions of integrity, trust and the degree to which such groups and their organizations achieve high levels of self-actualization and performance over time. Transformational leadership styles are associated with many strong outcome measures in business, and with many desirable characteristics in both private and public organisations. A review of empirically-supported research shows that such change and development-orientated leadership, as distinct from transactional or passive leadership, is linked with greater perceived integrity and higher levels of emotional intelligence, trust and actual moral reasoning. Some common but unhelpful purist distinctions between 'management' and 'leadership' are criticized. Studies show that organisations led by leaders' high on transformational behaviors are rated as having organisational cultures that are supportive, innovative, competitive, performance oriented, and socially-responsible; teams exhibiting high levels of internally- perceived transformational behaviours are found to directly and positively affect valued outcomes; leadership cultures regarded as both 'high on the transformational dimension' and 'low to moderate on the corrective transactional dimension' are associated with both high effectiveness and perceived integrity. Several key ethical behavioural items for discriminating between authentic and pseudo-transformational leaders are suggested and discussed. Some challenges and requirements for ethical leadership in business in a postmodern age are reviewed against the backdrop of misplaced reliance on sub-human paradigms for both management and the boardroom. It is proposed that ethical leadership, rightly understood and practiced, is essential for both group and organizational actualization, and achievement of the high levels of sustained individual and organizational adaptability and performance required in today's global context. Practical implications and salient directions for further research are suggested.

8.3 P4 (PPPP)

Purpose, People, Planet, Probity (or Purity or Principles). The four cornerstones of sustainable success in any modern business venture, and a maxim for today's management and organisational philosophy. (Probity means honesty, uprightness - it's from the Latin

word probus, meaning good). Purpose' is an apt replacement for Profit' and thus makes the acronym appropriate for use in not-for-profit organisations. Profit-focused corporations can of course substitute 'Profit' for 'Purpose'.



This model is not a process or technique it's the character or personality of a good ethical organization, (or manager or leader).

The aim of all good modern organisations is to reconcile the organizations purpose (whether this be profit (or shareholders, or cost-effective services delivery, in the case of public services| with the needs and feelings of people (staff, customers, suppliers, local communities, stakeholders, etc.) with proper consideration for the planet the world we live in (in terms of sustainability, environment, wildlife, natural resources, our heritage, 'fair trade . other cultures and societies, etc. and at all times acting with probity – encompassing love, integrity, compassion, honesty, and truth. Probity enables the other potentially conflicting aims to be organizations so that the mix is sustainable, ethical and successful.

Traditional inward looking management and leadership skills (which historically considered only, the purpose typically profit – and the methods for achieving it) are no longer sufficient for sustainable organizational success. Organisations have a far wider agenda today. Moreover, performance, organization and standards are transparent globally – the whole world can see and judge how leaders and organisations behave – and the modern leader must now lead with this global accountability.

8.4 Self-check exercise I

1. What is 4 ps?
2. What do you mean by probity?

8.5 DIFFERENT PERSONALITIES SEE ETHICAL ORGANISATIONS IN DIFFERENT WAYS

Different people relate to ideas about how to run organisations in different ways.

Not everyone readily relates strongly to the principles of corporate integrity, sustainability, the Triple Bottom Line', etc.

These are essentially idealistic views and as such will mostly appeal to idealistic people.

If you are an idealist, remember that not everyone is idealistic.

For example, many entrepreneurial personalities are actually more likely to prefer and organizations logical and critical thinking, and relatively dispassionate decision making, than idealistic principles. These qualities enable entrepreneurs to do what they do well, and most organisations need a good sprinkling of these types of people. These personalities need hard and fast reasons why the triple bottom line and ethics and CSR are

important to achieving solid performance outcomes.

Process-oriented people; routine-centred, reliable, dependable types, will also not automatically buy in to idealistic principles, because these people are strongly focused on facts and real data, rather than ideas and feelings. These people will often need systemic evidence and predictable processes to assimilate and support idealistic concepts and philosophies. People won't simply buy in to the ethical zeitgeist because they are told to. Therefore when explaining the importance and aims of corporate ethics, consider the audience. People have different strengths and styles, and some need their own reasons for buying in to idealistic aims, outside of idealism itself.

Idealists and humanitarians usually have difficulty accepting that processes and financials should be the primary drivers of organisations. By the same token, people who are driven and motivated by concrete thinking and performance outcomes will not naturally accept that organisations should place significant emphasis on idealistic humanitarian philosophies and aims.

Aside from explanation and understanding, we must also be careful to manage the mix of organisational obligations. Without efficiency, competitiveness and profit, there'll be no organisation to look after the people and planet. It's a question of balance.

As ever we need different people's strengths to be able to achieve this. (And while this is an over-simplification), some people are better taking care of the profit, some the people, and some the planet but everyone needs to be aware of all three, and the fact that the future great organisations will be the ones whose people can best manage the mix.

8.6 BEING MORE ETHICAL AND RESPONSIBLE NOW PRODUCES CLEAR MEASURABLE OUTCOMES

More and more leaders of businesses and other organisations are now waking up to the reality of social responsibility and organisational ethics.

Public opinion, unleashed by the internet particularly, is re-shaping expectations and standards. Organisational behaviour - good and bad - is more transparent than ever - globally. Injustice anywhere in the world is becoming more and more visible, and less and less acceptable.

Reaction to corporate recklessness, exploitation, dishonesty and negligence it is becoming more and more organized and potent.

Employers, businesses and organisations of all sorts - especially the big high profile ones - are now recognizing that there are solid effects and outcomes driving organisational change. There are now real incentives for doing the right thing, and real disincentives for doing the wrong things.

As never before, there are huge organisational advantages from behaving ethically, with humanity, compassion, and with proper consideration for the world beyond the boardroom and the shareholders:

- **Competitive advantage:** competitors are increasingly favouring providers and suppliers who demonstrate responsibility and ethical practices. Failure to do so means lost market share, and shrinking popularity, which reduces revenues, profits or whatever other results the organisation seeks to achieve.
- **Better staff attraction and retention:** the best staff want to work for truly responsible and ethical employers. Failing to be a good employer means good staff leave, and reduces the likelihood of attracting good new-starters. This pushes up costs and undermines performance and efficiency. Aside from this, good organisations simply can't function without good people.
- **Investment:** few and fewer investors want to invest in organisations which

lack integrity and responsibility, because they don't want the association, and because

they know that for all the other reasons here, performance will eventually decline, and who wants to invest in a lost cause?

- **Morale and culture:** staff who work in a high integrity, socially responsible, globally considerate organization are far less prone to stress, attrition and dissatisfaction. Therefore they are happier and more productive. Happy productive people are a common feature in highly successful organisations. Stressed unhappy staff are less productive, take more time off, need more managing, and also take no interest in sorting out the organization's failings when the whole thing implodes.
- **Reputation** - it takes years, decades, to build organisational reputation - but only one scandal to destroy it. Ethical responsible organisations are far less prone to scandals and disasters. And if one does occur, an ethical responsible organisation will automatically know how to deal with it quickly and openly and honestly. People tend to forgive organisations who are genuinely trying to do the right thing. People do not forgive, and are actually deeply insulted by, organisations who fail and then fail again by not addressing the problem and the root cause. Arrogant leaders share this weird delusion that no one can see what they're up to. Years ago maybe they could hide, but now there's absolutely no hiding place.
- **Legal and regulatory reasons** - soon there'll be no choice anyway - all organisations will have to comply with proper ethical and socially responsible standards. And these standards and compliance mechanisms will be global. Welcome to the age of transparency and accountability. So it makes sense to change before you are forced to.
- **Legacy** - even the most, deluded leaders will admit in the cold light of day that they'd prefer to be remembered for doing something good, rather than making a pile of money or building a great big empire. It's human nature to be good. Humankind would not have survived were this not so. The greedy and the deluded have traditionally been able to persist with unethical irresponsible behaviour because there is been nothing much stopping them, or reminding them that maybe there is another way. But no longer. Part of the re-shaping of attitudes and expectations is that making a pile of money, and building a great big empire, are becoming stigmatized. What's so great about leaving behind a pile of money or a great big empire if it's been at the cost of others wellbeing, or the health of the planet? The ethics and responsibility Zeitgeist is fundamentally changing the view of what a lifetime legacy should be and can be. And this will change the deeper aspirations of leaders, present and future, who can now see more clearly what a real legacy is.

8.7 STAKEHOLDERS AND ETHICAL ORGANISATIONS

If we consider fully what a modern ethical organisation is, we must inevitably take a far wider view in defining modern stakeholders.

A modern definition of 'stakeholder' is broader than the conventional ideas about shareholders, investors and partners, etc.

A modern definition of a stakeholder is any group which has an interest in involvement with, dependence on, contribution to, or is affected by, the organisation.

Individuals are stakeholders too of course, but for practical reasons most organisations will necessarily view stakeholders as groups, and for the purposes of this explanation the term 'stakeholder' here also means a stakeholder group.

A Stakeholder is any group of people who could lose or gain something because of the actions of the organisation.

This is especially relevant in the context of ethics, corporate responsibility,

sustainability, etc.

In fact every person on this earth is arguably a stakeholder in every organisation on this earth;

It's not acceptable to dismiss or deny a group as a stakeholder on the basis that the relationship is too difficult to measure. If the group is affected by the organisation then it's a stakeholder and the group's needs must be considered. Thus the organisation acknowledges its full responsibilities.

The question is then one of type and degree - in other words the needs of each stakeholder, and the extent of the effect of the organisation on each stakeholder.

So a good modern stakeholder model or analysis would be one which recognizes all of the stakeholder and then identifies a relationship (needs and interests, etc.), and also shows a degree of impact for each stakeholder. Such an analysis can be helpful in training and development, and is arguably also essential in strategic planning and decision-making.

Some impacts might seem small, but if the size of the stakeholder group is very large then the overall impact might be considerable.

By accepting that stakeholders are represented by a far wider range of people and groups than conventionally applied, we effectively expand and liberate the appreciation of what organisational (and leadership and management) responsibility really is, and how far it extends.

For example, a villager in deepest Africa is a stakeholder in all UK organisations given their (our) effect on the world's natural shared resources and the natural world as a whole. Children yet to be born on the other side of the world are stakeholders of any organisation given that its activities use, deplete, spoil, (or preferably instead) protect, enhance, and improve the resources and quality of life available to future generations.

Failure to recognize these more distant and less obvious groupings as 'stakeholders' is what has enabled organisations to ignore their wider responsibilities both to local communities and to the rest of the world beyond.

Stakeholders can be found in any or all of the following groups depending on the type of organisation. Below are examples of stakeholder groups, including conventional 'investor*' stakeholders, and more modern stakeholder ideas. Remember, a stakeholder is any group that is affected in one way or another by the activities of an organisation.

- 9 shareholders
- 10 trustees
- 11 guarantors
- 12 investors
- 13 funding bodies
- 14 distribution partners
- 15 marketing partners
- 16 licensors
- 17 licensees
- 18 approving bodies
- 19 regulatory authorities
- 20 endorsers and 'recommenders'
- 21 advisors and consultants (yes, these people have something at stake too)
- 22 employees - staff, managers, directors, non-executive directors
- 23 customers
- 24 suppliers
- 25 The local population (community!)
- 26 the regional general public

- 27 national general public
- 28 international communities
- 29 humankind

Many of these groups would not conventionally be considered to be stakeholders, but think about it: each of these groups could have an interest in and could be affected by the activities of an organisation. If a connection is not easy to see and understand it doesn't mean the connection doesn't exist.

Given that this sort of modern stakeholder perspective produces such a wide-ranging and extensive list of stakeholder groups, it's essential to apply (for any given situation) some method of evaluating and expressing relative stakeholder interests and needs, and also to measure and show the varying significance of the stakeholder relationships; the degree of impact On dependence.

Logically, this can be achieved via some sort of 'weighted analysis', designed to assess, analyse, compile and prioritise all stakeholder needs for any given organisation and operating scenario. This is not a precise science, but again, the difficulty in measuring the impact is no excuse for denying the existence of the relationship, the stake holding, and the organisational responsibility for the stakeholder group concerned. Below is a suggested basic template for this purpose, which you can adapt for your own situation.

8.8 ETHICAL ORGANISATIONS - PROVIDERS, INFORMATION, AND ETHICAL COMPLIANCE'

There are now very many associations, societies, foundations, resources and providers in the field of ethics, corporate responsibility and related concepts. There will be a lot more as the ethics and humanity Zeitgeist gathers momentum. Below are examples of what seem to be some of the better resources and advisors in ethics and sustainability, etc. Judge for yourself. Using your own judgment will increasingly be an essential part of interpreting and applying these many and various 'new' concepts into work and life, and in choosing the organisations we want to work for, to buy from, to associate with, and even to vote for.

Most of us do not need to be told or educated as to what is right and wrong; we need merely to be satisfied that those in power - of all organized systems - are doing the right thing, which includes enabling all of us to do the right thing too.

In pure and proper form, ethics, social responsibility, the triple bottom line, etc., are all fundamental forces for good. Beware of corporations, providers and others merely wearing the badge, joining the club, but then carrying on pretty' much as normal.

8.9 ETHICAL LEADERSHIP AND GOVERNANCE IN ORGANIZATIONS

The need to explore the phenomenon of ethical leadership in organizations is prompted by the increasing societal concern that it is unacceptable for organizational leaders to be indifferent to moral responsibility, much less engage in unethical behaviour. The articles in this special issue emerged in part from the symposium on this topic at McGill University, spring 1990. To examine the critical academic and practical issues of ethical leadership. The first three articles provide individual or micro-level analysis; they explore the nature of ethical principles and issues involved in understanding the phenomenon of ethical leadership and the means to develop and foster it in organizations. The next three provide institutional or macro-level analysis by examining ethical leadership issues in the specific context of modern education, medicine, and organizational governance.

In the first article, Edward Aronson reviews the modes of influencing followers inherent in the directive, transactional, and transformational styles of leadership, the major perspectives in business ethics--deontological and teleological, and proposes a conceptual model that links ethics to leadership. The model incorporates the level of moral

development of the leader that enables the leader to make moral judgments based on a combination of deontological and teleological values. Since the level of moral development determines the ethics of the leadership styles, the model envisages a varying range of leadership styles that reflect ethical values and, at the same time, better fit the organization's needs in a given context.

Rabindra Kanungo attempts, in his article, to address the recurring question in the leadership literature as to whether both the transformational and transactional forms of exercising leadership influence can have a moral foundation and, therefore, the behaviors involved can be considered to be ethical. He first reviews the criteria of an ethical act according to the two dominant approaches in business ethics discussed in the article by Aronson. His analysis of the motives, values, and assumptions of transformational and transactional leaders based on these criteria suggests that the behaviors in both leadership forms can be judged to be ethical. Thus, the motive of transformational leaders is genuine altruism-concern for others even at cost to self; that of transactional leaders is mutual altruism-concern for others as well as concern for self. The internalized ethical value of transformational leaders is the social responsibility norm; that of transactional leaders is the reciprocity norm. The assumption or world view of transformational leaders is "organic" or inseparable from others and results in the "allocentric" self-concept; that of transactional leaders is "atomistic" or separate from others and results in the "idiocentric" self-concept.

In the next article, Manuel Mendonca takes the position that ethical leadership is essentially transformational in nature, as defined in Kanungo's article, and argues that a sound preparation for ethical leadership revolves principally around character development-the inner directed and habitual strength of mind and will. He first describes the role of the four cardinal virtues-prudence, justice, fortitude, and temperance-in character formation. He reviews the empirically derived basic competencies or orientations essential for effective leader's goal-directed orientation, proactive analytical orientation, problem-focused perseverance, and emotional equanimity-and demonstrates that these competencies closely parallel the cardinal virtues. He also reviews the discipline of personal mastery, a dimension of the "learning organization" in which people at all levels are continually learning. The elements of personal mastery-shared vision, objective assessment, focused energies, and creative tension-also correspond to the cardinal virtues and the basic competencies essential for effective leaders. He concludes with practical principles that lead to the practice of virtues and the basic competencies, which are conducive to the acquisition of personal mastery.

The first article at the institutional, macro-level analysis is in the context of the university. Ronald Morris argues that the continuing decline in communal, educational, and ethical integrity in the university today goes well beyond the university's financial crisis caused by reduced government funding and ensuing budget cuts. This malaise, he asserts, is deeply rooted in the vision and values of modernity, more specifically, the utilitarian-instrumental paradigm that dominates the wider culture and pervades all levels of education from preschool to university. The recognition of the root cause of the malaise is, therefore, the essential first step to a vibrant community fully aware of and committed to the vision and values inherent in the unique nature and role of the university. Thus, the leadership challenge in the university is to choose leaders who foster a culture of open dialogue on the values of teaching and research, and create structures and opportunities for reflection and assessment. In this culture, leaders assess activities and programs in terms of value beyond use, that is, the extent to which these cultivate and promote aesthetic, moral, and spiritual values, and develop the spirit of understanding, insight, and judgment that is indispensable

to a learning community of teachers and students.

In their review of the history of leadership in modern medicine, S.E. Johnson, S.R. Cruses, and R.L. Cruses identify three major sources of ethical leadership: professional association of medical practitioners, medical schools, and editorial opinion of prestigious medical journals. The professional association's code of ethics the value system implicit in the Hippocratic Oath is the source of ethical leadership in the medical community. The effectiveness of this leadership is enhanced when the profession's responsibility to the public and to its members is entrusted to distinctly separate structures. Their analysis found that medical schools and editors of major journals are also an effective source of ethical leadership in medicine, especially when leaders of medical associations promote policies and practices that serve the interests of its members, and disregard its primary obligations to serve both patients and society.

Frederick Bird explores good governance primarily from a philosophical and sociological perspective. He views organizations as being constituted by virtue of their negotiated interactions with constituent groups that create assets or value, and argues that governance differs fundamentally from management. Whereas managers negotiate and administer these interactions, the governors exercise ultimate authority. They provide the authoritative overview of the process, exercising good and authoritative judgment and assuming fiduciary responsibility for those whose assets are at risk. This generic mandate of governors is spelled out in terms of seven specific responsibilities, including the responsibility that they constitute and structure themselves in order to effectively carry out this mandate. More specifically, the composition and structure of governing boards should enable its members, inter alia, to reflect on the organization as a whole, function as an experienced sounding body for management, and exercise due diligence and care for organizational resources. Finally, the author explores the reforms necessary in organizational governance. These reforms include selecting board members whose interests are strongly aligned with the organization's interests; providing them with adequate resources to secure own sources of information, independently of senior management; and maintaining communication with constituencies with whom the asset-creating interactions have been negotiated.

Joanne Ciulla provides a commentary on the Theme of the Special Issue. She offers her reflections on some of the general ethical issues emerging from the preceding articles. In so doing, she discusses a few of the moral challenges that are distinctive to leaders and fundamental to our understanding of leadership. The discussion includes issues such as the moral standards for leaders, requiring leaders to always act altruistically, the moral challenges of power, the role of self-discipline and virtue in leadership development, the role of organizational structures and operating procedures in facilitating the practice of virtues, and transforming leadership. She concludes that the task of understanding the moral challenges of leadership requires work from scholars in the humanities and social sciences.

CONCLUDING COMMENTS

Mikhail Gorbachev observed in an interview, "The problem of leadership is of urgent importance. Wherever I go ... people talk about this vacuum in leadership.... I have always tried to bring together and link morality and politics.... The core values-what I call the universal human values of morality-are well known. They have been there since ancient times. Policies that are not anchored in them are ultimately bound to fail, as we have seen time and again, including recently in my own country" (Puffer, 1999, p. 14). The practice of ethical leadership is indeed the challenge for organizational leaders in the 21st century. The identification and delineation of an emerging research frontier requires both adequate

exposure and strong advocacy. It is our hope that this special issue on the nature of and issues in ethical leadership meets this purpose. It provides a sample of researchable problems in ethical leadership and governance in organizations, and points to future prospects of developing an adequate understanding of leadership. It is our hope that management theorists and practitioners will find these articles sufficiently provocative to arouse and sustain their interest in the issue of how to foster and promote ethical leadership and governance in organizations.

8.10 INTEGRATING APPLIED ETHICS AND SOCIAL RESPONSIBILITY

Ethical Complexity or Ethical Chaos?

The picture opposite, a deserted street in Keet Seel, an ancient Anasazi village in northern Arizona, serves as a lifeless, yet vivid reminder that the complexity of life demands a direct tie between ethics and policy for our communities to be sustainable and capable of further evolution. In "simpler" times, people holding shared purposes, values, and visions of a desired future populated communities like Keet Seel. The challenge in our more complex times is to integrate the various fields of applied ethics to more consciously develop these shared core beliefs.

Anasazi villages such as Keet Seel provided hope, identity, and purpose for the members of their communities. The Anasazi, a people who built and populated such villages, survived and thrived as a culture for over a millennium. They lived in a harsh, dramatically beautiful environment in what is now the Southwestern United States, only to abandon the high desert plateau they had called home within a few generations of building such villages. Leaving relatively suddenly in the thirteenth century, the Anasazi ultimately lost their separate identity as they merged with other tribes: leaving more questions than answers can be found in their ruined villages, pots, rock art, and middens.

The purpose of this article is to make the case for taking a systems approach to ethics and policy, if we are to achieve "sustainability" and avoid the fate of the Anasazi.

Applied Ethics and Social Responsibility

Effective managers know that organizational success comes from identifying required tasks, assigning tasks according to individual and group abilities, and combining their efforts to achieve shared purposes. Applied ethics and policy analysis, however, has responded to an increasingly complex world by developing sophisticated, but separate and narrow, approaches to complex issues. Examples of this "division of labor" include, but are certainly not limited to. Business ethics, government ethics, biomedical ethics, codes of professional ethics, environmental ethics, and cost-benefit analysis, to name but a few.

The worst division as serious as to constitute a schism--is between social responsibility and organizational ethics as disciplines. Here it is common in organizations to make a wholly artificial distinction between organizational ethics, or even business ethics, and social responsibility. The severe schism between ethics, especially organizational ethics, and social responsibility, especially corporate social responsibility, demonstrates that applied ethics and policy specialists may have lost sight of what ethics and politics were traditionally trying to accomplish: a good life for good people over a lifetime in society with others.

Now that we have a better understanding of our connectedness with an evolving world and our being as evolving members of such a world, a sense of systemic responsibility must be seen to be an integral part of effective ethics and policy. To learn to think and dialogue systemically, leaders, managers, academics, and opinion molders need a framework for inquiry, thinking, dialogue, and cooperative action that harmonizes these diverse approaches: a tool to raise and treat the ethics and policy issues they face daily.

An effective applied ethics and policy integration model would bring together what

ethicists and practitioners have learned through study, reason, and experience into an integrated framework to stimulate inquiry, thinking, dialogue, and communities of ethical inquiry and practice. With the integration of ethics and policy approaches, we may approach ethical complexity equipped to achieve shared purposes. Without integration, a too-box of such narrow approaches results only in bounded ethical framing and ineffective ethical inquiry, thinking, communication, learning, leadership, action, and being: in sum. Ethical chaos.

Integrating Applied Ethics

The Applied Ethics Policy Integration Model, opposite, depicts the integration of applied ethics and policy. It portrays a comprehensive applied ethics and policy framework for systems thinking and dialogue. This framework is composed of four overlapping, specialized circles of ethical framing, thinking, communicating, acting, learning, and being all brought together by ethical leadership where they overlap at the sigma point (").

Each circle represents an independent approach to applied ethics and policy: Good governance. Social Purpose, Organizational Life, and the Social Responsibility. Within each circle are applied ethics and policy approaches raising and treating issues distinct, to its own arena. However, a contribution from each circle is a necessary, though not sufficient, condition for an effective ethics system. Ethical Leadership, at all levels, identifies those approaches that are appropriate to the context and culture of a particular organization or community and integrates them.

Good Governance

As a discipline, Good governance comprises a body of theory and technique that addresses establishing the purpose of the organization, the specific ends it intends to achieve, and the means it will employ to achieve them. In general, it includes the governing authority setting policies for enterprise risk management and internal control systems. Corporate governance refers to the system that a legal entity, the corporation, establishes to structure relations among managers, directors, and shareholders and between the enterprise and civil society. Such governance measures are necessary. When government charters grant limited liability to shareholders, which separates ownership of the enterprise from responsibility for day-to-day operations. At their best, corporate governance practices are built on the ethical premise that the leaders of an enterprise have an obligation to be fair, transparent, accountable, and responsible in their conduct toward shareholders and civil society.

Ethics of Social Purpose

As a discipline, the Ethics of Social Purpose includes the bodies of theory and technique that include what is essentially good for any particular body or group of professionals. Examples, include, but are not limited to, business ethics, biomedical ethics, nursing ethics, banking ethics, legal ethics, accounting ethics, engineering ethics, marketing ethics, and or military ethics, to name but a few. Which bodies of ethics apply to a particular organization depends upon its purpose and vision--and the tasks required to achieve it.

Under some circumstances, such as a hospital in a combat zone, many of these ethics approaches would apply and need to be integrated. For example, military doctors would look to their ethics; and nurses, their ethics; judge advocates would apply the law of armed conflict and their legal ethics.

Ethics of Organizational Life

As a discipline, the Ethics of Organizational Life, or Organizational Ethics comprises a body of theory and technique that is the domain of the ethics and compliance structures, systems, practices, procedures, and protocols necessary for a group of people to achieve shared purposes. Here, a body of people having shared core beliefs employs organizational

design and development to address the stakeholder pressures its employees and agents face in order to achieve their desired future.

Organizational ethics applies to all organizational life, regardless of specific social purpose. The thrust of organizational ethics is to generate human authority, energy, knowledge, and trust and to drive out fear. It shapes the conditions of organizational life, the content of inquiry, dialogue or conflict resolution, and the context for the ethical framing, thinking, communicating, acting, learning, and being of the other circles. It is where ethical leadership, again at all levels, may perhaps best be exercised.

Ethics of Social Responsibility

As a discipline, the Ethics of Social Responsibility includes the bodies of theory and technique that address the responsibilities of an organization to its stakeholders, including the environment.

There are three broad types of organizations: government, for-profit, and not-for-profit. Each has broadly different responsibilities within society, which responsibilities are of the essence of its nature. Each has different stakeholders: key participants. Each has different constraints on action.

- 9 Government: The essence of government is the appropriate application of its monopoly on the exercise of coercion and violence: the police, the military, and the courts. Its unique stakeholder's participants are governors, the governed, and taxpayers. Bureaucracy and stability characterizes its institutions.
- 10 For-profits: The essence of for-profits is meeting the most urgent needs of owners and consumers of goods and services through free exchange: business and the professions. Its unique stakeholders are owners and consumers. Profits and adapting to changing customer needs characterize its institutions.
- 11 Not-for-profits: The essence of not-for-profits is meeting the needs and values of ii community without coercion or exchange: charity or philanthropy, tea unique stakeholders arc charitable organizations or associations the independent sector or non-governmental organizations, NCOs), beneficiaries, and donors. Recognizing the needs of the defined community and soliciting community support characterize its institutions.'

It is helpful to think of social responsibility for business as occupying al least three distinct levels, set forth in the box opposite: essential social responsibility, good citizen social responsibility, and ultra-social responsibility. The three levels of business social responsibility reflect the essential characteristic of business as meeting the most urgent needs of consumers and the common characteristics of members of society, as described in earlier writings.

There is one further stakeholder for all three broad types of organizations: our Ecological Relationships or the Environment. Environmental ethics is the body of theory, aid, and practice that addresses the domain of relationships between our species and the evolving world of which we are an integral part. It. is the most fundamental of all approaches to applied ethics. It addresses who we are and our relationship to the world as a whole.

In its most fundamental and comprehensive form, the ethics of social responsibility as a whole contains each individual's worldview. Following the distinction between worldview and ideology made by the great Austrian Economist, Ludwig von Mises, the other three circles represent ideologies, ways thought to be good or best to deal with the world as a whole. But this circle of social responsibility represents approaches to determining what is the best way to be an evolving member of an evolving world. The other circles may be thought to have largely instrumental value. One's relationship in the world is, by this definition, an intrinsic value.

Ethics and Policy Training, Education and Development

At the point, the point where all four circles overlap, lie the skills, knowledge, understanding and attitudes (SKUA) necessary for shared purposes to be achieved, informed choices to be made, authority to be exercised, and learning and growth to occur. Together, the SKUA are essential for the necessary systemic thinking and dialogue to occur. The role of ethical leadership, then, is to bring together the required capacities and competencies through training, education, and development.

It is helpful to organize the point SKUA into eight elements of ethics and policy integration:

- 12 Caring : consciousness, awareness, commitment, and/or compassion
- 13 Comprehensive thinking : critical, creative, and systemic thinking; choosing, judgment
- 14 Communicating : dialogue involving feelings and ideas
- 15 Cooperating : inquiry and action
- 16 Authority : leadership, followership, participation
- 17 Knowledge : surfacing, capturing, sharing knowledge, including that which is tacit; knowing what you know, and what you don't know
- 18 Pride : self-esteem; stakeholder satisfaction and loyalty; and community sense of being
- 19 Time : Time preference, time frame, time available

Visualizing such a matrix, there is for each of the eight elements a package of training, education, and development to build and shape the SKUA required to be competent. Moreover, for ethics and policy to be integrated toward systemic inquiry, thinking, dialogue, cooperative inquiry, action, and learning, these SKUA need to be developed at all levels of society: individual, family, organizational, community, nation, and global.

Conclusion

Hopes for building sustainable communities- economically, socially, culturally, and physically--must be founded on learning to inquire, think and dialogue systemically. The Applied Ethics & Policy Integration Model provides a framework bringing together the remarkable work that has been done in ethics and policy toward that end. It informs the applications of ethical framing, thinking, communicating, learning, leadership, action, and being.

With this model in mind, leaders, managers, academics, and opinion molders will always inquire, think, communicate, and act with full appreciation of all the applicable disciplines. Moreover, they and their followers and other stakeholders will have the necessary skills, knowledge, understanding, and attitudes to work well cooperatively in a world of ethical complexity.

8.11 THE CASE FOR ETHICAL LEADERSHIP

Recent waves of corporate scandals have eroded the trust and goodwill of employees, investors and the public. Increased connectivity now makes it possible to more easily distribute or access sensitive company data, allowing for greater transparency than ever before. In order to restore the trust of key stakeholders and improve both performance and profitability, organizations must make ethical leadership part of their daily business conduct.

LRN believes that businesses need to return to capitalism's ethical roots by instating a formal business code of conduct. To compete in the 21st century, organizations must practice ethical leadership. Cultures that encourage and enforce ethical behavior will in turn attract and retain high-caliber talent. And employees that master business ethics training programs will self-govern themselves, their co-workers and other key stakeholders to live to the same ethical standards.

Proven Approaches to Foster Ethical Leadership

An effective ethics training program fosters ethical leadership at every level of the

organization. For example:

- 9 Walk the talk: Senior executives and board members must demonstrate ethical leadership in action through both their words and deeds.
- 10 Employee promotions might require the successful completion of an ethical leadership course or program.
- 11 Be outspoken: Reward ethical behavior but also punish lapses.
- 12 Hold everyone to the same high standards: Ethical leadership applies to everyone at your organization - and who does business with you, too.

LRN, the business ethics training and corporate compliance leader, has worked with some of the most admired companies in the world to inspire ethical leadership and deploy compliance training programs to prevent discrimination and sexual harassment in the workplace. Our one-of-a-kind communications and educational materials include emails, posters, videos and interactive activities that can be created to promote your company's code of business conduct. For the past 14 years, LRN has collaborated with nearly 200 clients to make ethical leadership an integral part of the way they do business. LRN's 350 dedicated professionals bring a wealth of expertise from fields as diverse as academia, philosophy, law, software and high technology to help you articulate and apply a code of business conduct that fortifies your organization's culture of ethical leadership. Go to LRN.com to find out how you can instill a culture of principled performance by rewarding ethical leadership at even all level of your organization.

CASE STUDIES

INDIA'S INFOSYS: A CASE STUDY FOR ATTAINING BOTH ETHICAL EXCELLENCE AND BUSINESS SUCCESS IN A DEVELOPING COUNTRY

Infosys Opens NASDAQ, Co-Founder Moves Up to Chief Mentor Post

N. R. Narayana Murthy is as well-known as a promoter of corporate governance reform

and excellent corporate workplace ethical practices, as he is as the co-founder of Infosys Technologies Ltd., The Mysore based company that is one of India's new technology leaders. Murthy, who turns 60 later this month, is relinquishing key executive positions in the company he co-founded in 1982 to become the enterprise's Chief Mentor. Much like Bill Gates at Microsoft, Murthy has pioneered a technology revolution and as his corporation has become firmly established and very successful, so he has distanced himself from day to-day operations.

Infosys, which employs over 55,000 people worldwide, provide* consulting and IT services, it is one of the pioneers in strategic offshore outsourcing of software services. *Murthy is a fervent believer in globalization, a major influence on the thinking of author Tom Friedman (The World Is Flat: A Brief History of the 'Twenty-first Century) and a leader of India's technology revolution. His approach to corporate governance and workplace values has been no less influential on the most dynamic and successful technology companies in India. Infosys highlights its perspectives at www.infosys.com*

On July 31, 2006, Murthy opened the NASDAQ market from his corporate headquarters in Mysore, he said. Twenty-five years ago. We founded Infosys with a vision of the global delivery model. That vision has been validated as the tide of globalization has swept across the world and businesses are dramatically changing how they run their organizations. Opening the NASDAQ market from India is not only a great honor for Infosys, but also illustrative of the emerging new world.'

The Company's Vision Is: To be a globally respected corporation that provides best of- breed business solutions, leveraging technology, delivered by best-in-class people." Arid, its Mission is: "To achieve our objectives in an environment of fairness, honesty, and courtesy towards our clients, employees, vendors and society at large.'

Infosys's stresses that its operations are driven by key values that it callB C-LIFE :

- 13 Customer Delight: A commitment to surpassing our customer expectations.
- 14 Leadership by Example: A commitment to set standards in our business and transactions and be an exemplar for the industry and our own teams.
- 15 Integrity and Transparency: A commitment to be ethical, sincere and open in our dealings.
- 16 Fairness : A commitment to be objective and transaction-oriented, thereby earning trust and respect.
- 17 Pursuit if Excellence: a commitment to strive relentlessly, to constantly improve ourselves, our teams, our services and products so as to become the best.

Corporate Governance is an area of critical importance to Infosys and other where it has sought to be a global leader. It is seeking to use its model example to promote far higher standards in India and Murthy has been one of the most vocal and influential advocates of corporate governance reform in his country.

The company states : "We believe that sound corporate governance is critical to enhance and retain investor trust. Accordingly, we always seek to ensure that we attain our performance rules with integrity. Our Board exercises its fiduciary responsibilities in the widest sense of the term. Our disclosures always seek to attain the best practices in international corporate governance. We also endeavor to enhance long-term shareholder value and respect minority rights in all our business decisions."

The Infosys corporate governance philosophy is based on the following principles :

- 18 Satisfy the spirit of the law and not just the letter of the law.
Corporate governance standards should go beyond the law.
- 19 Be transparent and maintain a high degree of disclosure levels. When in doubt, disclose.
- 20 Make a clear distinction between personal conveniences and corporate resources.
- 21 Communicate externally, in a truthful manner, about how the company is run internally.
- 22 Comply with the laws in all the countries in which the company operates.
- 23 Have a simple and transparent corporate structure driven solely by business needs.
- 24 Management is the trustee of the shareholders' capital and not the owner.

Infosys stresses that at the core of its corporate governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the company. It states: "We believe that an active, well-informed and independent Board is necessary to ensure the highest standards of corporate governance. Majority of the Board, 9 out of 16, are independent members. Further, we have compensation, nomination, investor grievance and audit, committees, which are comprised of independent directors."

"As a part of our commitment to follow global best practices, we comply with the Euro shareholders Corporate Governance Guidelines 2000, and the recommendations of the Conference Board Commission on Public Trusts and Private Enterprises in the U.S. We also adhere to the UN Global Compact Programme." To promote corporate social responsibility the company established a philanthropic foundation in 1996, which is mostly engaged in social, health and education programs in India.

Murthy is the chairman of the governing body of the Indian Institute of Information Technology, Bangalore and the Indian Institute of Management, Ahmedabad. He was the

Chairman of the Committee on Corporate Governance appointed by the Securities and Exchange Board of India (SEBI) in 2003. He is a member of the Board of Overseers of the University of Pennsylvania's Wharton School; Cornell University Board of Trustees; Singapore Management University Board of Trustees; INSEAD's Board of Directors and the Asian Institute of Management's Board of Governors. He is also, a member of the Advisory Boards and Councils of the William F. Ahtmeier Center for Global Leadership at the Tuck School of Business, the Corporate Governance initiative at the Harvard Business School, and the Yale

University President's Council on International Activities.

MORAL PERSON + MORAL MANAGER = A REPUTATION FOR ETHICAL LEADERSHIP

As the Enron trial is taking place, as corporate ethics are more in the headlines than ever, and as the new National Business Ethics Survey by the Ethics Resource Center highlights the crucial role of corporate culture on perceptions of workplace ethics, Ethics World believes that these findings are of particular importance and relevance in today's corporate environment.

Plato asked, which extreme would you rather be: "an unethical person with a good reputation or an ethical person with a reputation for injustice?" Plato might have added, "or would you rather be perceived as ethically neutral-someone who has 110 ethical reputation at all?" Plato knew that reputation was important. We now understand that reputation and others' perceptions of you are key to executive ethical leadership. Those others include employees at all levels as well as key external stakeholders.

A reputation for ethical leadership rests upon two essential pillars: perceptions of you as both a moral person and a moral manager. The executive as a moral person is characterized in terms of individual traits such as honesty and integrity. As moral manager, the CEO is thought of as the Chief Ethics Officer of the organization, creating a strong ethics message that sets employees' attention and influences their thoughts and behaviors. Both are necessary. To be perceived as an ethical leader, it is not enough to just be an ethical person. An executive ethical leader must also find ways to focus the organization's attention on ethics and values and to infuse the organization with principles that will guide the actions of all employees.

An executive's reputation for ethical leadership may be more important now than ever in this new organizational era where more employees are working independently, off site, and without direct supervision. In these organizations, values are the glue that can hold things together, and values must be conveyed from the top of the organization. Also, a single employee who operates outside of the organizational value system can cost the organization dearly in legal fees and can have a tremendous, sometimes irreversible impact on the organization's image and culture.

We found that just because executives know themselves as good people-honest, caring, and fair they should not assume that others see them in the same way. It is so easy to forget that employees do not know you the way you know yourself. If employees do not think of an executive as a clearly ethical or unethical leader, they are likely to think of the leader as being somewhere in between amoral or ethically neutral.

Ethical Leader

Being an ethical person is the substantive basis of ethical leadership. However, in order to develop a reputation for ethical leadership, the leader's challenge is conveying that substance to others. Being viewed as an ethical person means that people think of you as having certain traits, engaging in certain kinds of behaviors, and making decisions based upon ethical principles. Traits are stable personal characteristics, meaning that individuals behave in fairly predictable ways across time and situations and observers come to describe the individual in those terms. The traits that executives most often associate with ethical

leadership are honesty, trustworthiness, and integrity. A very broad personal characteristic, integrity was the trait cited most, frequently by the executives. Integrity is a holistic attribute that encompasses the other traits of honesty and trustworthiness. Trustworthiness is also important to executives as are honesty, sincerity, and forthrightness.

Moral Manager

In order to develop a reputation for ethical leadership, a heavy focus on the leadership part of that term is required. The executives' challenge is to make ethics and values stand out from a business landscape that is laden with messages about beating the competition and achieving quarterly goals and profits. Moral managers recognize the importance of proactively putting ethics at the forefront of their leadership agenda.

What Does Ethical Leadership Accomplish?

The executives we talked with said that ethical leadership was good for business, particularly in the long term, and avoids legal problems. "It probably determines the amount of money you're spending in lawsuits and with corporate attorneys . you save a lot of money in regulatory fees and lawyer fees and settlement fees." They also said that ethical leadership contributes to employee commitment, satisfaction, comfort, and even fun. "People enjoy working for an ethical organization" and it helps the organization attract and retain the best employees. "If the leadership of the company reflects [ethical] values. . . people will want to work for that company and will want to do well." Finally, employees in an organization led by an executive ethical leader will imitate the behavior of their leader and therefore the employees will be more ethical themselves.

8.12 SUMMARY

Being an ethical leader requires developing a reputation for ethical leadership. Developing a reputation for ethical leadership depends upon how others perceive the leader on two dimensions: as a moral person and as a moral manager. Being a moral person encompasses who you are, what you do, and what you decide as well as making sure that others know about this dimension of you as a person. Being a moral manager involves being a role model for ethical conduct, communicating regularly about ethics and values, and using the reward system to hold everyone accountable to the values and standards. Ethical leadership pays dividends in employee pride, commitment, and loyalty—all particularly important in a full employment economy in which good companies strive to find and keep the best people.

8.13 Self check exercise II

1. Define SKUA.
2. Is the shared system of meaning among employees.
 - a. Organizational systems
 - b. Collective sensemaking
 - c. Organizational culture
 - d. Cultural sensitivity

8.14 Keywords

Ethical, stakeholders, governance, Ethics

8.14 Answers to self check exercise

Exercise I

1. Purpose, People, Planet, Probity
2. Honesty, uprightness

Exercise II

1. skills, knowledge, understanding and attitudes (SKUA)
2. c)organisational culture

8.15 SHORT ANSWER TYPE QUESTIONS

1. Explain how different personalities see ethical organisations in different ways.
2. Describe ethics of social responsibility.
3. Discuss proven approaches to foster ethical leadership.

8.16 LONG ANSWER TYPE QUESTIONS

1. Define ethical leadership. How ethical leadership can accomplish.
2. Define 4ps. Discuss how being ethical produces clear measurable outcomes.
3. Who are stakeholders. Discuss the ethics from stakeholder perspective in ethical organisations.

8.18 SUGGESTED READINGS

- Ethics 101 *by John C. Maxwell*
- Business Ethics and Corporate Social Responsibility by tnychhabra
- Business ethics by kurt Stanberry

Lesson no. 9

STRUCTURE

- 9.1. Objective
- 9.2. When we say, 'Ethics', What are we Talking About
- 9.3. Codes and Policies for Research Ethics
- 9.4 What is Marketing Research?
- 9.5. There are two ways to do Market Research
- 9.6. Ethical Norms and Values of Marketing Research
- 9.7. Ethical Values
- 9.8. Ethical Aspects of M. R.
- 9.9. Self-check exercise I
- 9.10. Why Ethics are Important in Marketing Research?
- 9.11. Ethics and the Marketing Research Process
- 9.12 When Ethical becomes Unethical
- 9.13 Informed consent and the uninformed respondents
- 9.14 Summary
- 9.15 Self-check exercise II
- 9.16 Keywords
- 9.17 Answers to self-check exercise
- 9.18 Short answer type questions
- 9.19 Long answer type questions
- 9.20 Suggested readings

9.1 OBJECTIVES

Students after reading this chapter come to know about the:

- Codes and policies for research ethics , ethical norms and values of marketing research.
- Ethical values, ethics aspects of M.R. , importance of ethics in marketing research, why ethical becomes unethical.

9.2 WHEN WE SAY "ETHICS," WHAT ARE WE TALKING ABOUT?

'Ethics' refers to a set of moral principles that govern the appropriate conduct of an individual or group. 'Ethics' speaks to how we ought to live, that is, and how we ought to

treat others and how we ought to run or manage our own lives.

Most societies also have legal rules that govern behavior, but ethical norms tend to be broader and more informal than laws. Although most societies use laws to enforce widely accepted moral standards and ethical and legal rules use similar concepts, it is important to remember that ethics and law are not the same. An action may be legal but unethical or illegal but ethical. We can also use ethical concepts and principles to criticize, evaluate, propose, or interpret laws. Indeed, in the last century, many social reformers urged citizens to disobey laws in order to protest what they regarded as immoral or unjust laws. Peaceful civil disobedience is an ethical way of expressing political viewpoints

Another way of defining 'ethics' focuses on the disciplines that study standards of conduct, such as philosophy, theology, law, psychology, or sociology. For example, a 'medical ethicist' is someone who studies ethical standard in medicine. Finally, one may also define ethics as a method, procedure, or perspective for deciding how to act and for analyzing complex problems and issues.

9.3 CODES AND POLICIES FOR RESEARCH ETHICS

Given the importance of ethics for the conduct of research, it should come as no surprise that many different professional associations, government agencies, and universities have adopted specific codes, rules, and policies relating to research ethics

The following is a rough and general summary of some ethical principals that various codes address

a) Honesty

Strive for honesty in all scientific communications. Honestly report data, results, methods and procedures, and publication status. Do not fabricate, falsify, or misrepresent data. Do not deceive colleagues, granting agencies, or the public.

b) Objectivity

Strive to avoid bias in experimental design, data analysis, data interpretation, peer review, personnel decisions, grant writing, expert testimony, and other aspects of research where objectivity is expected or required. Avoid or minimize bias or self-deception. Disclose personal or financial interests that may affect research.

c) Integrity

Keep your promises and agreements; act with sincerity; strive for consistency of thought and action.

d) Carefulness

Avoid careless errors and negligence; carefully and critically examine your own work and the work of your peers. Keep good records of research activities, such as data collection, research design, and correspondence with agencies or journals.

e) Openness

Share data, results, ideas, tools, resources. Be open to criticism and new ideas.

f) Respect for Intellectual Property

Honor patents, copyrights, and other forms of intellectual property. Do not use unpublished data, methods, or results without permission. Give credit where credit is due. Give proper acknowledgement or credit for all contributions to research. Never plagiarize.

g) confidentiality

Protect confidential communications, such as papers or grants submitted for publication, personnel records, trade or military secrets, and patient records.

h) Responsible Publication

Publish in order to advance research and scholarship, not to advance just your own career. Avoid wasteful and duplicative publication.

i) Responsible Mentoring

Help to educate, mentor, and advise students. Promote their welfare and allow them to make their own decisions.

j)Respect for colleagues

Respect your colleagues and treat them fairly,

k) Social Responsibility

Strive to promote social good and prevent or mitigate social harms through research, public education, and advocacy.

l)Non-Discrimination

Avoid discrimination against colleagues or students on the basis of sex, race, ethnicity, or other factors that are not related to their scientific competence and integrity,

m)Competence

Maintain and improve your own professional competence and expertise through lifelong education and learning; take steps to promote competence in science as a whole,

n)Legality

Know and obey relevant laws and institutional and governmental policies.

o)Human Subjects Protection

When conducting research on human subjects minimize harms and risks and maximize benefits; respect human dignity, privacy, and autonomy; take special precautions with vulnerable populations; and strive to distribute the benefits and burdens of research fairly.

9.4 WHAT IS MARKETING RESEARCH?

The investigation and gathering, recording, and analysis of data pertinent to a specific issue.

The process of collecting and analyzing information in order to solve marketing problems.

Marketing research is meant to encompass research practices (including such techniques as focus groups, interviews, and detailing) that are primarily aimed toward obtaining information that would result in the improved sales of a particular product.

The planning, collection, and analysis of data and information used to discover and define marketing opportunities and to guide decision making.

Linking the customer, consumer and public with the marketer through information which is used to identify and define marketing opportunities and problems

9.5 THERE ARE TWO WAYS TO DO MARKET RESEARCH

Secondary Research involves analyzing information that already has been gathered for another purpose.

Primary Research involves collecting new information to meet your specific needs.

Primary research can be :

Qualitative . Gathering descriptive information, usually representing verbal or narrative data through open-ended interviews or focus groups.

Open-ended interviews are composed of questions that can not be answered with a simple yes or no. This type of interview gives you a lot of information, but is time consuming for both you and the person you are interviewing. The greatest benefit to you is that you will learn a lot about the group you are studying including common trends, emotional motivators, and general likes and dislikes of your primary market.

Focus groups should be led by professionals skilled in leading small groups of 6 to 12 people through a series of questions ranging from specific to general in nature. Usually, focus group sessions last for at least an hour. Since focus groups must be led by trained professionals to be most effective, they are the most expensive form of market research.

Quantitative : Gathering numerical information that can be analyzed statistically through surveys.

Surveys take longer to develop, but are generally easier to administer than other types of market research. Since they take less time to complete, people are usually more willing to answer them. Also, surveys provide excellent information if they are well constructed with thoughtful questions. The easiest and most cost effective way to conduct surveys is either by telephone or where the product, is sold.

9.6 ETHICAL NORMS AND VALUES OF MARKETING RESEARCH

Preamble

The American Marketing Association commits itself to promoting the highest standard of professional ethical norms and values for its members. Norms are established standards of conduct that are expected and maintained by society and/or professional organizations. Values represent the collective conception of what people find desirable, important and morally proper. Values serve as the criteria for evaluating the actions of others. Marketing practitioners must recognize that they not only serve their enterprises but also act as stewards of society in creating, facilitating and executing the efficient and effective transactions that are part of the greater economy. In this role, market researchers should embrace the highest ethical norms of practicing professionals and the ethical values implied by their responsibility toward stakeholders (e.g., customers, employees, investors, channel members, regulators and the host community).

General Norms

1. Market researchers must do no harm. This means doing work for which they are appropriately trained or experienced so that they can actively add value to their organizations and customers. It also means adhering to all applicable laws and regulations and embodying high ethical standards in the choices they make.
2. Market researchers must foster trust in the marketing system. This means that products are appropriate for their intended and promoted uses. It requires that marketing communications about goods and services are not intentionally deceptive or misleading. It suggests building relationships that provide for the equitable adjustment and/or redress of customer grievances. It implies striving for good faith and fair research so as to contribute toward the efficacy of the exchange process.
3. Market researchers must embrace, communicate and practice the fundamental ethical values that will improve consumer confidence in the integrity of the marketing exchange system. These basic values are intentionally inspirational and include honesty, responsibility, fairness, respect, openness and citizenship.

9.7 ETHICAL VALUES

Honesty- to be truthful and forthright in our dealings with customers while doing the research.

- We will tell the truth in all situations and at all times.
- We will offer products of value that do what we claim in our communications.
- We will stand behind our products if they failed to deliver claimed benefits
- We will honour explicit and implicit commitments and promises.

Responsibility-to accept the consequences of our marketing decisions and strategies.

- 10** We will make strenuous efforts to serve the needs of our customers.
- 11** We will acknowledge the social obligations to stakeholders that come with increased marketing and economic power.
- 12** We will recognize our special commitments to economically vulnerable segments of the market such as children, the elderly and others who may be substantially disadvantaged.

Fairness-to try to balance justly the needs of the buyer with the interests of the seller.

- 13 We will represent our products in a clear way in selling, advertising and other forms of communication; this includes the avoidance of false, misleading and deceptive promotion.
- 14 We will reject manipulations and sales tactics that harm customer trust.
- 15 We will not engage in price fixing, predatory pricing, price gouging or 'bait-and-switch' tactics. ¹
- 16 We will not knowingly participate in material conflicts of interest.

Respect-to acknowledge the basic human dignity of all stakeholders.

- 17 We will value individual differences even as we avoid stereotyping customers or depicting demographic groups (e.g., gender, race, sexual orientation) in a negative or dehumanizing way in our promotions.
- 18 We will listen to the needs of our customers and make all reasonable efforts to monitor and improve their satisfaction on an ongoing basis.
- 19 We will make a special effort to understand suppliers, intermediaries and distributors from other cultures.
- 20 We will appropriately acknowledge the contributions of others, such as consultants, employees and coworkers, to our marketing endeavors.

Openness-to create transparency in our marketing operations.

- 21 We will strive to communicate clearly with all our constituencies.
- 22 We will accept, constructive criticism from our customers and other stakeholders.
- 23 We will explain significant product or service risks, component substitutions or other foreseeable eventualities that could affect customers or their perception of the purchase decision.
- 24 We will fully disclose list prices and terms of financing as well as available price deals and adjustments.

Citizenship-to fulfill the economic, legal, philanthropic and societal responsibilities that serve stakeholders in a strategic manner.

- 25 We will strive to protect the natural environment in the execution of marketing campaigns.
- 26 We will give back to the community through volunteerism and charitable donations.
- 27 We will work to contribute to the overall betterment of marketing and its reputation.
- 28 We will encourage supply chain members to ensure that trade is fair for all participants, including producers in developing countries.

9.8 ETHICAL ASPECTS OF M.R

There are several ethical issues involved in the process of marketing research. Ethical aspects in marketing research starts right from the beginning from the research process as where the problem is defined to the results are made from the research. Let's see what those ethical issues are in the marketing research.

1. Ethical issues arise if the process of defining the problem and developing an approach is comprised by the researcher or by the personal agendas of the client (DM). The DM has the obligation to disclose to the researcher all the relevant information that will enable a proper defining of the marketing research problem. Likewise, the researcher is ethically bound to define the problem so as to further the best interest of the client.
2. Second ethical issue in the marketing research is during the research design stage. This is the stage when decisions with ethical ramifications are made. The basic question of the type of the research design i.e. descriptive, casual, cross-sectional or longitudinal. The ethical issue here is that the researcher must ensure that the research design utilized will provide the information needed to address the marketing

research problem that has been identified.

3. Next issue is about using the secondary data in the marketing research problem. The researcher is ethically obligated to ensure the relevance & usefulness of the secondary data to the problem at the hand. It's important that the data were collected using procedures that are morally appropriate. Data can be judged unethical if they were gathered in the way that harms the respondents or invades their privacy.
4. When conducting the research, ethical issues related to respondents and the general publics are the primary concern. These issues include disguising the purpose of the research and the use of the deceptive procedures, videotaping and recording and misusing the findings of the research. All indirect procedures require disguising the purpose of the research at least to some extent. Another concern that needs to be addressed is the comfort level of the respondents particularly in the depth interviews.
5. Another ethical issue that is the salient in survey and observation research is respondent's anonymity. Researcher have an obligation to not to disclose respondent's name to outside the parties including the client. The researcher should have the assurance that the client will not use respondent's name in sales efforts or misuse them in other ways.
6. Another issue that is often necessary to disguise the purpose of the experiment in order to produce valid results. If the respondents don't know the purpose of the research then the results might be biased. One another ethical concern is the responsibility of the researcher to use an appropriate experimental design for the problem so as to control errors.
7. Next ethical aspect of the marketing research problem about using the right scale for the problem. The researcher has the responsibility to use the appropriate scale to get data needed to answer the research questions and test the hypothesis. So many scales are there to use in the problem. The choice of the scale depends upon the problem of the marketing research.
8. The researcher has the ethical responsibility to use the scales that have reasonable reliability, validity, generalizability. The findings generated by scales that are unreliable or invalid to the target population are questionable at the best and raise ethical issues. The researcher has the responsibility to both the client and the respondents to ensure the applicability and usefulness of the scale.
9. Several ethical issues related to the researcher-respondent relationship and the researcher-client relationship may have to be addressed in questionnaire design. Of particular concern are using overly long questionnaires, asking sensitive questions, combining questions of more than one client in the same questionnaire or survey and biasing the questionnaire. The researcher should avoid long overly questionnaires sensitive questions deserve special attention. The researcher should not invade respondent's privacy. Finally the researcher has the ethical responsibility of designing the questionnaire so as to obtain the required information in unbiased manner.
10. The researcher has several ethical responsibilities to both the client and the respondents in the sampling process. The researcher must develop a sampling design that is appropriate for controlling the sampling and non sampling errors. When appropriate, probability sampling is used. When non-probability sampling is used, efforts should be made to obtain a representative sample. It is unethical and misleading LO treat non-probability samples as a probability samples and to project the results to the target population.

11. The sample size is depended upon the standard deviation of the variable. Ethical dilemmas can arise even when the standard deviation is estimated honestly. The estimate of the Standard deviations based on the secondary data used in the study.
12. The data weather collected by the internal marketing research department or by an external field work agency should be obtained by high ethical standards. The researcher and the field worker should make the respondents feel comfortable by addressing their apprehensions. One way in which the comfort level of the respondents can increased is by providing them with the adequate information about the research firm, the project, addressing their questions, and clearly stating the responsibilities and expectations of the field workers and the respondents at the start of the interview. The researcher and the field work agencies must ensure the integrity of the data collection process.
13. Ethical issues that arise during the data preparation and analysis step of marketing research process pertain mainly Lo the researcher. While checking, editing, coding, cleaning, researcher should try to get same idea about the quality of the data. An attempt should be made to identify respondents who have provided data of questionable manner. The procedure used to identify unsatisfactory respondents and the number of respondents discarded should be clearly disclosed/'

So these are the ethical aspects of a marketing research problem starting from the problem defining of the data preparation.

System for judging sources of information

Ethical sources	Unethical sources
1. Published material and public documents such as court records.	Camouflaged questioning and drawing out of competitor s employees at technical meeting.
2. Markets surveys and consultant's report.	2. Direct observation under secret conditions.
3. Financial reports and brokers research reports.	3. False job interviews with competitor's loyee(i.e without real intent to hire)
4. Trade lairs, exhibits and competitor's brochures.	4 Hiring a professional investigator to obtain a specific piece of information.
5. Analysis of competitor's products	5. Hiring an employee away from the competitor to get specific know-how.
6. Employment interviews with people who worked for the competitors.	

9.9Self check exercise I

1. Is Hiring a professional investigator to obtain a specific piece of information is ethical or unethical source of judging information.
2. Which of these does not fall under ethical codes?
 1. Legality
 2. Respect for colleagues
 3. Lifestyle
 4. Competence

9.10 WHY ETHICS ARE IMPORTANT IN MARKETING RESEARCH?

The reason for ethics in marketing research has to do with trust. Marketing research is a service function that gathers and analyzes data and makes recommendations for the future direction of the organization being served. Think of marketing research as being a doctor. Like a doctor, marketing research figures out what's wrong with the firm in the market place or how to achieve desired goals such as increasing its strength, and based on an understanding of the anatomy and physiology of the market and the firm's function in that market, deduce what actions to take to enable the firm better to get better or meet its goals. So, let me ask you — what are the consequences if a doctor ignores an ethical approach? Suppose he misrepresents his expertise and the patient dies? Suppose he prescribes regimens which require the patient to continually pay him for services that don't do anything but make him rich? What happens if the doctor betrays the patient's confidentiality and talks to others about the patient's condition? Suppose the doctor really doesn't know his craft and the diagnosis is fraudulent and the prescription is the wrong course of action in that it can actually harm the patient? Suppose the doctor is careless with his work and makes no effort to admit and correct his wrongs?

With respect to marketing research, the same unethical actions can cause dire consequences for the firm. Careless work can set the firm on a course that actually harms the firm. Marketing research firms that prescribe services that actually net little needed information except to make them rich saps the client firm at the marketing research firm's gain. And any discovered breach of ethics results in a loss of trust by the client or management team in the firm if the marketing research group is an internal department. Without trust, the marketing research group has nothing.

Another area of trust which can be lost and render the marketing research team ineffective is with respect to people who are being studied. If the marketing research group misrepresents itself to a focus group or survey targets, the people will not answer honestly. Without honest answers, the results are worthless.

We collect information by talking to a relatively small number of people, which gives us an indication of the views of a larger number. But...

1. It only works if you talk to the right number of people,
2. It only works if you talk to the right type of people and
3. It only works if you ask the right questions and analyze the data you get in the right way.

An ethical approach is required so that the desired marketing research task is completed in the right manner and the results are a true indicator of the sample set evaluated.

Good market research is produced when results of the research are strong indicators of what is happening now or might happen in the future. This means the results are relevant to a situation. Being relevant does not mean it is 100% correct (remember there is always risk). Instead, being relevant means the probability is high that the research results reflect what is actually happening or what will happen.

9.11 ETHICS AND THE MARKETING RESEARCH PROCESS

Now we are aware of the importance of ethics in Marketing Research. Now let's examine the ethics with relation to the marketing research process. The first step in the Marketing Research process is problem definition. This is the crucial step in the marketing research, because a well defined problem is necessary for the research to be carried out efficiently and effectively. Ethical issues in this stage might involve the researcher's deciding whether to proceed with the research project if in defining the problem it comes to light that research is not necessary. Ethical issue may be also focused on whether the client chooses to disclose the true nature of the problem to the researcher or withholds pertinent

information.

Step two is concerned with developing an approach to the problem. At this point, attention is focused on tasks such as developing models, research questions and hypotheses. Here the researcher should be sure to treat preliminary findings as tentative not as conclusive.

Research design is the third step in the marketing research process. This step encompasses everything from deciding on an exploratory, descriptive or causal design to secondary data sources, qualitative techniques, measurement and scaling, questionnaire design, and sampling techniques. Because this includes many different activities, many ethical dilemmas can arise. The measurement of important variables is another challenging task.

When conducting field work, the fourth step, field workers must make the respondents feel comfortable. They must not harass, badger or grill any respondent. Data analysis is the fifth step. Ethical issues that commonly arise here are throwing out the data to produce desired results, altering the results or the analysis, or using statistical techniques that are inappropriate for the data.

The final step of the marketing research process is report preparation and presentation. Here, ethical decisions may have to be made about the disclosure of the limitations of the project to the client, or avoiding misrepresentation of the findings.

Examples

"Sugging" and "Frugging" are Unethical

Sometimes direct marketing and telemarketing firms contact consumers under the pretense of conducting survey research but with the real motive of generating sales leads. Such surveys ask information about interest in the marketer's product, background & demographic variables and respondent's desire for more information. Information on respondents who show interest or request more information is passed on to the company's salespeople with instruction to pursue these "hot leads". Clearly, the purpose of these surveys is not scientific investigation but generating sales leads. This practice is called "Sugging". "Frugging" is a similar practice and involves solicited funds under the guise of research. The marketing research industry has taken an aggressive stand against both these practices.

9.12 WHEN ETHICAL BECOMES UNETHICAL

Ethical dilemmas may arise due to the strong desire of marketing research firms to become suppliers to large business firms who are heavy users of marketing research. Take for example, VISA, United Airlines, Coca Cola, or P&G. Such firms have large marketing research budgets and regularly hire external marketing research suppliers. These large clients can bargain the price for the current study or demand unreasonable concessions in the research design by suggesting the potential for the marketing research firm to become a regular supplier. This may be considered "ethical business" but it becomes unethical when there is no intention to follow up with a large study or to use the research firm in the future.

9.13 INFORMED CONSENT AND THE UNINFORMED RESPONDENTS

A supermarket has introduced a frequent shoppers program by which shoppers can receive discounts on weekly special by obtaining frequent shoppers cards. Each card has a UPC code that identifies the customer by name, address and relevant demographic information provided when applying for the card. This card is scanned before grocery products at check-out every time the customer shops. Thus, the customer's identity and actual purchases are recorded. The supermarket may sell this information to syndicated services. Marketers can purchase the information from the syndicated service companies and use it to determine the

purchase habits of their consumers and target their marketing effort.

This example points to the principle of informed consent, which states that researchers should try to avoid both uninformed and misinformed participation by subjects in research. Shoppers in this example are participating in a scanner panel without their knowledge. They were not informed that their purchases were going to be recorded and analyzed. Thus, the supermarket can be considered as invading the privacy of the consumers.

IF UNETHICAL THEN WHAT ?

- 10 Unethical research would mean that the probability of prediction of the result being relevant is reduced.
- 11 Unethical research would mean relevant results may not be captured.
- 12 Unethical research may mean that proper target group may not be identified.
- 13 Unethical research may mean that the significance of variables is not captured correctly and changes may not be forecasted correctly.
- 14 Unethical approach towards data collection may lead to wrong predictions.
- 15 Here too because of unethical methodology bias could enter into the final findings.
- 16 Unethical research would mean that inappropriate data is being considered deliberately to produce results which do not contribute towards the problem rather misguides it.

9.14 SUMMARY

Ethics must be a priority of the marketing research. Marketing is highly visible to the public and it can be perceived as highly unethical. The general poor opinion can be detrimental to marketing research, which relies on the voluntary co-operation of the public.

When examining ethical issues, it is important to consider the rights and responsibilities of four stakeholders- the respondents, the client, the public and the market researcher. All these stakeholders must act in the best interest of the marketing research project. When there are conflicts between what is the best for the project and what is the best for the stakeholders, ethical dilemmas arise. Common ethical issues in the marketing research can be identified by examine the ways each stakeholder can suffer because of undue advantage taken by the other three. Specifically, surveys should not be used as a guide to sell products and researchers should respect the privacy of the respondents. The researchers also have ethical responsibilities to clients and should not abuse their position, conduct unnecessary research or undertake projects that they are not qualified to perform. Finally the researcher deserves to be treated ethically by the clients and the respondents. The client should have to perform a responsibility of right research findings to the public and likewise the respondents should take the interviewing seriously and honest response.

9.15 SELF CHECK EXERCISE II

- 1. The rules of ethics are also called as a
 - a. Rules
 - b. Law
 - c. Responsibility
 - d. None of the above
- 2. Is suggesting ethical or unethical?

9.16 KEYWORDS

Marketing research, ethical values, ethical issues, stakeholders

9.17 ANSWERS TO SELF CHECK EXERCISE

EXERCISE I

- 1. Unethical
- 2. lifestyle

EXERCISE II

- 1. Law

2. Unethical

9.18 SHORT ANSWER TYPE QUESTIONS

1. Define ethics.
2. What is marketing research? What are two ways to do marketing research.
3. Define smuggling and flogging.

9.19 LONG ANSWER TYPE QUESTIONS

1. Discuss ethical issues involved in the process of marketing research.
2. Explain ethical sources and unethical sources for judging source of information.
3. Explain the relationship of ethics with the marketing research process.
4. Why smuggling and flogging are unethical. Explain in detail.

9.20 SUGGESTED READINGS

- Ethics 101 *by John C. Maxwell*
- Business Ethics and Corporate Social Responsibility by tchhabra
- Business ethics by kurt Stanberry

ADVERTISING ETHICS

STRUCTURE

- 10 1. Objective
- 10.2. Introduction of advertising
- 10.3. Effect of Marketing on society, in particular on Vulnerable Groups
- 10.4. Distinguish between Ethical and Unethical Advertising
- 10.5. Ethical Issues :n Advertising
- 10.6. Unethical Issue
- 10.7** Unethical Effects Of Advertising
- 10.8** Self check exercise I
- 10.9 Advertising Ethics
- 10.10 The Great Unethical Advertising Beast
- 10.11 The Impact of unethical advertising on modern society
- 10.12 General Rules Of Conduct in Advertising'
- 10.13 General Air Code
- 10.14 Do Advertisements Reflect or Teach Society?
- 10.15 Summary
- 10.16 Self check exercise II
- 10.17 Keywords
- 10.18 Answers to self check exercise
- 10.19 Short answer type questions
- 10.20 Long answer type questions
- 10.21 Suggested readings

10.1 OBJECTIVES

After reading this chapter students may come to know about the :
Effects of marketing on society, in particular or vulnerable groups, ethical issues in advertising and unethical issues in advertising.
They also come to know advertising ethics, the impact of unethical advertising on modern society, General rules of conduct in advertising and general air code.

10.2 INTRODUCTION

Advertising has become so integral part of our life society that we cannot imagine any event, newspaper, magazine, TV serial. Cinema etc. without advertising. Advertising is a vital marketing tool as well as powerful communication medium The basic objective of any advertisement is to stimulate sales, direct or indirect by trying to make tall claims about product performance.

The degree of impact of advertising on adults may be problematic but the outcome is devastating for children. Advertisers of childrens television used to appeal to the parents earlier but now they appeal directly lo children who do not have the emotional or cognitive tools to evaluate what's being sold to them. Television is no more just a source of entertainment for children. They showcase the must haves for a kid making them a consumer even before they have reached the age of 3.

Thus the influence of the media on the psychosocial development of children is profound. Thus, it's important for the parents to know their child s exposure to media and to provide

guidance on age-appropriate use of all media, including television, radio, music, video games and the Internet.

The objectives of this research paper are to explore both the beneficial and harmful effects of media on children's mental and physical health, and to identify how the advertising industry can be regulated by formulating unified laws to prevent the over-exposure of children to the ad world.

We are also emphasizing on directing children's towards imbibing healthy food habits in them by suggesting parents to be more aware & regulating the advertisement targeted on children. We also have taken a review on what kind of regulations are implemented in some parts of world regarding advertisements targeting children's & what kind of steps are being taken in India in this direction.

Advertising is an important and legitimate means for the seller to awaken interest in his goods and services. The success of advertising depends on public confidence; hence no practice should be permitted which tends to impair this confidence. The standards laid down here should be taken as minimum standards of acceptability which would be liable to be reviewed from time to time in relation to the prevailing norm of listener's susceptibilities.

The following standards of conduct are laid down in order to develop and promote healthy advertising practices in All India Radio. Responsibility for the observance of these rules rests equally upon the Advertiser and the Advertising Agency.

All those engaged in advertising are strongly recommended to familiarize themselves with the legislation affecting advertising in this country, particularly the following Acts and the Rules framed under them :-

1. Drugs and Cosmetics Act, 1940.
2. Drugs Control Act, 1950.
3. Drugs and Magic Remedies (Objectionable Advertisement) Act, 1954.
4. Copyright Act, 1957.
5. Trade and Merchandise Marks Act, 1958.
6. Prevention of Food Adulteration Act, 1954.
7. Pharmacy Act, 1948.
8. Prize Competition Act, 1955.
9. Emblems and Names (Prevention of Improper Use) Act, 1950.
10. Consumer Protection Act, 1986.
11. Indecent Representation of women (Prohibition) Act, 1986.
12. AIR / Doordarshan Code.
13. Code of Ethics for advertisement in India issued by the Advertising Council of India
14. Code of standards in relation to the advertising of medicines and treatments (see
- 1 5. Standards of practice for Advertising Agencies

10.3 EFFECT OF MARKETING ON SOCIETY, IN PARTICULAR ON VULNERABLE GROUPS

Marketing and society, the commensuration of the two words raises a few eyebrows, as it is highly debatable. On the one hand, Society thrives on the marketing efforts of the Companies, while another school of thought argues that marketing makes the society more materialistic. Today, striking a balance between the two is the challenge faced by the marketers.

Ethical expectations are a vital part of business environment. The society expects the Business to be ethical and desires corporate executives, at all levels to apply ethical Principles- in other words, guidelines as to what is right and wrong, fair and unfair, and Morally correct- when they make business decisions.

"Selling nakedness with Clothes"

Advertisers are traditionally use techniques to which children and adolescents are more susceptible, such as product placement in TV shows, tie-in between movies and fast food

Restaurants, to mention a few. It's all a kids play anyway with today's youngsters having profound influence over purchases in all kinds of product categories. They have become the center of aspirations of the family. Therefore there exist many marketing evils that lure people to buy even when not required.

The picture of the relationship between marketing and society is, however, contested.

Marketing has often been criticized for encouraging excessive consumption, hedonistic life style and producing a consumer culture where products and services are the core of social identity at the expense of other traditional values. Just as in an under developed economy, marketing can be an avenue for publicity of indigenous products and services thereby generating income, similarly in developing and developed economies, where competition for the share of the customer's pocket is high, marketing can lead to attitudinal and lifestyle changes and problems. The Wimp's or Nebulas ads offers free ice-creams to students who have excelled in their examinations, free collectible coupons or tattoos inside chips packers, and other such advertising gimmicks. These tactics do not add any value to the product being offered but only lure consumers to buy a product they another group of people who entice these students to enroll for a weight reduction program! Is this a way to contribute to the society?

10.4 DISTINGUISH BETWEEN ETHICAL AND UNETHICAL ADVERTISING

These days it's extremely difficult to distinguish between ethical and unethical advertising, the line between is so fine that the interpretation of it is ultimately left up to the consumer to make the decision. The closer the advertising pitch is to controversial, funnily enough, the more consumers find it appealing, get suckered in and after it's too late realise the consequences. Blatant trickery in advertising in my opinion constitutes fraud and these companies should have the whole book flung at them.

Two of the biggest markets are woman and kids. The amount of money made from these two sectors runs into billions each year and companies know exactly how to tug on those purse strings. I don't believe that you could ever eradicate companies that sell products that are less than acceptable; eg, alcohol and cigarette products. To put the whole blame on advertising companies alone would be an injustice to them. Why would companies resort to subtle advertising tactics to sell products to kids, their attempts to do this is just a waste of time with money when they know very well that to sell products to kids you just have to be straight forward. The subtle side of the deal is directed at the parents who open up the wallets and pay. Parents are the ones that, need to be subtly deceived because most of the time they are ultimately the decision makers. Parents need to run their kids like a business, especially when it comes to their finances. Proper reports on how they spend family-company' money should be a priority.

The never ending debate of unethical advertising towards kids is one that has been raging on for some time between concerned parents and those companies that promote less desirable products. Who takes the responsibility? I think that both parties should take equal blame for what kids are watching on TV and buying in the shops.

Consumers need to be a bit more street wise when looking to purchase any product no matter what it is. Be aware that to sell products companies rely on pulling those needy, desirable heart strings. Make sure that you are not suckered into impulse buying; this is a 'big threat that will result in mixed emotions once a product is bought. Make sure that your communities don't allow less desirable products to 'be blasted all over your neighborhood

alcohol and cigarettes especially. There are many other silent products that have a detrimental effect on our lives, we eat and use them everyday check the contents of your cupboards and you'll be shocked.

Advertising that is ethical or unethical is something we all need to take note of, make no mistake there is a fine line and its this fine line that causes the debate. Those companies that are hovering on this line are more destructive than a cigarette company that openly displays that smoking causes lung cancer. Don't get caught up in subtle advertising tactics, educate yourselves and your kids that's the best defense you have in the fight against unethical advertising.

Unethical advertising is defined as: acts or practices that cause or Unethical advertising

is defined as: acts or practices that cause or are likely to cause substantial injury to consumers, which is not reasonably avoidable by consumers themselves and r.ot outweighed by countervailing benefits to consumers or competition are likely to cause substantial injury to consumers, which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or competition

The FTC has applied the unethical advertising doctrine in three major areas :

- (1) Advertising substantiation
- (2) Promotional practices directed to children
- (3) Trade regulation rules
 - (1) **Advertising substantiation** : unfair for advertisers to make claims about their products without having a reasonable basis-documentation in the form of test results-verifying the advertised claim as fact
 - (2) **Unfairness involving children** : public policy officials are concerned with protecting the youth
 - (3) **Trade regulation rules** : Trade regulation rules (TRRs) enable the FTC to issue a regulation that restricts an entire industry from some unfair and objectionable practice

10.5 **ETHICAL ISSUES IN ADVERTISING**

- Untruthful and Deceptive
- Manipulative
- Offensive and in bad taste
- Creates and perpetuates stereotypes
- Buy things not needed
- Plays on people's fears and insecurities

Advertising is Untruthful and Deceptive

Majority or roughly two-thirds of American consumers think that advertising often is untruthful the presence of regulation attests to the fact there is some deception in advertising as well

Advertising is Manipulative

Advertising has the power to influence people to behave atypically, or do things they would not do if they were not exposed to advertising In general the contention that advertising is manipulative is without substance-persuasion vs. manipulation Advertising is

Offensive and in Bad Taste

- Name commercials
- Sexual explicitness or innuendo in all forms of ads
- Television commercials that advertise unpleasant products
- Repetitious use of the same ads ad nauseam
- However this occurs in all forms of mass media including the movies

- Advertising Creates and Perpetuates Stereotypes.
- Advertising tends to portray certain groups in a very narrow and predictable fashion

Example : Minorities were disproportionately portrayed in working-class roles rather than the full range of positions they occupy Guilty of perpetuating stereotypes, but so is society as a whole

10.6 UNETHICAL ISSUE

Unethics in advertising and promotion

- Ethical pitfalls in advertising and promotional content include :
 - Issues over truth and honesty. In the 1940 s and 1950 s, tobacco used to be advertised as promoting health.(17)Today an advertiser who fails to tell the truth not only offends against morality but also against the law. However the law permits 'puffery (a legal term)(18). The difference between mere puffery and fraud is a slippery slope: "The problem... is the slippery slope by which variations on puffery can descend fairly quickly to lies. "[19] Sec main article: false advertising.
 - Issues with violence, sex and profanity. Sexual innuendo is a mainstay of advertising content |see sex in advertising), arid yet is also regarded as a form of sexual harassment Violence is an issue especially for children's advertising and advertising likely to be seen by children.
 - Taste and controversy. The advertising of certain products may strongly offend some people while being in the interests of others. Examples include: feminine hygiene products, hemorrhoid and constipation medication. The advertising of condoms has become acceptable in the interests of AIDS prevention, but are nevertheless seen by some as promoting promiscuity. Some companies have actually marketed themselves or the basis of controversial advertising - see Benetton. Sony has also frequently attracted criticism for unethical content (portrayals of Jesus which infuriated religious groups; racial innuendo in marketing black and white versions of its PSP product; graffiti adverts in major US cities.
 - Negative advertising techniques, such as attack ads. In negative advertising, the advertiser highlights the disadvantages of competitor products rather than the advantages of their own. The methods arc most familiar from the political sphere: see negative campaigning.

10.7 UNETHICAL EFFECTS OF ADVERTISING

An extensively documented effect is the control arid vetoing of free information by the advertisers. Any negative information or. a company or its products or operations often results in pressures from the company to withdraw such information lines, threatening to cut their ads. This behaviour makes the editors of the media self-censor content chat might upset their ad payers The bigger the companies are, the bigger their relation becomes, maximising control over a single piece of information.

Advertisers may try to minimise information about or from consumer groups, consumer on trolled purchasing initiatives (as joint purchase systems), or consumer controlled quality information systems.

Another indirect effect of advertising is to modify the nature of the communication media where it is shown. Media that get most of their revenues from publicity try to make their medium a good place for communicating ads before anything else. The clearest example is television, where broadcasters try to make the public stay for a long time in a mental state that encourages spectators not to switch the channel doing advertisements. Programs that are low in mental stimulus, require light concentration and are varied best for long sitting times. These also make for much easier emotional transition to ads, which are occasionally

more entertaining than the regular shows. A simple way to understand objectives in television programming is to compare the content of programs paid for and chosen by the viewer with those on channels that get their income mainly from advertisements.

In several books, articles and videos, communication professor SutJhally has argued that pervasive commercial advertising, by constantly reinforcing a bogus association between consumption and happiness and by focusing on individual immediate needs, leads to a squandering of resources and stands in the way of a discussion of fundamental societal and long-term needs.

10.8 **SELF CHECK EXERCISE I**

1. Is unethical advertising doctrine is applied on promotional practices directed to children? Yes/ No.
2. Buying things not needed is ethical or unethical issues in advertising.

10.9 **ADVERTISING ETHICS**

PERTINENT FACTS

29 Economics

- A massive multi-billion-dollar/year business
- Cost ultimately borne by the consumer

30 Consumer Opinion Surveys have shown

- 66% believe advertising does not reduce prices
- 65 % believe advertising makes people buy things they shouldn't
- 63% believe advertisements are untruthful
- 54% believe it insults their intelligence

31 Nevertheless — when they vote with their wallets

- many buy advertised brands
- often willing paying extra

32 In defense of advertising it is said advertising

- provides a useful communication service informing customers about products available to them

33 Question: Is advertising a waste or a benefit, on balance.

34 Defenders of advertising appeal to its informative function

- some such defenders even define

35 advertising as a form of information

36 an "advertiser" as a kind of information giver

37 Yet advertisements, we all know, are notoriously

38 long on image: "Image is everything" (Nike slogan)

39 long on allure: New Yorker & fashion magazine ads

40 long on entertainment value

41 Budweisser frogs & Frankie the Lizard

42 the Taco Bell chihuahua: "you are getting hungry, very' hungry"

43 Joe Camel

44 and short on information:

45 parade cases

46 those frogs, Nike, fashion magazine ads

47 though not completely uninformative: I learned from that little dog

48 about the existence & approximate character of Taco Bell produces

49 e.g..Gorditas

50 of course they're also portrayed as dece-lectable which is sometimes not the. case

{misrepresentation ? |

- 51 and maybe some of that stuff should come with a cautionary HI FAT warning (duty of disclosure?)
- 52 The Primary Function of Advertising
- 53 not to provide objective information
- 54 of course if your product really is superior providing objective information probably won't hurt
- 55 but it still might not help as much as projecting a sexy image it's all about selling the product
- 56 Velasquez definition: An advertisement is communication between sellers and potential buyers
 - addressed to a mass audience (as distinct from a private message to a specific individual) and
 - intended to induce some members of that audience to buy some product from the seller
- 57 by creating a desire for the product in the consumer
- 58 or by creating a belief that the product is a means to satisfy some desire the consumer already has
- 59 Three topics concerning the morality of advertising
 - 1. social effects
 - 2. effects on consumer desires
 - 3. effects on consumer beliefs
 - 4. I Effects of Advertising
- 60 ' Frequently heard criticisms
 - degrades people's tastes
 - wastes valuable resources
 - creates monopoly power

10.10 THE GREAT UNETHICAL ADVERTISING BEAST

A few years back, we were subjected to one of the most horrific displays of immoral advertising I've ever seen. I'm, of course, speaking about the Coca-Cola and Nike advertisements that were thrust upon theatre-goers across the nation. Remember? You'd go pay your eight bucks-a-head to see the most recent blockbuster and the first thing you'd see, even before the previews, was a commercial. Yes, a commercial.

If my memory serves the right, there was some public outcry about this absolutely immoral and unethical form of advertising. Consumers weren't going to the theatres, and paying money, to be subjected to something that most people despise. And we haven't really seen much action in this arena since.

But the Great Unethical Advertising Beast has arisen again. This time in the form of advertisements placed in front of video rentals. This weekend, I was taking a much-needed mini-vacation at my brother's house, the snow falling silently outdoors, the computers warming up for a very long game of networked Diablo and the VCR standing by for a movie break when we got tired of computer games or were killed by King Leorie or the Butcher.

10.11 THE IMPACT OF UNETHICAL ADVERTISING ON MODERN SOCIETY

Marketing race to put the brand on the top of the mind, creating brand equity, maintaining the brand loyalty has extended its net to influence the children to a extent that it has lost its path and walking on the unethical grounds, leaving our children in a vulnerable conditions. Of all marketing weapons advertising has the leading impact as its exposure is more, and is the most attractive media for children. The need is to establish

certain standards to restrict advertising aimed at children.

The desire to restrict advertising aimed at children is based on three concerns, first, it is believed that advertising promotes superficiality and values founded in material goods and consumption. Second, children are considered inexperienced consumers and easy prey for the sophisticated persuasion of advertisers. Third, advertising influences children's demand for everything from toys to snack food. These demands create an environment of child-parent conflict. Parents find themselves having to say no over and over again to children whose desires are piqued by effective advertising. (1).

This paper seeks to link between television advertising and its influence on child health and family spending. Television advertising is found to influence diet habits particularly in terms of tendency to buy unhealthy food. The second factor is family disturbance due to child influence on family spending.

Television Advertising and Child Health

Modern life style has frozen the family size in the Indian society. Nuclear family has taken place of the joint family. Lifestyle trends in urban India (rising incomes, longer working hours, more working mothers, time-poor/cash-rich parents) tend to support a 'convenience time pass and food culture'. Which lead the child to watching television and the increased consumption of HFSS food (High in fat, salt and sugar). In addition the advertising industry makes junk food seem irresistible, and it may well be, as recent research shows that children could become physically addicted to junk food. In a recent study, Dr. Robert Lustig from the University of California, San Francisco suggests that childhood obesity arises from foods that are high in fat and fructose and low in fiber. When children eat these "insulinogenic foods, the insulin not only increases the

Effects of the pleasure-chemical dopamine (making the child want to eat more of the same food) but also reduces the effects of the hormone leptin, making the child want to eat more and be less active (7).

Impact of long time spending with television

Television pumps in lot of junk food and snack advertisements. Indian child on an average get exposed to not less than 20 attractive messages of these products. More time spent with television viewing more exposure to these messages (Repeat advertisements message result into placing the brand on top of the mind) will result into buying the brand illustrated in the advertisements. If we screen the table we can note on an average child from age group 3-6 years spend 2.32 hours, 6-9 years spends 3.12 hours and a child from 9-12 years spends 3.45 hours. More time spent more will be advertising exposure (source field work from the author).

Television advertisement and its impact on Family health

Another source of animosity is the family budget. Advertising makes kids want things it creates desire — which puts a lot of pressure on parents. Television is a showcase for 'must have' items that parents are expected to buy [8]. Levin says, 'Kids and parents always have to struggle about purchases. When a parent says, 'No. I can't buy that, I don't have enough money, there's an underlying sense that the parent is not

Meeting the child's needs and is depriving the child of what he or she needs to be happy [9]. At the same time, the youngster is learning how to get parents to respond to his or her wishes and wants. This may take the form of a grunt, whine, scream, or gesture--indeed some tears may be necessary but eventually almost all children are able on a regular basis to persuade Mom or Dada buy something for them. The survey reveals that most of the time children determine the family budget. There is greater influence on food items and toys. There are certain families where in the purchase decision regarding buying of cars, electronic equipments are also to the extent influenced by children. The

Correlation is measured as **0.23**, 0.38 and 0.69 for age group of 3-6, 6-9 and 9-12 years respectively. With the increasing income, reduction in the number of children and

shrinking size of the family, the Indian child is also becoming influencing consumer for today and powerful

10. 12 GENERAL RULES OF CONDUCT IN ADVERTISING

1. Advertising shall be designed as to conform to the laws of the country and should **not** offend against morality, decency and religious susceptibilities of the people.

2. **No advertisement shall be permitted which**

i. derides any race, caste, color, creed and nationality;

ii. is against any of the directive principles, or any other provision of the Constitution of India;

iii. tends to incite people to crime, cause disorder or violence, or breach of law or glorifies violence or obscenity in any way;

iv. presents criminality as desirable;

v. adversely affects friendly relations with foreign states;

vi. exploits the national emblem, or any part of the constitution or the person or personality of a national leader or State Dignitary;

vii. relates to or promotes cigarettes and tobacco products, liquor, wines and other intoxicants;

3. No advertisements message shall in any way be presented as News.

4. No advertisements shall be permitted the objects whereof are wholly or mainly of

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religious or political natures; advertisement must not be directed towards any religious or political end or have relation to any industrial dispute.

5. Advertisements for services concerned with the following shall not be accepted:*

i. Money lenders;

ii. Chit funds;

iii. Saving schemes and lotteries other than those conducted by Central and State Government organizations, nationalized or recognized banks and public sector undertakings;

iv. Matrimonial agencies;

v. Unlicensed employment services;

vi. Fortune tellers or sooth-Sayers etc. and those with claims of hypnotism;

vii. Foreign goods and foreign banks.

viii. Betting tips and guide books etc. relating to horse-racing or the other games of chance.

6. The items advertised shall not suffer from any defect or deficiency as mentioned in Consumer Protection Act 1986.

7. No advertisement shall contain references which are likely to lead the public to infer that the product advertised or any advertised or any of its ingredients has some special or miraculous or super-natural property or quality, which is difficult of being proved, e.g. cure for baldness, skin whitener, etc.

8. No advertisement shall contain the words 'Guarantee' or 'Guaranteed' etc., unless the full terms of the guarantee are available for inspection by the Directorate General, All India Radio, are clearly set out in the advertisement and are made available to the purchaser in the writing at the point of sale or with the goods; in all cases, terms must include details of the remedial action available to the purchaser. No advertisement shall contain a direct or implied reference to any guarantee which purports to take away or diminish the legal rights of the purchaser.

9. Advertisers or the agents must be prepared to produce evidence to substantiate

any claims or illustrations. The Director General reserves the right to ask for such proofs and get them examined to his full satisfaction. In case of goods covered by mandatory quality control orders, the advertiser shall produce quality certificate from the institutions recognized by the Government for this purpose.

10. Advertisements shall not contain disparaging or derogatory references to another product or service.
11. Testimonials must be genuine and used in a manner not to mislead the listeners. Advertisers or Advertising Agencies must be prepared to produce evidence in support of their claims.
12. No advertisement of any kind of jewellery (except artificial jewellery) or precious stones shall be accepted.
13. Information to consumers on matters of weight, quality or prices of products where given shall be accurate.
14. Advertisements indicating price comparisons or reductions must comply with relevant laws.
15. No advertisement shall be accepted which violates AIR Broadcast Code which is reproduced below:-

10.13 GENERAL AIR CODE

1. Criticism of friendly countries.
2. Attack of religious or communities.
3. Anything obscene or defamatory;
4. - Incitement to violence or anything against maintenance of law and order;
5. Anything amounting to contempt of court;
6. Aspersions against the integrity of the President and Judiciary;
"Note : Advertisements concerning jeweler, foreign goods and foreign banks, besides those related to Indian Equity / Debenture issued for NRIs will, however, be accepted as far as the external services of All India Radio are concerned."
7. Anything affecting the integrity of the Nation and criticism by name of any person.
16. Any such effects which might startle the listening public must not be incorporated in advertisements. For example, and without limiting the scope, the use of the following sound effects will not be permitted : •
 - Rapid gunfire or rifle shots;
 - Sirens;
 - Bombardments; .
 - Screams;
 - Raucous laughter and the like.
17. Any pretence in advertising copy must be avoided and such copy shall not be accepted by All India Radio. The 'simulation' of voices of a personality in connection with advertisements for commercial products is also prohibited unless bonfire evidence is available that such personality has given permission for the simulation and it is clearly understood that station broadcasting such announcements are indemnified by the advertiser or advertising agency against any possible legal action.

ADVERTISING AND CHILDREN

18. No advertising for a product or service shall be accepted if it suggests in any way

that unless the children themselves buy or encourage other people to buy the products or services, they will be failing in their duty or lacking in loyalty to any person or organization.

19. No advertisement shall be accepted which leads children to believe that if they do not own or use the product advertised they will be inferior in some way to other children or that they are liable to the condemned or ridiculed for not owning or using it. .
20. .No advertisement likely to bring advertising into contempt or disrepute shall be permitted. Advertising shall not take advantage of the superstition or ignorance of the general public.
21. No advertising of talismans, charms and character-reading from photographs or such other matter as well as those which trade on superstition of general public shall be permitted.
22. Advertising shall be truthful, avoid distorting facts and misleading the public by means of implications by false statements, as to :
 - I. The character of the merchandise, i.e. its utility', materials, ingredients, origin etc.
 - II. The price of the merchandise, its value, its suitability or terms of purchase.
 - III. The services accompanying purchase, including delivery, exchange, return, repair, upkeep etc.
 - IV. Personal recommendations of the article or service.
 - V. The quality or the value of competing goods or trustworthiness of statement made by others.
23. Testimonials of any kind from experts etc. other than Government recognised standardization agencies shall not be permitted.
24. No advertisement shall be permitted to contain any claim so exaggerated as to lend inevitably to disappointment in the minds of the public.
25. Methods of advertising designed to create confusion in the mind of the consumer as between goods by one maker and another maker are unfair and shall not be used. Such methods may consist in :
 - i. the imitation of the trademark of the name of competition or packaging or labeling of goods; or
 - ii. the imitation of advertising devices, copy, layout or slogans.
26. Indecent, vulgar, suggestive, repulsive or offensive themes or treatment shall be avoided in all advertisements. This also applies to such advertisements which themselves are not objectionable as defined above, but which advertise objectionable books, photographs or other matter and thereby lead to their sale and circulation.
27. No advertisement in respect of medicines .and treatments shall be accepted which is in contravention of the code relating to standards of advertising medicines and treatments

Note I : In all other respect, the Director General will be guided for purposes of commercial broadcasting in All India Radio by Code of Ethics for Advertising in India as modified from time to time

Note II : Notwithstanding anything contained herein, this code is subject to such modification/ directions as may be made / issued by the Director General from time to time.

Note III : All advertising agencies shall adhere to the standards of practice as prescribed by Advertising Agencies Association of India, Bombay

10.14 DO ADVERTISEMENTS REFLECT OR TEACH SOCIETY?

Advertisers regularly face criticism about the ethical implications of their ads. Ethical issues in advertising include ads that are untruthful and deceptive, manipulative, offensive or in bad taste, reinforce or create stereotypes, foster materialism and greed, and take advantage of people's fears and insecurities. In an advertising and marketing context, ethics is equivalent to a society's notions of right and wrong, honesty, integrity, purity and morality these words are practically interchangeable. Against all these notions should an ad be judged and regulated.

This particular ad from Calvin Klein might dispute many of our society's moral convictions or ethics. Therefore, the question I want to explore is this: Does this ad, which promotes questions of morality, reflect our culture's ideas about gender and sex roles or does it teach our society something about gender and sex roles? Does advertising as edgy as this example copy our society's moral notions or create new notions?

First, we should go over the ethical issues this ad raises and determine to what degree the ad is or is not ethical before judging advertising's role in society. One point to remember, however, is that these ethical issues are very complex and can not be explored in exhaustive or conclusive detail for our purposes.

This ad might be considered unethical by a reasonable consumer in the sense that it is in bad taste and possibly offensive, it perpetuates modern sex role stereotypes and an argument could be made about the ad being deceptive. Among these three main issues, one stands out more than the others in finding this ad to be unethical-the ad undeniably perpetuates modern sex role stereotypes.

This ad portrays three groups in a narrow, stereotypical manner: 1) young people/the single generation, 2) women, and 3) men. Because there are two young people nearly naked in the ad, this generation is represented as a sexually explicit generation. The young girl is turned completely toward the guy with her arms around him as she leans all over him. She's also wearing nothing more than underwear. This clearly perpetuates the stereotype of women

as sex objects. She looks like she's ready to jump into bed with this guy without any inhibitions. Furthermore, the guy is half clothed (wearing blue jeans and no shirt) and sitting very casually with a self-important grin. His facial expressions are one of triumph and arrogance, while the girl's is coy yet seductive and playful. Not only does this advertisement perpetuate three stereotypes of gender and sex roles, it quite easily can be offensive to many consumers.

Nonetheless, the real question I want to focus on is the one stated above about the role of advertising (especially unethical ads) in our society. Clearly, the advertising medium faces us full share of criticism and regulation. Now, considering this particular ad, I would (unwillingly) concede that this ad does, in fact, reflect our society instead of teaching it. It reflects our society insofar as it mirrors our stereotypical ideas about sex roles and gender, rather than our society as a whole. Therefore, any criticism of such unethical ads such as this one must synonymously be a criticism of our culture's stereotypes. This ad offends many consumers, just as the stereotypes it perpetuates offend society at large.

Claiming that unethical advertisements teach society about immorality and the acceptability of explicit sexuality is also an accusation against advertisers. An honest question about the power of advertisers is this: How reasonable is it to charge advertisers with being less ethical than their own culture. thereby 'teaching' the culture to change its own code of ethics to one less moral, pure and virtuous? There is no simple answer. Some may claim that advertisers do teach society merely by perpetuating and expounding upon current offensive stereotypes. Indeed, creative license also leads to many innovative and suggestive ideas, perhaps teaching society in this way. One notion is certain, however.

Whatever one concludes about advertising's influence on our culture's ideas about gender and sex roles, advertisers invest a lot of time, money and research in creating effective and persuasive ads. Advertisers are successful in wielding their power to influence, and some exert influence to the point of testing our sensibilities and commitment to ethics.

10.15 SUMMARY

The overall analysis of socio economic and ethical aspects of advertising reveals that public is highly critical of social aspect and highly appreciative of economic contribution of advertising. Public is not against the comparative advertising and endorsement of products by the celebrities. Most of them want celebrity endorsements and comparative advertising to be used in advertisements. However, an overwhelming majority of respondents wants legal restrictions to be imposed upon the way advertisements are presented and public policy makers should take a cue

From it while framing the media laws in India. Depending upon the public opinion about the social, economic and ethical aspects of advertising, the marketers and the public policy makers should take different stances on how advertising should be treated.

Majority of the respondents are in favor of a judicial regulatory body to enforce ethics in Advertising. They are in favor of legal restrictions on sexually suggestive advertisements and advertisements targeting children. So much so that they also favor a legal limit on the amount of money a company can spend on advertising. There is a strong case for stringent public policy initiatives regarding socially sensitive issues in advertising. Though the Advertising Standards Council of India (ASCI) 'Self Regulatory Code' for television advertisements has been made mandatory for the cable T.V. channels: and some isolated provisions in different Acts regulating the advertisements relating to tobacco, liquor and large ling of children are there, these are no*, sufficient. Secondly, public is least aware about

these isolated provisions. Unscrupulous advertisers blatantly violate these provisions through surrogate advertisements and other means.

Therefore, it is recommended that a comprehensive Indian Advertising Regulation Act', applicable to all media; should be passed by the Parliament and a judicial regulatory body Advertising Regulatory Authority' should be established to 'enforce the provisions' of this Act and to 'spread the awareness' among the consumers about the provisions of the proposed Act. An important implication of public beliefs about socio-economic and ethical effects of advertisings that consumers' predisposition (positive or negative) is determined by these belief factors.

Research has proven beyond doubt that 'attitude-toward -advertising-in general is one of the important antecedents of 'attitude toward-the-brand', which, in turn, affects the purchase decision of the consumer. So, it. is suggested that marketers should remain in touch with the expectations, perceptions, and opinions of the public for presenting socially acceptable advertisements before them. It is the task of the industry to help people to like advertising. Industry should alleviate the reservations in the minds of consumers about the cultural consequences of advertising. Therefore, advertisers should integrate diverse needs and values into the planning and execution of their advertising campaigns.

An examination of the results presented in this study by the industry may lead to a better understanding of the general opinion of the Indian consumers about the social, economic and ethical aspects of advertising.

Advertising is the most competitive industry in America. It facilitates both performance and price competition among products and services. To do so it must compete for the consumers' limited time and attention. It must be persuasive and credible, and as I believe and urge ethical-to build brand loyalty and trust. In my view not enough attention is

given to advertising ethics.

It is understandable that professionals and students of advertising stress the Four P's of Marketing: Product, Price, Promotion and Place. Yet, how often are the positive and negative consequences of advertising ethics proactively taken into consideration? Not often enough. To the contrary, clients are forced to deal reactively with irate consumers who have taken offense from claims and depictions in their ads.

"A woman, fully clothed in a tight dress and spiked heels, lies on her back, hips raised as a bare-chested man holds her down and four other men look on. The menace in the situation is underscored by the fact the woman is blankly unsmiling and some of the men appear to have slight sneers on their faces. ' Brand week, February 20, 2007. Women and women's organizations quickly took offense. The National Organization for Woman charged that the ad depicted Stylized gang rape."

It is difficult for me to see how this ad advanced Dolce &Gabbana, which markets upscale Italian fashions to women. Moreover, it certainly did not advance the image of the advertising industry.

This ad ran afoul of what I would call "taste and decency," a most difficult area of advertising ethics. I want to make it clear that I do not believe in politically correct speech, and I would be the first to combat any attempt by government to regulate in this area. But we must be very sensitive to the ethical concerns of our consumers.

It is up to the company and its ad agency to internally articulate and practice advertising ethics for its brands. I believe this will enhance brand reputation and consumer loyalty. Take the time in advance to proactively discuss the ethical consequences of ad claims and depictions. I know the devil is in the details I don't want to suggest a burdensome process here. In future columns I will provide my guidelines, and I would appreciate your suggestions.

Advertising ethics in my view also includes truthfulness and fairness, which includes the nature of the audience and the nature of the product. Over the next few months I would like to open a dialogue on questions regarding children's advertising, multicultural marketing and other challenges presented by taste and decency. Please join in the discussion by leaving comments below.

10.16 SELF CHECK EXERCISE II

1. advertisement on jewellery is permitted or not?
2. is advertisement permitted to contain any claim so exaggerated as to lend inevitably to disappointment in the minds of the public

10.17 KEYWORDS

Advertising, society, unethical issues, advertising ethics

10.18 ANSWERS TO SELF CHECK EXERCISE

EXERCISE I

1. Yes
2. Ethical

EXERCISE II

1. No except artificial jewellery
2. No

10.19 SHORT ANSWER TYPE QUESTIONS

1. Name some ethical issues in advertising.
2. Discuss some general rule of conducting advertising.
3. Discuss unethical issues in advertising.

10.20 LONG ANSWER TYPE QUESTIONS

1. Define unethical advertising. Discuss application of FTC in unethical advertising doctrine.
2. Differentiate ethical and unethical advertising in detail.
3. Discuss how unethical affects modern society.

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**MBA-DISTANCE EDUCATION(SECOND YEAR)
BEV 303**

Semester- III

BUSINESS ETHICS AND VALUES

Lesson No. 11 AUTHOR: DEEPIKA JINDAL

ETHICS AND SOCIAL COSTS

STRUCTURE

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- 1 1.2. Ethics Vs Law
- 11.3. Importance of Ethic in society
- 1 1.4. What is ethics is not ?
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 - 11.6.4.1. Ethic Code
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 - 11.7. Self check exercise I
 - 11.8. Ethical Issues of the Information Age
 - 11.8.1 Privacy
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 - 11.9. Future Ethical Issues
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 - 11.11 Self check exercise II
 - 11.12 Keywords
 - 11.13 Answers to self check exercise
 - 11.14 Short answer type questions
 - 11.15 Long answer type questions
 - 11.16 Suggested readings

11.1 **OBJECTIVES**

After reading this chapter, the students should be able to:

- General ethics principle, importance of ethics in society and determine the ethical issues in society.

11.2 INTRODUCTION

Ethics involves learning what is right or wrong, and then doing the right thing -- but the right thing is not nearly its straightforward. Most ethical dilemmas in the workplace are not simply a matter of 'Should Bob steal from Jack?' or 'Should Jack lie to his boss?'

Many ethicists assert there's always a right thing to do based on moral principle, and others believe the right thing to do depend on the situation — ultimately it's up to the individual. Many ethicists consider emerging ethical beliefs to be state of the art" legal matters, i.e., what becomes an ethical guideline today is often translated to a law, regulation or rule tomorrow. Values which guide how we ought to behave are considered moral values, e.g., values such as respect, honesty, fairness, responsibility, etc. Values may also include newer elements such as innovation, teamwork, customer focus and continuous improvement

11.2 ETHICAL ISSUES VS LAW

Ethics, in a way, is superior to law, because laws change; they are usually man-made (today you would say they are human endeavors). We have seen certain places in history where the laws were unlawful, the laws were inhuman, and yet they were the Law. You cannot say that about ethics.

What is the difference?

The law is something that governs a community of individuals in spite of everything else, meaning there must be no interference between the person and the law. The law applies to all human beings equally, with equal force and equal validity.

Ethics is more human. A weak person is ethical and a strong person is ethical because both of them try to help the other person, yet the weak person is not necessarily required to do what the strong person can do. Ethics is something that involves the other person. The law can exist without other persons. The law is in the books, and the law therefore in certain societies is independent.

Again, an example: the Soviet law was the law, and the constitution of the Soviet Union was a great document, except nobody read it, and even those who read it didn't abide by it. It was one thing to be an ordinary person, a citizen of the Soviet Union, and therefore subjected to all the humiliations that the dictatorship applied, and quite another thing to be the person ruling in the name of the law, and therefore fashioning, shaping the law.

11.3 IMPORTANCE OF ETHICS IN SOCIETY

Ethics is not a luxury good for democracy; they form the conditions for maintaining a political regime respectful of individual freedoms. The role of Ethics is directly linked with that scheme. Ethics is essential to guarantee and improve democracy. Actually, if we define Ethics as the discipline that evaluates the moral value of acts and states of the world, if, moreover, Ethics is the discipline which monitors reasons and arguments offered to justify morally these acts and states of the world, Ethics is indispensable for a democracy. It is so since it forms an important part of the search for a fairer society, a society in which inequalities, domination, and rights infringements would be reduced to a minimum. In that sense, Ethics should not be reserved to some people that would consider themselves as moral entrepreneurs or rulers. Ethics should matter for everyone and, of course, it does. In our everyday decisions, up to the very personal ones, we are constantly weighing bad and good consequences, asking ourselves if it is good to act in such a way etc. If we are so concerned to make the right decisions at the right time, and not just in order to push forward our own interests, why will it be so different for public decisions that affect our

lives as members of the same society?

Ethics is a requirement for human life. It is our means of deciding a course of action. Without it, our actions would be random and aimless. There would be no way to work towards a goal because there would be no way to pick between a limitless numbers of goals. Even with it: ethical standard, we may be unable to pursue our goals with rile possibility of success. To the- degree which a rational ethical standard is taken, we are able to correctly organize our goals and actions to accomplish our most important values. Any flaw in our ethics will reduce our ability to be successful in our endeavors.

11.4 WHAT ETHICS IS NOT ?

- Ethics is not the same as feelings. Feelings provide important information for our ethical choices. Some people have highly developed habits that make them feel bad when they do something wrong, but many people feel good even though they are doing something wrong. And often our feelings will tell us ii is uncomfortable lo do the right thing if it is hard.
- Ethics is not religion. Many people are not religious, bur. ethics applies to everyone. Most religions do advocate high ethical standards but sometimes do not address all the types of problems we face.
- Ethics is not following the law. A good system of law does incorporate many ethical standards, but law can deviate from what is ethical. Law can become ethically corrupt, as some totalitarian regimes have made it. Law can be a function of power alone and designed to serve the interests of narrow groups. Law may have a difficult time designing or enforcing standards in some important areas, and may be slow to address new problems.
- Ethics is not following culturally accepted norms. Some cultures are quite ethical, but others become corrupt -or blind to certain ethical concerns (as the United States was lo slavery before the Civil War|. 'When in Rome, do as the Romans do' is not a satisfactory ethical standard.
- Ethics is not science. Social and natural science can provide important data Lo help us make better ethical choices. Hut science alone does not tell us what we ought to do. Science may provide an explanation for what humans arc like. But ethics provides reasons for how humans ought to act. And just because something is scientifically or technologically possible, it may not be ethical to do it.

11.5 GENERAL ETHICS PRINCIPLES

- **Self-Interests** : .Never Lake any action that is not in the long-term self interests of yourself and/or of the organization to which you belong.
- **Personal virtues** : Never take any action that is not honest, open, and truthful and that you would not be proud to see reported widely in national newspapers and c:i television.
- **Religious injunction** : Never take any action that is not kind and that does net build a sense of community, a sense of all of us working together for a commonly accepted goal.
- **Government requirements** : Never take any action that violates the law, for the 'aw represents the minimal moral standards of our society.
- **Utilitarian benefits** : Never take any action that does not result in greater good than harm for the society of which you are it part.
- **Universal rules:** Never take any action that you would not be willing to see others, faced with the same or closely similar situation, also be free to take.

- **Individual rights** : Never take any action that abridges the agreed upon and accepted rights of others.
- **Economic efficiency** : Always act to maximize profits subject to legal and market constraints, for maximum profits are the sign of the most efficient production.
- **Distributive justice** : Never take any action in which the least (fortunate people) among us are harmed in some way.
- **Contributive liberty** : Never take any action that will interfere with the right of all of us for self-development and self-fulfillment.

11.6 MAIN ETHICAL ISSUES IN SOCIETY

11.6.1 Animals

"Animals are not just one of the things with which people amuse themselves, like chewing gum and water skis. They are the group to which people belong. We are not just like animals; we are animals."

If animals are close enough to humans that their bodies, brains, and even psyches (minds) are good models for the human condition, and then ethical dilemmas must surely arise in using them.

USE OF ANIMALS

11.6.1.1 Animals and medicines

Animal work has been very useful in the medical field, and has led to the saving of millions of human lives. For example, Alexander Fleming discovered penicillin in 1928. However, it was only in 1940 that research on mice showed that penicillin was a very effective antibiotic. Another example concerns kidney dialysis, which is required by about 200,000 people every year in the United States if they are to stay alive. The drug heparin is essential for dialysis, and it has to be extracted from animal tissues, and then tested for safety on anaesthetized animals.

11.6.1.2 Animals and psychological research

The benefits of animal research are less clear in psychology than in medicine. However, there are several reasons why psychologists use non-human animals in so many of their experiments. It is possible (although there are major ethical considerations) to carry out surgical procedures on animals that simply would not be permissible with humans. Gray (1985) discussed animal research designed to identify those parts of the brain associated with anxiety.

11.6.1.3 Heredity and early experiences

The members of many species develop and reproduce over much shorter time periods than do members of the human species. As a result, it is much more feasible to carry out studies focusing on the effects of either heredity or early experience on behavior in such species.

For example, in one study a breeding programme was used to produce rats that were either reactive or non-reactive to loud noise and bright lights (Eysenck & Broadhurst, 1964). The reactive rats were found to be much more anxious than the non-reactive ones in a wide range of situations. These findings suggest that individual differences in anxiety depend in part on genetic factors.

11.6.1.4 Behavior

It is generally accepted that the human species is more complex than other species. It may thus be easier to understand the behavior of other species than that of humans. This makes animal research very useful, provided we assume that other species are broadly similar to our own. This line of argument was used by the behaviorists to justify the fact

that rats (rather than humans) were used in most of their experiments. Much animal research is acceptable to nearly everyone. Vialim, Birch, and Wadeley (1992) discussed examples of such animal research. One programme of research was designed to provide us with a better understanding of the behavior of animals that damage crops. This research led to the development of more effective scarecrows, so that more unpleasant methods of preventing crop damage (e.g. poison) were no longer needed. In this case, animal research actually served to produce a large reduction in animal suffering.

Other uses of animals

There are three main areas of concern :

Meal production;

111 treatment of pets;

And animals kept in captivity in zoos and circuses.

There is increasing criticism in all three areas. So far as meat production is concerned, it seems cruel and immoral to many people that animals such as calves and chickens are kept in severely restricted conditions so that they can scarcely move. There is also growing concern, that the methods of slaughtering used in abattoirs may involve much more suffering than is generally admitted by those involved in meat production.

The UK's Royal Society for the Prevention of Cruelty to Animals is one of the main organizations concerned with ill-treatment of animals. Every year it deals with many thousands of cases of animals that have been starved, beaten, or ill-treated in other ways.

Battersea Dogs Home in London receives many dogs every week that have simply been abandoned by their owners. There are indications that public concern at the ill-treatment of pets is growing, at least in terms of the amount of media coverage it commands. Zoos and circuses have attracted more adverse publicity in recent years. It is argued that animals kept in captivity in relatively restricted and alien environments may suffer stress. There is also disquiet that many circus animals are degraded by being forced to perform unnatural tricks.

In sum, there is growing unease about the ways in which animals are treated. The increased focus on ethical issues in animal experimentation is part of a more general re-evaluation of our relationship with other species. Much remains to be done. However, there are encouraging signs that the rights of animals to humane treatment (whether inside or outside the laboratory) are being increasingly recognized.

Ethical Issues

The position that is taken on the issue of using animals in research depends on how similar to humans other species are seen to be. It is much less reasonable to use animals in a wide range of experiments if they are rather similar to us than if they are very different. Views on the similarity of our species to others have changed very much over the centuries. And one extreme is the seventeenth-century philosopher Rene Descartes. He argued that animals are very much like machines, and that they lack the soul (with its powers of thinking)

that is the supreme human characteristic. It follows from this position that animals are inferior to humans.

There are ethical problems for animal research regardless of the position one adopts on the issue of the relationship between the human and other species. If other species are very different from us, then studies on them cannot tell us about human behavior.

Ethical Principles

In general terms, most animal researchers subscribe to what are sometimes known as the three Rs" :

- Replacement of animals by other research methods.
- Reduction in the number of animals used by means of more advanced statistical

techniques.

- Refinement of experimental procedures to reduce animal suffering.

Use of the three Rs has proved very fruitful. For example, 5000 monkeys a year were used in the Netherlands in the 1970s to produce polio vaccines. During the 1990s, the number was reduced to only 10 monkeys. The most obvious problem with the use of animals in research is that many of the ethical principles guiding research on human participants cannot be applied. For example, it is impossible for animals to give voluntary informed consent to take part in an experiment, and they cannot be debriefed at the end.

Animal research of high quality, involving minimal suffering, and with a high probability of benefit is the most justifiable. In contrast, animal research of poor quality, involving considerable suffering, and offering a low probability of benefit is hard to justify.

11.6.2 Abortion Ethics

Abortion is probably one of the most intensely debated ethical issues in today's society. For example, Pro-choice believers feel that a woman has the right to choose whether to have an abortion, while Pro-life followers feel that abortion is never an option. However, in an attempt to find common ground on this issue, we tend to overlook the basic facts regarding this issue. To solve this issue one could look at abortion under an objective view instead of only a subjective view and find that while there is no real answer to this controversy, ethical choices are plentiful. With all the examination complete it then becomes apparent that since it is always wrong to cause death to an innocent person, abortion is always wrong. With that said, the Pro life view is morally and ethically the correct view.

Since the heart begins to beat after about 3 to 4 weeks, abortion after that time would constitute killing a human being, which under most ethical views is morally and ethically wrong. Some also argue that if a woman is raped or is a victim of incest and becomes pregnant, then it is morally and ethical acceptable to have an abortion. Once the heart stops the patient is declared legally dead, therefore if there is a heart beat, there is life. With the world today comprised of various cultures and beliefs it is impossible to adopt one set of morals to use as a base for our moral and ethical decisions, however while we are different we can take certain human values and base our decisions accordingly. Putting aside our predisposed feelings about abortion and looking only at the "facts of life we can see that abortion is wrong. Using this definition, the presence of a heartbeat is not important, Since the egg and sperm combined have the potential" to be a person. Some try to argue that the partial rights of the fetus are not true rights, however since the fetus is a person the rights must be valid. This was the decision in the case of Doe vs. Since there is no such thing as a "partial person" then there are no "partial rights". Looking only at these definitions one cannot avoid coming to the

Conclusion that it is morally and ethically wrong to kill .in innocent person, then abortion is 'wrong". If the fetus dies as a result of this it is not wrong since it was not intentional.

11.6.1 Human Cloning

The billions of cells that presently make up a human being descend from one single cell, the fertilized egg. Today there is a way of Creating life. cloning. Cloning can mean anything from the growing healthy cell -issue to replacing damaged tissue in the human bed .or it can be recreating a human being from cells captured from another human being. Is man creation of a genetically identical copy of an original human cell wrong? Is it ethically or morally wrong to create life to heal, save a life or to make a child? I believe, even Though there are some awesome advantages lo cloning and i: sounds like a wonderful scientific break Though. it is both medically and ethically wrong.

Many people are for human cloning for many reasons. The most powerful advantage of human cloning is that defective genes would nor cause any more illness in human

beings. Cloning might be the care for the most powerful diseases such as cancer, AIDS, diabetes, stroke, etc. Cloning of tissue can take a good cell from existing tissue and grow cloned tissue from it, therefore damaged cells can be replaced. Cloning could also help the infertile have children that are truly their own and not being.

Scientists talk about farming body parts, which means that they would make human clones and if the original cloned person has some kind of problem with his/her body parts (heart, lungs, eyes, kidneys, etc.) they could just use the clones' body parts to replace the cloned person's defective parts. What would it be like to have many a clone? This is only one question medical scientists don't seem to care about, but I think it is one of the ethical questions that are as important as the medical questions are. Using an existing human being is the growing of cloned tissue or manipulating cell structure to make the perfect healthy baby can actually be done today. Human life as we know it would change forever. You can clone a body, but can you clone a soul? I do not believe that God gives a soul to any clone that has the same qualities as the person who is cloned. These are all wonderful things, but would the research step there?⁵ Cloning a tissue and cloning a person are not the same thing. I believe that this decides whether he wants a couple to have a baby or not, whether the baby will be a girl or a boy, whether he wants the baby to be healthy or have some kind of disorder, whether he wants his baby to have blue eyes or brown eyes. Etc.

Cloning is considered the great medical breakthrough of our age. As the definition says, clones are copies of a human's look or what he/she likes to eat but a person's whole personality is based on the experience in his/her life and there is no method of cloning that can replace the personality. There are also medical disadvantages in human cloning, which make the benefits less effective. It was first thought that stem cells could only be harvested from embryos but today's researchers are finding that any human cell can be manipulated and replace any tissue of the body.

My personal opinion is totally against human cloning in any way, especially because of the ethical issues. Being able to have children wouldn't be a problem anymore in a marriage. If it killed the clone, that would not be considered murder.

11.6.4 Business ethics

Business ethics is a form of the art of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment.

In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions (known as ethicism) is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws (e.g. higher UK road tax for higher-emission vehicles).

Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia descriptive approaches are also taken. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have redefined their core values in the light of business ethical considerations (e.g. BP's 'beyond petroleum' environmental tilt).

Ethical Issues in Business

Ethical issues arising from the nature of markets. The 18th Century economist Adam Smith demonstrated how in a free market the self interest of producers and consumers will

produce an outcome desirable to all concerned.

But the market can also lead to inequality of income, wealth and market power :

- Monopoly suppliers can exploit consumers
- Monophony buyers can exploit supply firms
- World wide inequality of income can result in unethical practices such as the child labor

11.6.4.1 Ethical Code?

This is a set of principles governing morality and acceptable behavior. It is likely to cover: Ethics codes generally deal with corporate values and guiding principles, and codes of conduct generally deal with actual behavior that is favored or prohibited. However, there is no firm line between different kinds of codes :

- Personal behavior e.g. when dealing with customers and suppliers
- Corporate behavior e.g. when negotiating deals
- Behavior towards society e.g. when recruiting
- Behavior towards the environment e.g. when deciding on process

11.6.4.2 Ethical Audit

Ethical audit is a new technology which is being developed at the European Institute for Business Ethics (EIBE), Nijenrode University, and the Netherlands Business School. There is nothing new about ethical behavior in business, nor about programmes designed to improve and perhaps formalize an ethical approach to decision making within companies. In the United States, in particular, in recent years many companies have appointed a senior manager with dedicated responsibility for promoting ethical behavior throughout the company. In Europe, such appointments are the exception rather than the rule, but many, perhaps a majority, of Europe's major companies now have an ethical code or code of conduct.

The reasons for examining the state of a company's ethics are many and various. They include external societal pressures, risk management, stakeholder obligations, and identifying a baseline to measure future improvements. In some cases, companies are driven to it by a gross failure in ethics, which may have resulted in costly legal action or stricter government regulation. More often, however, companies choose to do it simply because it is right, it is important, and because it is likely to bring business benefits. Ethical auditing is a process which measures the internal and external consistency of an organization's values base. The key points are that it is value-linked, and that it incorporates a stakeholder approach. Its objectives are two-fold: It is intended for accountability and transparency towards stakeholders and it is intended for internal control, to meet the ethical objectives of the organization.

Purpose

- To check that ethical principles are being pursued
- To check the extent to which actions are consistent with the organization's scaled ethical intentions .
- And to establish action plans if they are not

11.6.4.3 Ethics Programs

In the North American setting, successful codes are embedded in larger ethics programs designed to make sure that everyone in the organization knows the values and principles and how to apply them to their work. Communications programs might include a video for all employees, featuring a personal promise to uphold certain values by the head of the organization, and frank presentation of current issues by a cross-section of staff.

Training programs are of various sorts: integrated with other training or separate, self study or group work. A famous American training program includes a game that brings large numbers of engineers and other professionals together to solve ethical dilemmas that

reflect common workplace situations.

Another piece of most ethics programs is an ethics advisory: service, to give employees impartial, confidential help. The advice might come on a hot-line from the corporate ombudsman, or from an ethics counselor or commissioner. Generally it should not come from the company lawyer or staff relations officer.

An ethics program expands the effect of a code, but the question remains, is the code really just warm words? There is no definitive answer. With constant attention to ethical decision making, ethics programs can act as preventive medicine, to avoid crises, and to help resolve crises when they occur. However, you cannot create an ethics program in the middle of a crisis in order to solve the problem -- no one would accept your good faith without further proof.

Bribery

This is a key ethical issue in business :

- It first needs to be stated that bribery to secure a contract (especially a contract with a public sector body) is against the law and severe penalties can result
 - However, it is sometimes seen (wrongly) as a victimless crime and is often rationalized in terms of 'if we don't offer a bribe, others will'
 - From a moral or ethical perspective it should be approached not in terms of "can we get away" with it but is it right to offer a bribe to secure a contract
- Institute of Business Ethics Suggestions for Good Practice

The institute recommends that organisations issue statements of ethical practice in respect of :

Relations with shareholders and other investors

- Relations with employees
- Relations with suppliers
- Relations with the government and the local community
- The environment
- Relations with competitors
- Issues relating to international business
- Behavior in relations to mergers and takeovers
- Ethical issues concerning directors and managers
- Compliance and verification (downstream) in the supply chain.

Principles

Guiding principles set standards for the organization that go beyond the law in such areas as :

- professionalism,
- accountability,
- Avoidance of harassment and discrimination,
- occupational health and safety,
- truth in advertising,
- environmental protection,
- external communications to shareholders, clients and the public,
- the balance between transparency and openness on the one hand and confidentiality on the other,
- community relations,

- lobbying,
- political activity,
- responsible business practice (prohibitions on bribery, gifts, nepotism, self-dealing), and even business goals (such as becoming market leader

ETHICAL ISSUES AND RELATIONS WITH COMMERCIAL ORGANIZATIONS

Alzheimer's Society position statement

The Alzheimer's Society has a rigorous approach to the support received from companies, pharmaceutical companies, those that benefit commercially from dementia, and investments we may make in companies. This policy was reviewed and revised in August 2007, is monitored and reviewed each year.

The Alzheimer's Society will work in partnership with companies and others, to achieve its objectives.

The purpose of the policy is to regulate any support we receive from companies to protect the Society and our beneficiaries from the risk of being associated with a commercial organization whose activities might be detrimental to our cause. It requires the Society to ensure that any product endorsement is evidence based.

To support the needs of people with dementia and those who care for them the Society needs to work with others and it needs to derive income from a variety of sources. In deriving income from commercial organizations it will :

- Not endorse products without evidence of benefit to those living with dementia or evidence of a benefit in the prevention of dementia;

Ensure that all engagements with commercial organizations are conducted and reported on in a transparent manner

- Support this policy with detailed guidelines on interpretation and make those guidelines publicly and readily available
- Keep the policy under constant review and report on its implementation to the Board of Trustees on an annual basis
- Ensure that any inclusions/exclusions to the policy are made clearly known.

Following the adoption of the policy in August 2007, it was agreed that

- The Society will not accept, donations from the tobacco industries or boxing, or those who make the substantial part of their profit from tobacco or boxing;
- That donations from the pharmaceutical industry be capped at 5% of income (&2 million in 2007/2008; based on the accounts for the preceding year; and that
- The Society will seek partnerships with healthcare industries and those working with dementia.

Written agreements with Companies are required before a partnership is agreed with them.

The Society also instructs its investment advisers to avoid any investment in companies, which profit materially from products that may be harmful to dementia sufferers or contribute to the causes of dementia- Consequently investments in the tobacco

and boxing industries are avoided.

11.6.5 Ethical Issues in Marketing

Most people think of marketing as being focused on developing products, setting prices, creating, promotions and deciding how customers can purchase products. But marketers deal with many more issues as they attempt to operate a successful business. In this topic area we examine additional issues that confront marketers.

In the business world, there are many factors to be considered when living in market a new product. There are production costs, consumer demands, and profit margins associated with marketing. An example of an ethical issue associated with marketing would be having a product that, is in demand but too expensive for consumers to afford. Four reasons are attributed to the fugacious nature of the way marketing practices are being carried out in developing countries

1. The role of Information and Communication technologies: As ICTs evolve so do marketing practices. If yesterday it was television that revolutionized the way advertisements could create a lasting impact on the consumer, then today the internet, and phone text messages are doing just that.
2. The world today is an increasingly global village: Social and ethnic boundaries are fast falling in the wake of cable television and the like.
3. Rapid economic expansions in countries like China and India have meant that marketers have to quickly respond to the changing socio-economic scenarios. Millions of people have entered the middle class and millions more are poised to do so. For marketers, the consequences can be mind boggling as incomes and spending powers rise, marketers have to respond to increasing demands from consumers.
4. Better and improved marketing research has meant that the entire populace is not seen in totality but rather as a congeries of different types of consumers..

The Upshot : But the outcome of such developments is that a number of ethical issues have arisen. While the globe is indeed becoming a smaller place, marketers have to bear in mind national, local and cultural sensitivities. Very often, in the hope of tapping a larger consumer base, marketers jump headlong in new markets without keeping in mind ethnic and social issues typical to certain areas. While marketers do have to act with celerity in gaining footholds in emerging markets such as China and India, care has to be taken in ensuring that the mores, etiquettes of the land are not encroached upon. The incorporation of newer technologies has meant that a number of issues such as invasion of privacy and credibility have arisen.

Exploiting Social Paradigms In the hopes of making a fast buck, marketers often resort to exploiting social paradigms typical to certain areas. In India, for example, a large multinational corporation ran an ad campaign that depicted a young woman who because of her dark facial complexion was unable to find jobs. But as the ad showed, as soon as the woman started using the facial whiteness cream manufactured by the corporation, she got the job of her choice. Needless to say, there was a big backlash against it and the ad campaign had to be scrapped. On an ethical standpoint, marketers have to exercise restraint in exploiting such social paradigms to their commercial advantage

Concluding remarks -Good Marketing Citizens All in all, it can be seen that ethical issues in marketing in the context of developing countries is highly sensitive to cultural, social and ethical issues. The larger issue is thus not merely an occidental versus an oriental one. For the marketing fraternity to be a good ethical citizen, the onus lies on themselves-for indeed, marketers have to stop indulging in unethical practices and start

respecting local mores and values
ETHICAL ISSUES IN ADVERTISING

Advertising's visible social role makes it a target for criticism. Some of today's consumers believe that a great deal of advertising is unethical because it :

1. Adds to the price of products,
2. Is untruthful,
3. Tricks people, or
4. Targets vulnerable people.

Key Ethical Issues in Advertising

11.6.6.1 **Puffery**

Historically, claims that were "mere exaggerations" or "hyperbole" were considered to be puffery, and therefore not deceptive. Terms like "the best" or "the greatest" were sales talk,

and the FTC would not regulate them. After all, everyone knows that "Wonder Bread" is not really a wonder, and "The Greatest Show on Earth" is not what everyone considers the greatest. Puffery, therefore, was a form of opinion statement, and considered unregulable.

Some observers have expressed concern that the "puffery defense" was a loophole through which many deceptive claims fell. The Commission has been criticized for allowing deceptive claims to slip through under the guise of puffery.

On the other hand, the FTC has defined puffery as claims that

- (1) Reasonable people do not believe to be true product qualities, and
- (2) are incapable of being proved either true or false.

Consequently, if deception is the creation of a "false belief about the product in the mind of a consumer, claims that fall into the FTC definition of puffery cannot be deceptive. By definition, such claims can be neither false nor can they create belief. This means that if deceptive claims have slipped through regulation as puffs, it is because the FTC has failed to follow its own definition.

11.6.6.2 **Taste n ads**

1. Different things offend different, people
2. Issues of taste can extend to the product itself
3. Today's questions of taste center on sexual innuendo, nudity, vulgarity, And

Violence.

STEREOTYPING

Stereotyping are inevitable, especially in the advertising, entertainment and news industries, which need as wide an audience as possible to quickly understand information. Stereotypes act like codes that give audiences a quick, common understanding of a person or group of people usually relating to their class, ethnicity or race, gender, sexual orientation, social role or occupation.

But stereotypes can be problematic. They can :

- reduce a wide range of differences in people to simplistic categorizations
- transform assumptions about particular groups of people into 'realities'
- be used to justify the position of those in power
- perpetuate social prejudice and

inequality

Stereotyping in Advertising

1. Women in advertising
2. Racial & Ethnic Stereotypes
3. Senior citizens

4. Gay & lesbian consumers

1. Women & Racial Stereotyping

Many women are used in advertisements to sell items for the home or body. Many of these products are specifically to enhance one's beauty and by doing this, she is more in control of herself and the world around her.

It seems as if everywhere you turn, someone is trying to be politically correct. Whether it involves minorities or women, racist and sexist comments are no longer tolerated in places such as the school yard and the work place. Why is it, then, that minorities and women are constantly being exploited in everyday advertisements? Television, magazines, and billboards no longer show products, but rather show gimmicks in order to sell their product. In general, these gimmicks seem to enforce racial stereotypes and to view women in a negative way. It appears that on every channel, there is another television commercial trying to sell its product with beautiful women. These commercials can range from selling beer to selling cars.

Who can forget the gorgeous blonde standing next to the green Geo Storm, proudly exclaiming, 'A man likes a woman who knows how to drive a stick!?' Advertisements like these, though seemingly aimed towards women, are actually exploiting them en route to their actual target: men. This commercial would routinely air during sporting events, when the majority of the viewers are male. It fits in well with the other commercials which, more often than not, have to do with beer.

Beer companies have been notorious for exploiting women in their everyday promotions. Watching a football game, you can usually find an attractive young lady being swept off her feet by a less than attractive man after he opens the beer of his choice. Or, if you are lucky, you can witness several young women materialize on a desert island with the male drinker after, of course, he opens his can of beer. These advertisements present women as a goal, a trophy if you will, that can only be attained with the proper beverage. These women seldom have anything to say besides "Yes," making them seem like unintelligent sex objects. Unfortunately, the exploitation does not stop with women. Beer commercials exploit minorities as well.

African-Americans are not the only minority group exploited in advertising; Arab-Americans are victims as well. On September 16, 1996, Newsweek magazine printed a two page advertisement for a well-known computer company. This ad depicted an Arab man from an unknown Arab country, wearing his native garb and standing next to a camel. There are boxes of computer parts in the corner of the page. The ad reads: "Some computer companies don't make their own parts. Makes you wonder where they get them. This advertisement insinuates that if these parts were made in an Arab country, they would somehow be inferior. Though the country is not mentioned by name, the message is still very clear.

Racism and sexism are problems that go unnoticed in advertising today. Nevertheless, they must be dealt with. The only winners in these types of ads are the advertisers themselves, who make money when you buy the product. There needs to be a public awakening, for racism and sexism should not be used in any situation, especially not to sell products. Advertisers need to take responsibility for their own actions and to end this type of exploitation. If they do not, we the consumer can always force them. After all, we have the dollars and the sense.

2. Marketing to

seniorsSeniors Buy More!

If your business offers products or services that are of interest to seniors, at least 70% of your customers should be over 50 years old. If not, you are losing some of the best

paying and loyal customers there are.

Seniors control 70% of the disposable income in the United States. It's simple math. One-third of the nation controls two-thirds of the spending capital. Put more simply...

Comparing the needs and wants of seniors to any younger group will show that there is about 90% correlations. Seniors usually need and want the same things, just in different quantities and with different priorities. The most important difference is the message and the venue.

Senior Market Fact Sheet

Is your company targeting seniors?

You should be. Here's why...

- 12 Seniors make up a larger market than African-American and Hispanic market segments combined.
- 13 Age 55+ households are the fastest growing user segment to embrace computer technology
- 14 Seniors are the most brand loyal age group. Are you getting to them first?
- 15 Seniors own 70% of all money market accounts and certificates of deposit assets
 - Seniors have an income per capita that is 26% higher than the national average
 - They spend more than one trillion dollars on goods and services
 - Seniors accounts for 60% of all healthcare spending
 - They purchase 74% of all prescription drugs and buy 51% of all over-the-counter drugs
 - Seniors acquire 41% of all new cars
 - Seniors purchase 25% of all toys
 - They account for 80% of all luxury travel
 - Seniors spend \$7 billion online annually
 - An average retired seniors who is online spends more time online than an average teenager
 - Adults 50+ control a household net worth of \$19 trillion and own more than three-fourths of the nation's financial wealth

3. Gay & Lesbian Consumers

It's some gay media serve up a phony glamorous image of us. it's because some of us eat. it up. We pay lip service to the idea of diversity -but if you went to, say, the Planet Out Web site in search of a picture of gay and lesbian America, you'd come away thinking we were all toothsome 20-somethings who outfit ourselves at the same funky boutique in Collins in Miami or Melrose in Los Angeles. That we accept such images is understandable: It's nicer to be prettified than vilified. But stereotypes are stereotypes. 'All blacks have rhythm'; 'all Asians are good students': These claims offend not because it's bad to be rhythmic or studious but because simplistic generalizations--good or bad--about any group dehumanize every member of that group. What's unfortunate about the stereotypical image of a wealthy, carefree 'gay lifestyle' is not just that it feeds envy; it's that it conceals behind a shallow facade the rich diversity of millions of gay individuals' lives.

Advertisement to Children

With children either spending or influencing 500 billion dollars worth of purchases, marketing techniques have been turned upside down. In the past the most effective way to sell children's products was through mom and dad. Now the opposite is true, children are the focal point for intense advertising pressure seeking to influence billions of dollars of family spending. Advertisers are aware that children influence the purchase of not just kid's products anymore, but everything in the household from cars to toothpaste. Thus these "adult" products are being paired with kid-oriented logos and images.

With children's increased access to new communication technologies being paired

with the fast pace and busy schedules of today's families, parents are less able to filter OUL the messages from the advertising world. Children themselves have been asked to assume more purchasing decisions than ever before.

Marketing tools beyond the ever-present television have spread into many facets o: children's lives :

- Magazines aimed at children have blossomed. Many of these magazines are kid versions of adult magazines. For instance, the popular Sports Illustrated for Kids, carries ads for minivans.
- Promotional toys either tie in to cartoons, TV shows and movies or promote brand consciousness and loyalty.
- Cartoon and toy characters tire used on all kinds of products, seeking co catch the children's eyes and purchases.
- Databases of child customers are being built from information gathered on Internet sign-ups and chat rooms, from electronic toy registries at stores like Toys R' Us, and from direct surveys.
- Advertising in schools : Advertisers and marketers take advantage of severe budget shortfalls in schools to offer cash or products in return for advertising access to children.
- Channel One : short news briefs are surrounded by commercials that children are forced to watch in schools.
- Promotional licensing of products aimed at kids who will include media pitches, e.g., a brand of pagers will include messages from MTV.
- Logos on all types of merchandise, everywhere children go.
- Children's radio networks are becoming popular.
- Children's toys are starting to carry product placements (e.g. Barbie™ dolls with Coca Cola™ accessories).

Give-away programs include promotional merchandise aimed at children (e.g., McDonald's™ "Happy Meals").

Advertisement Controversial Products

Promotion of Alcohol, Tobacco-Creating Demand for Vice Cigarettes is one of the most heavily marketed products in China and other developing nations. An increasing percentage of those marketing dollars is dedicated to what are probably the most sophisticated consumer marketing databases in the business world. Tobacco advertising is no longer just the province of multi-million dollar ad budgets pushing the Marlboro Man, Joe Camel s phallic face or the women in the Virginia Slims' ads who have 'come a long way.' It is equally the province of direct marketers, pushing free packs to targeted prospects and mailing slick magazines-published by tobacco companies-to influence the behavior and retain the loyalty of tens of millions of smokers And the problem is pandemic-is is prevalent in both developing as well as developed countries alike. In the US for example, cigarette smoking is responsible for the deaths of almost half a million people a year. Tobacco use is responsible for more than one in six deaths in the United States. Smoking accounts for 30% of all cancer deaths. It is a major cause of heart disease, and it is associated with conditions ranging from colds and gastric ulcers to chronic bronchitis, emphysema and vascular disease. Smoking caused an estimated 264,087 male and 178, 311 female deaths in the United States each year from 1995 to 1999. The U.S. Congress Office of Technology Assessment estimates the cost of smoking (direct and indirect) to the economy at Si50 billion a year. Each day more than 3,000 teenagers in the U.S. become addicted to cigarettes. The tobacco industry argues that its advertising is not aimed at recruiting these young new smokers. Its representatives say, disingenuously, that advertising by individual

tobacco companies' targets adults only and serve only to encourage regular smokers to switch brands or to retain brand loyalty. However it has been seen that perception of cigarette brand advertising actually is higher among young smokers and that changes in market share resulting from advertising occur mainly in this segment. Cigarette advertising thus undoubtedly encourages youth to smoke. In a survey conducted by the Journal of the American Medical Association, it was stated that the success of the tobacco industry is dependent on recruiting people who don't believe that tobacco kills-thus enticing children, developing nations populations, and disadvantaged members of society to smoke is the only way for tobacco companies to make up for the number of smokers who quit or die.

11.6.6.4 Subliminal

One of the most controversial and ethical issues in advertising is regarding subliminal advertisements. Inserting subliminal messages in an advertisement is an inherently misleading action. It is an attempt to manipulate a person's thinking without the person realizing that any such manipulation is occurring. The west has had its fair share of subliminal advertisements related hullabaloo primarily because the advertisement, marketing and regulating media themselves have been quite active in raising such issues. In line with the techniques of subliminal messaging, the questionable word appeared on the screen for only a microsecond (1 /30th of a second), passing by so fast that it was almost unrecognizable to the conscious mind especially when passively lulled by television. According to the theory of subliminal advertising the image would, indeed, register in a viewer's subconscious mind, thereby causing the viewer to negatively associate Al Gore with a rodent. The effects of subliminal advertisements are real and financially significant. Each year, consumers spend roughly \$50 million for self-help tapes embedded with subliminal messages that are supposed to teach a person a foreign language while they sleep, or help them lose weight, or quit smoking. Additionally, some stores embed subliminal messages in their background music in an effort to discourage shoplifting. The Ethical Issue of Creating Demand In the words of Hope John Paul 11, advertising also can be, and often is, a tool of the phenomenon of consumerism. Sometimes advertisers speak of it as part of their task to 'create' needs for products and services - that is, to cause people to feel and act upon desires for items and services they would ordinarily not need. A piquant issue arises when consumerism attitudes and values are transmitted by communications media and advertising to developing countries, where they exacerbate socio-economic problems and harm the poor. While a judicious use of advertising can stimulate developing countries to improve their standard of living, serious harm can be done to them if advertising and commercial pressure become so irresponsible that communities seeking to rise from poverty to a reasonable standard of living are persuaded to seek this progress by satisfying wants that have been artificially created. The result of this is that they waste their resources and neglect their real needs, and genuine development falls behind.

ETHICAL ISSUE

Ethical Value	Example
Social Responsibility	Advertising agency working pro-bono for the Red Cross
Puffery	Retailer claims it has the best merchandise in town
Bad Taste	Ad. for topical medication shows or describes the infected area in detail
Stereotyping	Showing a handicapped consumer in desperate need of help
	Using specific races in ads. for bankruptcy/refinancing

Advertising to Children	Suggesting that, wearing a sneaker makes you more popular
Subliminal ads.	Embedding a sexual image so that it isn't noticed on a conscious level

11.7 Self check exercise I

1. An example of unethical ad would be
 - a. Car dealer lowering the prices
 - b. An ad stating one hamburger is the best thing of all
 - c. An ad promoting cigarette to small children
 - d. An attorney advertising for personal injury cases
2. Who are organizational stakeholders?
 - a. Government
 - b. Employees
 - c. Customers
 - d. All of the above

11.8 ETHICAL ISSUES OF THE INFORMATION AGE

Today in western societies more people are employed collecting, handling and distributing information than in any other occupation. Millions of computers inhabit the earth and many millions of miles of optical fiber, wire and air waves link people, their computers and the vast array of information handling devices together. Our society is truly an information society, our time an information age. The question before us now is whether the kind of society being created is the one we want. It is a question that should especially concern those of us in the MIS community for we are in the forefront of creating this new society.

There are many unique challenges we face in this age of information. They stem from the nature of information itself. Information is the means through which the minds expands and increases its capacity to achieve its goals, often as the result of an input from another mind. Thus, information forms the intellectual capital from which human beings craft their lives and secure dignity.

The ethical issues involved are many and varied; however, it is helpful to focus on just four. These may be summarized by means of an acronym — PAPA.

- Privacy : What information about one's self or one's associations must a person reveal to others, under what conditions and with what safeguards? What things can people keep to themselves and not be forced to reveal to others?
- Accuracy : Who is responsible for the authenticity, fidelity and accuracy of information? Similarly, who is to be held accountable for errors in information and how is the injured party to be made whole?
- Property : Who owns information? What are the just and fair prices for its exchange? Who owns the channels, especially the airways, through which information is transmitted? How should access to this scarce resource be allocated?
- Accessibility : What information does a person or an organization have a right or a privilege to obtain, under what conditions and with what safeguards?

11.8.1 Privacy

What information should one be required to divulge about one s self to others? Under what conditions? What information should one be able to keep strictly to one s self? These are among the questions that a concern for privacy raises. Today more than ever cautious citizens must be asking these questions.

Two forces threaten our privacy.

1. Growth of information technology, with its enhanced capacity for surveillance, communication, computation, storage, and retrieval.
2. More insidious threat, is the increased value of information in decision-making. Information is increasingly valuable to policy makers; they covet it even if acquiring it invades another's privacy.

Most invasions of privacy are not this dramatic or this visible. Rather, they creep up on us slowly as, for example, when a group of diverse files relating to a person and his or her activities are integrated into a single large database. Collections of information reveal intimate details about a person and can thereby deprive the person of the opportunity to form certain professional and personal relationships. This is the ultimate cost of an invasion of

privacy. So why do we integrate databases in the first place. It is because the bringing together of disparate data makes the development of new information relationships possible. These new relationships may be formed, however, without the affected parties' permission. You or I may have contributed information about ourselves freely to each of the separate databases but that by itself does not amount to giving consent to someone to merge the data, especially if that merger might reveal something about us.

The threat to privacy here is one that many of us don't fully appreciate. I call it that threat of exposure by minute description. It stems from the collection of attributes about us and use of the logical connector 'and'. For example, I may authorize one institution to collect information 'A' about me, and another institution to collect information 'B' about me; but I might not want anyone to possess 'A and B' about me at the same time. When 'B' is added to the list of conjunctions, the possessor of the new information will know even more about me. And then 'C' is added and so forth. Each additional weaving together of my attributes reveals more and more about me. In the process, the fabric that is created poses a threat to my privacy.

Computer matching and the integration of data files into a central databank have enormous ethical implications. On the one hand, the new information can be used to uncover criminals and to identify service requirements for the needy. On the other hand, it provides powerful political knowledge for those few who have access to it and control over it. It is ripe for privacy invasion and other abuses. For this reason many politicians have spoken out against centralized governmental databanks.

11.8.2 Accuracy

Misinformation has a way of fouling up people's lives, especially when the party with the inaccurate information has an advantage in power and authority.

Among the questions this raises for us in the information age are these: how many Louis Marches and Gary Browns are there out there? "How many are we creating every day?" The Marches received a large financial settlement; but can they ever be repaid for the irreparable harm done to them and to their dignity? Honor Brown, Gary's widow, received a judgment in her case; but has she been repaid for the loss of Gary? The point is: We run the risk of creating Gary Browns and Louis Marches every time we design information systems and place information in databases which might be used to make decisions. So it is our responsibility to be vigilant in the pursuit of accuracy in information. Today we are producing so much information about so many people and their activities that our exposure to problems of inaccuracy is enormous. And this growth in information also raises another issue: Who owns it?

11.8.3 Property

One of the most complex issues we face as a society is the question of intellectual property rights. There are substantial economic and ethical concerns surrounding these rights; concerns revolving around the special attributes of information itself and the means by which it is transmitted. Any individual item of information can be extremely costly to produce in the first instance. Yet, once it is produced, that information has the illusive quality of being easy to reproduce and to share with others. Moreover, this replication can take place without destroying the original. This makes information hard to safeguard since, unlike tangible property, it becomes communicable and hard to keep it to oneself. It is even difficult to secure appropriate reimbursements when somebody else uses your information.

We currently have several imperfect institutions that try to protect intellectual property rights. Copyrights, patents, encryption, oaths of confidentiality, and such old-fashioned values as trustworthiness and loyalty are the most commonly used protectors of our intellectual property. Problem issues, however, still abound in this area.

Today our airways are becoming clogged with a plethora of data, voice, video, and message transmission. Organizations and individuals are expanding their use of communications because it is profitable for them to do so. But if the social checks on the expanded use of bandwidth are inadequate, and a certain degree of temperance isn't followed, we may find that jamming and noise will destroy the flow of clear information through the air. How will the limited resource of bandwidth be allocated? Who will have access? This leads us to the fourth issue.

11.8.4 Access

Our main avenue to information is through literacy. Literacy, since about 1500 A.D. when the Syrians first conceived a consonant alphabet, has been a requirement for full participation in the fabric of society. Each innovation in information handling, from the invention of paper to the modern computer, has placed new demands on achieving literacy. In an information society a citizen must possess at least three things to be literate :

- One must have the intellectual skills to deal with information. These are skills such as reading, writing, reasoning, and calculating. This is a task for education.
- One must have access to the information technologies which store, convey and process information. This includes libraries, radios, televisions, telephones, and increasingly, personal computers or terminals linked via networks to mainframes. This is a problem in social economics.
- Finally, one must have access to the information itself. This requirement returns to the issue of property and is also a problem in social economics.

These requirements for literacy are a function of both the knowledge level and the economic level of the individual. Unfortunately, for many people in the world today both of these levels are currently deteriorating.

These are powerful factors working both for and against contemporary literacy in our organizations and in our society. For example, the cost of computation, as measured in, say dollars per MIPS (millions of instructions per second), has gone down exponentially since the introduction of computers. This trend has made technology more accessible and economically attainable to more people. However, corporations and other public and private organizations have benefited the most from these economics. As a result, cost economies in computation are primarily available to middle and upper income people. At the same time computer usage flourishes among some, we are creating a large group of information poor people who have no direct access to the more efficient computational technology and who

have little training in its use.

Reflect for a moment on the social effects of electronically stored databases. Prior to their invention, vast quantities of data about publications, news events, economic and social statistics, and scientific findings have been available in printed, microfilm, or microfiches form at a relatively low cost. For most of us access to this data has been substantially free. We merely went to our public or school library. The library, in turn, paid a few hundred dollars for the service and made it available to whoever asked for it. Today, however, much of this information is being converted to computerized databases and the cost to access these databases can run in the thousands of dollars.

Frequently, access to databases is gained only by means of acquiring a terminal or personal computer. For example, if you want access to the New York Times Index through the Mead Corporation service you must first have access to a terminal and communication line and then pay additional hook up and access fees in order to obtain the data. This means that the people who wish to use this service possess several things. First, they know that the database exists and how to use it. Second, they have acquired the requisite technology to access it. And third, they are able to pay the fees for the data. Thus the educational and economic barrier is really quite high for playing the modern information game. Many people cannot or choose not to pay it and hence are excluded from participating fully in our society. In effect, they become information "drop outs" and in the long run will become the source of many social problems PAPA

Privacy, accuracy, property and accessibility, these are the four major issues of information ethics for the information age. Max Planck's 1900 conception that energy was released in small discrete packets called "quanta" not only gave rise to atomic theory but also permitted the development of information technology as well. Semiconductors, transistors, integrated circuits, photoelectric cells, vacuum tubes, and ferric cores are among the technological yield of his scientific theory. In a curious way, quantum theory underlies the four issues as well. Planck's theory, and all that followed it, have led us to a point, where the stakes surrounding society's policy agenda are incredibly high. At stake with the use of nuclear energy is the very survival of mankind itself. If we are unwise we will either blow ourselves up or contaminate our world forever with nuclear waste. At stake with the increased use of information technology is the quality of our lives should we, or our children, survive. If we are unwise many people will suffer information bankruptcy or desolation.

Our moral imperative is clear. We must insure that information technology, and the information it handles, are used to enhance the dignity of mankind. To achieve these goals we must formulate a new social contract, one that insures everyone the right to fulfill his or her own human potential.

In the new social contract, information systems should not unduly invade a person's privacy to avoid the indignities that the students in Tallahassee suffered.

Information systems must be accurate to avoid the indignities the Marches and the Browns suffered.

Information systems should protect the viability of the fixed conduit resource through which it is transmitted to avoid noise and jamming pollution and the indignities of "The Tragedy of the Commons".

Information systems should protect the sanctity of intellectual property to avoid the indignities of unwitting 'disembodiment' of knowledge from individuals.

And information systems should be accessible to avoid the indignities of information literacy and deprivation.

Ethical issues and society - examples

- Involvement in the community
- Honesty, truthfulness and fairness in marketing
- Use of animals in product testing
- Agricultural practices e.g. intensive farming
- The degree of safety built into product design
- Donation to good causes
- The extent to which a business accepts its alleged responsibilities for mishaps, spillages and
- The selling of addictive products e.g. tobacco
- Involvement in the arms trade

Ethical issues arising from internal and industry practices - examples

- Treatment of customers - e.g. honoring the spirit as well as the letter of the law in respect to warranties and after sales service
- The number and proportion of women and ethnic minority people in senior positions
- The organization's loyalty to employees when it is in difficult economic conditions
- Employment of disabled people
- Working conditions and treatment of workers
- Bribes to secure contracts
- Child labor in the developing world
- Business practices of supply firms
- Unethical practices in marketing - examples
- Pricing lack of clarity in pricing
- Dumping - selling at a loss to increase market share and destroy competition in order to subsequently raise prices
- Price fixing cartels
- Encouraging people to claim prizes when they phoning premium rate numbers
- "Bait and switch" selling - attracting customers and then subjecting them to high pressure selling techniques to switch to a more expensive alternative
- High pressure selling - especially in relation to groups such as the elderly
- Counterfeit goods and brand piracy
- Copying the style of packaging in an attempt to mislead consumers
- Deceptive advertising
- Irresponsible issue of credit cards and the irresponsible raising of credit limits
- Unethical practices in market research and competitor intelligence

practices relating to products - examples

- Selling goods abroad which are banned at home
- Omitting to provide information on side effects
- Unsafe products
- Built in obsolescence
- Wasteful and unnecessary packaging
- Deception on size and content
- Inaccurate and incomplete testing of products
- Treatment of animals in product testing

11.9 FUTURE ETHICAL ISSUES

The International Declaration of Human Rights and hundreds of other international agreements define the normative state of global ethics, yet there are many issues that have not yet been confronted that could arise in the foreseeable future. Twenty years ago the

Internet was unheard of, yet today the ethics about giving easy access to dangerous and repulsive information is debated worldwide. It is reasonable to assume that future ethical issues may seem far out today. The values with which we judge them today may evolve: what we value as delightful today may become obsolete and that which we abhor may become ordinary and accepted.

The great ethical issues of an age are often codified in laws that reflect or indeed define public values. With the acceleration of change, the intensity of value conflicts will also increase. The public, law makers, judges and others who define what is right may not have sufficient time to consider all the ramifications of the emerging and intensifying ethical issues. This study is intended to contribute to an evolving body of literature on future ethical issues and a range of views about those issues, if successful, this could serve as background to the emerging debates about coming issues before they became a matter of urgency. There are also ethical issues that will not be reflected in law, but will nevertheless guide behavior. In either case, there are complex future ethical issues that we as a species need to take time to think through.

As future is unpredictable, no one can predict the coming ethical issues in our society, but on the basis of present ethics, some questions regarding ethics arise in everyone's mind.

Naturally, some future issues are further in the future than others; so the questions are grouped into three time periods: 2005-2010; 2010-2025; and 2025-2050

Issues 2010-2025

1. What is the ethical way to intervene in a country that is endangering people significantly enough to justify collective action by other countries, abridging the first nation's sovereignty?
2. Is it right for governments or the public to intervene in the scientific process when, on the one hand, unimpeded science has such great promise but on the other, unintended deleterious consequences are a plausible result of the research?
3. Do people and organizations have a right to pollute if they can pay for it; e.g. by paying carbon taxes, pollution fines, carbon trading, etc.?
4. Should religious or scientific views prevail in embryonic stem cell research?
5. Should codes of ethics be created and enforced by an international agency to guide the behavior of international corporations?
6. Should national sovereignty and cultural differences be allowed to prevent international intervention designed to stop widespread male violence to women?
7. Do we have a right to clone ourselves?
8. Does society have a right to clone animals?
9. Should religions give up the claim of certainty and/or superiority to reduce religion-related conflicts?
10. Does the possible use of future weapons (like dirty bombs or biological weapons) by an individual or group justify governments to ignore the rights of those individuals and groups, and those of innocent others who might be related in some way, to prevent the anticipated action?
11. What is the ethical way to intervene into any educational system that teaches hate and violence?

Issues 2010-2025

- Should there be two standards for athletic, musical, and other forms of

competition: one for the un-augmented and another for those whose performance has been enhanced by drugs, bionics, genetic engineering, and/or nanobots?

- Should information pollution (as environmental pollution is now) become a crime?
- Is it ethical for society to recreate extinct species?
- With a vastly more interconnected world, when ideas, people, and resources can clearly come together to solve a problem or achieve an opportunity, is it unethical to do nothing to connect them, when it is clearly in one's power to do so?
- In this time period it is possible for an individual to become or initiate a weapon of mass destruction. Is it right to integrate the systems of education, security, and mental health to prevent young people from growing up into deranged adults who may be capable of using weapons of mass destruction in the future?
- Is it right to computer augment or genetically enhance our pets and other animals' brains?

Issues 2025-2050

- If technology grows a mind of its own, what ethical obligations do we have for its behavior?
- Do we have the right to genetically change ourselves into a new or several new species?
- Is it right to allow the creation of future elites who have augmented themselves with artificial intelligence and genetic engineering, without inventing a way to manage their superhuman abilities?
- Is it right for humans to merge with technology, as one way to prevent technological hegemony?
- With accelerating advances in psychoactive drugs and virtual reality, should there be limits to the pursuit of artificial happiness?
- Should artificial life (life-mimicking software, sentient robots, etc.) have rights?

11.10 SUMMARY

The 21st century was predicted to be a period of technological advancement and scientific progress. However true this prediction might be, most people in our mightily developed world failed to notice that while such advancement was taking place, we had left no place at all for moral values. We are more concerned with the price of everything and yet know the value of nothing. We give full and unhindered importance to monetary gain, public status and material possessions, scorning even the idea of ethics and standards.

Yes, in the fast paced life that engulfs us today, we do not care to believe and we don't care to show concern for other humans around us. Our morals and values should be a reflection of our character and spirituality, but there is no character left and not even a trace of spirituality. We have lost faith and trust. Love and caring. We have forgotten ourselves because we concentrate so very hard on losing ourselves by being concerned only about work and achievements instead of being concerned about our relationships.

The only logical conclusion that we will be able to come to will be that when we do good, we feel good and when we do bad, we feel bad. It is important that we give importance to ethics that we behave with others just the way we would want them to behave with us. We have to be able to believe, in ourselves in everyone around us, in karma, in goodwill, in the truth, in honesty and in our age old values that are presently buried in mud. We have to retrieve them, we have to make an extremely conscious effort to try and bring their presence back into our lives.

We must rise above the stereotyping, above the categorizing and the hypocrisy. It will take years, maybe ages to rebuild paradise from this immorality, but we must start by taking down the blocks of stones and letting down the guards we have built around our hearts. When every person wears his heart on his sleeve, trust will automatically find a place in the world and when every person trusts and believes, values and ethics will once again instill themselves in our lives.

- Let us regard this as settled: what is morally wrong can never be advantageous, even when it enables one to make some gain that one believes to be to one's advantage.
- Education should help students evolve into a person with holistic vision and growth, culminating in preparing a happy future for an integrated mankind.

11.11 Self check exercise II

1. 'Publicity or acclaim that is full of undue or exaggerated praise'. It is a definition of
 - a. Puffery
 - b. Stereotyping
 - c. Grey market
 - d. Surrogate advertising
2. Women being portrayed at home, Cooking cleaning , doing household work is an example of
 - a. Gender stereotype
 - b. Eating disorder
 - c. Ideal body image
 - d. Misbranding

11.12. Keywords

Ethical code, ethical audit, stereotyping, puffery

11.13. Answers to self check exercise

Exercise I

1. An ad promoting cigarette to small children
2. All of the above

Exercise II

1. puffery
2. gender stereotype

11.14 SHORT ANSWER TYPE QUESTIONS

1. Define ethical code and ethical audit.
2. Define the purpose of ethical audit.
3. Discuss some key ethical issues in marketing.

11.15 LONG ANSWER TYPE QUESTIONS

1. Explain puffery and stereotyping in detail.
2. Discuss some ethical issues in society with the help of examples.
3. Explain unethical marketing practices with the help of examples.

11.16 SUGGESTED READINGS

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**ETHICS CODES AND INCENTIVES IN CORPORATE SECTOR
STRUCTURE**

- 12.1. Objective
- 12.2. How to Develop an Ethics for a Company?
- 12.3. Management. Challenges : Government V/s. Private Sector
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- 12.11 How does Ethics And Social Responsibility Depend On Quality?
 - 12.11.1Management Commitment
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- 12.14 Keywords
- 12.15 Answers to self check exercise II
- 12.16 Short answer type questions
- 12.17 Long answer type questions
- 12.18 Suggested readings
- 12.1 **OBJECTIVES**

After reading this chapter readers should come to know about the :

- How to develop an ethics for a company, a comparison between corporate and public sector Business ethics,, the development of codes.
- They also come to know how to evaluate ethics

12.2 HOW TO DEVELOP AN ETHICS POLICY FOR A COMPANY PURPOSE

A purpose combines both the vision as well as the values that would be upheld in the business. It comes from the top and outlines specifically what is considered acceptable as well as unacceptable in terms of conduct in the business.

PRIDE

Pride builds dignity and self respect. If employees are proud of where they work and what they are doing. they are much more apt to act in an ethical manner.

PATIENCE

Since the focus is on long-term versus short-term results, management must, develop a certain degree of patience. Without it they will become too frustrated and will be more tempted to choose unethical alternatives.

PERSISTENCE

Persistence means standing by one's word. It means being committed. If someone is not committed to the ethics he has outlined, then they become worthless.

PERSPECTIVE

In a world where there is never enough time to do everything somebody need or want to do, it is often difficult to maintain perspective. However, stopping and reflecting on where one's business is headed, why he has headed that way, and how he is going to get there allows him to make the best decisions both in the short-term as well as the long-term. A company policy is a reflection of the values deemed important to the business.

7.3 MANAGEMENT CHALLENGES : GOVERNMENT VS. PRIVATE SECTOR

<p>Management Challenges : Government vs. Private Sector</p> <p>The following matrix provides a comparison between the challenges faced by government managers and those encountered by their private sector counterparts.</p>		
Issue	Private Sector	Government
Budgetary Constraints	Budgets are tight at bottom of business cycle, but decisions can be flexible and rational based on the circumstances at any given time.	Budget process starts 2 years in advance. Very inflexible; difficult to reallocate resources or obtain additional funding
Hiring	managers can hire new staff quickly if business cycle dictates they need more personnel.	It can take 1-2 years to create and encumber a new position and several months to fill an existing position that has become vacant. In many agencies, managers are only allowed to interview the top 3 applicants (who are selected by . OPM).
Firing	Anyone can be fired at any time; severance packages are a cost of doing business. Non-producers can be fired. •	Separation for poor performance requires extensive documentation over a long period of time.
Bureaucracy	While bureaucracies exist in most large organizations, corporate bureaucracies tend to be smaller and less tradition-bound than those in government.	Job security, stability, and sheer size of organizations tend to foster strong bureaucratic attitudes and resistance to change.

Procurement	Companies can buy what they need, when they need it--provided they can afford it or obtain credit.	Government procurement rules have been streamlined in recent years for small purchases, but larger acquisitions/contracts must usually be put up for competitive bid. This tends to slow the procurement and/ or contracting process significantly.
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12.4 WHO OWNS THE BUSINESS?

A private company is owned by one person or a small number of people and they run their business as they see fit, within the law for their own private interest. A corporation is run by a relatively large number of shareholders, who, like the private company owners, are legally permitted to govern the organization with their collective interest, public organization cannot be said to have an owner, at least in the traditional sense of 'owner'.

We can say, however, that public organizations are responsible to the general public in a manner roughly similar to that in which a company is ultimately responsible to its ownership. The company or corporation does what its owners tell it to do, but the public organization must answer to a public charge specified by people speaking for the entire society.

The private company or a corporation seeks to make a profit; the public agency must serve the public. The owners of the private company or a corporation seek to benefit financially from their venture. If a private corporation loses money consistently it will eventually close down. Public agencies are very different in this regard. The public agency is generally not required to make money but only to respond to a public charge that the public is willing to fund. The public agency is successful when it uses money productively rather than when it makes money. The difference in nature of the ownership has deep ethical implications. The public agency is created to serve the values that the public considers worthy.

While it might be said that a society's values are ultimately evident in the products it buys, those values are more directly expressed in the agencies that it deliberately creates. Societies permit private companies and corporations to exist, but societies mandate the work of their public agencies. A society can allow an industry, such as the tobacco industry, to exist without approving its products or encouraging people to buy them. Out when the society creates and funds public agencies, it expresses a value that the society in general considers worthy.

The society's values are implicit not only in the public organizations that it creates, but also in the manners in which it requires those organizations to function. The people may choose to demand more ethical treatment of employees, respect for the environment, or financial disclosure from public agencies than private firms. The governmental limitations on private organizations, even when they are imposed, express society's ideas of how an organization is permitted to do its business, but the mandated structure of public agencies, in that they are created, maintained, and ultimately run by the society, expresses how they should conduct business.

In commenting upon the difference between public and private organizations, we do not mean to imply that private organizations are inherently unethical or amoral. The owners and stockholders of a private organization may, and often do, make ethical choices. Moreover, a private organization might even be founded upon ethical values. A private firm

must however make a profit in order to stay in business. The public organizations by contrast, need not make a profit but must further the society's values as expressed in the organization's mission. Furthermore, even when a private organization chooses to advance ethical values, they are those that the owners, stockholders, and organization as a whole considers worthy.

The employee implicitly acknowledges the values of the society in choosing to work in a public organization, but he or she may not personally accept all of these values but must assume them as the foundation of his or her professional environment. That assumption is especially important in the case of the public employee, who must make professional decisions on behalf of the society and its values.

The ethical commitment of a public agent is most critical in the stewardship capacity. While efficiency and frugality are values that societies largely accept, they value other things as well. In making budgetary decisions, the public sector employee must consider not only the cost, but also the importance of the activity under consideration.

The public sector employee is also often forced into an ethical decision when the public interest conflicts with that of his agency. It may be in competition with the other agencies for public funding.

The public sector employee and private sector employee differ significantly in that the first is a steward of the public and the second is a steward of private interest.

In general the private organization exists to make a profit, and the public organization exists to promote the values that the public as a whole deems worthy. The public employee expresses those values in stewardship. The difference can lead to different mind sets among private and public employees.

Research has provided evidence that public employees differ in significant ways from private employees. Two well known studies, one of graduate students preparing for positions in the public service (Rawls, Ulrich, and Nelson 1975) and other of public employees (Rainey 1983), indicate that people who choose to work in public organizations usually value money less and social improvement more than do private employees. If the results of these studies are accurate public service attracts people who come into the profession already strongly influenced by ethical values. Such people 'will be' 'best' 'matched for a profession with significant ethical demands.

12.5 WHAT DOES THE BUSINESS SELL?

Private businesses provide goods and services that the public chooses to purchase. Those goods and services include chewing gum, massage therapy, radar detectors, tattoos and anything else that can turn a profit. Unless a question arises concerning whether a product is harmful, there is usually no need for the private firm to justify the existence of its products.

In contrast, a public agency generally exists only because they provide a service that the public at large considers worthy. Defense, education, and programs for the disadvantaged may be questioned by some citizens, but most people would recognize governmental functions as self evident. The services that public agencies provide are usually socially very important. The importance of providing those services imposes a moral burden on the providers.

Succinctly stated: if government does something, it must be important. That importance imposes a special ethical demand upon public organizations and their employees. Moreover, that importance may be a major factor in attracting people with a strong social commitment to public services.

We do not mean to imply here that business does not do things that the society considers important. Business provides the wealth of goods and services in a free market

economy and thus benefits society immeasurably. However it is not prerequisite of business that it supply products that the society in general considers valuable. Business can supply food and clothing , which is of generally accepted social value but business can also supply nose rings, which appeal to only a few and may eventually be disdained by most of the society.

The sale of such iterns by private business may be considered fully legitimate, but few people would consider them suitable matters for public agencies.

Private business benefits the society by the products that it offers, the jobs that it supplies and vitality of the: economy char it promotes. In theory, what is good for business is, on the whole though not be necessarily in every instance generally good for a society. But even the strongest supporters of capitalism and the free market recognize that the intent of a private business is to make profits for itself. The net effect, of a complex of businesses pursuing their private interest is, if all goes well a more productive society .Nevertheless, the foremost concern of the private business is its own success .If the society is properly structured , the best interest of whole is result, but the whale is a remote concern for the private organization .Individually . private organization is need not justify their existence by demonstrating a direct benefit to the society, but the public agency must justifies existence by showing that it has general public charge.

Nor do we intend to suggest that private businesses ought not to be ethical. On the contrary, everyone should be ethical. We argue, however that there is an important difference between the nature of the ethical commitment of the two types of organizations. The private organization should obey principles in the course of its activities, but the fundamental basis of the public organization is ethical commitment Lo a value that the society deems important, private business should operate within their ethical restraint, but public organizations are ethical in their very being.

12.6 Self check exercise I

1. What are the methods of code communication to employees to corporate and public sector.?
 - a) Electronic communication
 - b) Booklet
 - c) Induction
 - d) All of the above
2. Which sector can hire new staff quickly?

12.7A COMPARISON BETWEEN CORPORATE AND PUBLIC SECTOR BUSINESS ETHICS

The establishment of a code of ethics has been seen by many as an indicator that an organization is beginning to show an interest in its ethical performance. The notion that a code of ethics should exist as a means of enhancing the ethical environment of an organization has been proposed by a plethora of writers. Codes of ethics are not only a signal to the general public, but they also bring into sharp focus for all staff the need to examine the ethical precepts upon which the business is predicated. The suggestion has been made that organizations consider the implementation of a code of ethics because they value the document and perceive that such a document is important to the organization. If organizations do have this view of their codes, then surely they should be committed to them. For if they are not committed to their code of ethics, one could view it ostensibly as a

public relations exercise that is a cynical attempt to capitalize on a real desire by the marketplace to deal with ethical organizations. A code can be seen as the first indicator of commitment, but the existence of a code is not of itself enough to ensure ethical behaviour by staff, nor does a code guarantee an ethical corporate culture. In and of itself, a code is only one of a range of measures that corporations should have in place to inculcate an ethical ethos into the heart and soul of the organization. Corporations must go beyond this initial level of commitment and enact procedures that will ensure that the ethical ethos of the organization permeates all levels of the corporation. The establishment of a code of ethics is the first tangible step on the road to a commitment to business ethics.

12.8 THE DEVELOPMENT OF CODES

The development of a code is a task to which an organization must devote time and energy as the code will showcase the organization's value system to the world. It should not be a document that is rushed or one that is

not representative of the views of all staff members and even other stakeholders. The code must be of relevance and significance to all staff and as such then should be involved in its construction. The individuals involved in establishing a code are: Senior Managers, Chief Executive Officers, Board of Directors, and Other Staff. It is of interest that in private organizations the Boards, which have responsibility for overseeing the policies of the organizations, are involved less than the senior managers of organizations who surprisingly are involved more than the CEO; yet in the public sector organizations the Board are as involved as often as the CEO and more than senior managers. If good corporate governance is to be practiced then CEOs and Boards should be at the forefront of code development. They should not abrogate their responsibility to senior managers.

Private Sector	Private Sector
<p style="text-align: center;">development of codes</p> <p>The implementation of codes</p> <p>Communication to employees</p> <p>Staff induction</p> <p>Consequences for a breach of the code</p> <p>The use of codes of ethics in strategic planning</p> <p>A standing ethics committee</p> <p>An ethics training committee and ethics training</p> <p>Ethical evaluations</p> <p>The perceived benefits of codes</p> <p style="text-align: center;">Ethics, profits and outcome</p>	<p style="text-align: center;">The development of codes</p> <p>The implementation of codes</p> <p>Communication to employees</p> <p>Staff induction</p> <p>Consequences for a breach of the code</p> <p style="text-align: center;">The use of codes of ethics in strategic planning</p> <p>A standing ethics committee</p> <p style="text-align: center;">An ethics training committee and ethics training</p> <p>Ethical evaluations</p> <p>The perceived benefits of codes</p> <p style="text-align: center;">Ethics, profits and outcome</p>

12.8.1 IMPLEMENTING CODES

The methods that organizations institute to implement their codes tend to reveal their level of commitment to the process. If they adapt existing processes, then that is an indicator of a level of commitment, but if they create new processes to assist in code implementation, then one could say that this is evidence of a higher level of commitment. The adaptation of existing processes can relate to communication with employees, induction, discipline, staff appraisal, and strategic planning. If the organization introduces new initiatives such as an ombudsman, whistle blowing protection for employees, ethics committees, ethics education committees, and ethics education, then one could say that a

higher level of commitment has been achieved

12.8.2 COMMUNICATION TO EMPLOYEES

Electronic Communication, a Booklet, Induction and Internal Publications are the major methods of code communication to employees in both sectors. The fact that electronic communication is the most used means in the corporate sector is to be expected, because the growth in intranets within organizations in the last few years has meant that we have become more reliant on technology in all of our business activities. The most used means of communication in the public sector is induction of employees. Inducting employees is important, as not to do so devalue the code for all employees. If the code is not of significant enough importance to be on the corporate radar at induction time, then the message to staff about its importance is surety devalued.

12.8.3 STAFF INDUCTION

The use of training and discussion at the time of staff induction is a preferred option to just distributing a booklet containing the code. The impact that the organization wants to make upon the employee may be lost if the attention required is not given at the time of induction. How is the employee meant to know that the code is important if it is not?

12.9 CONSEQUENCES FOR A BREACH OF THE CODE

It is suggested that within a code of ethics one should outline enforcement provisions for those individuals who do not uphold the code. By having procedures for a breach of the code, the organization signals to employees the significance, for both themselves and the organization, of the need to abide by the code. There are mainly two consequences for breach of the code, it is verbal warning and formal reprimand. The impact, that these actions have on the employee may be more severe in the corporate sector due to the fact that a public servant, through government legislation, has stronger legal support in the workplace. The ultimate weapon against the employee is cessation of employment.

12.10 THE USE OF CODES OF ETHICS IN STRATEGIC PLANNING

If the organization is serious about inculcating ethics into the organization, then ethics should be an integral part of the strategic planning process. Organizations should consider and review their plans in light of the ethical principles that the organization believes that it should practice and upon which it has predicated its decisions in respect of its marketplace participation. There is no significant association between the code of ethics in strategic planning and the organizational sector. However, it is a concern in both sectors that scrutiny organizations appear not to recognize the need to ensure that, their plan matches their ethical rhetoric.

12.10.1 A STANDING ETHICS COMMITTEE

This is a major area of differentiation between the two sectors. It is much less frequent in public sector organizations than in the corporate sector. Not to have a committee designated for this purpose signals to the organization and other stakeholders that the organization does not see business ethics as an important enough area to warrant such attention. This perception in itself can devalue the experience that organizations are trying to provide for their staff.

12.10.2 AN ETHICS TRAINING COMMITTEE AND ETHICS TRAINING

The two areas of ethics training committee and ethics training are linked because one cannot, just expect individuals to be ethical to the level of organizational expectations without having some involvement with training. An ethics training committee would hopefully provide the focus and initiative to expose employees to discussion and education

in ethics in business situations that they might face while in the organization's employment. This figure is generally low in the corporate sector and inordinately low in the public sector.

12.10.3 ETHICAL EVALUATIONS

Organizations use evaluations in various facets of their operations in order to monitor the adherence to organizational policies and guidelines. Ethics should be one such area in which evaluations and or audits could be used to determine if employees are following the organization's policies and ethical ethos. Many organizations in the corporate sector do

conduct an ethical evaluation of their business existence of an ethical evaluation and organizational sector: the existence of an ethical evaluation is much less frequent in the public sector organizations than in the corporate sector organizations.

12.10.4 PERCEIVED BENEFITS

It is what are the benefits of having the codes of ethics to the organizations. What benefits do firms expect to derive? If these benefits are significant, commitment is more beneficial than if they believe that they do not derive any or at best limited benefit.

12.10.5 ETHICS, PROFIT AND OUTCOMES

It is interesting to discover whether organizations perceive that having an ethical commitment has assisted organizational outcomes. In the corporate sector this is usually judged by the impact on profitability, whilst in the public sector the measure is usually with respect to how these processes have assisted goal accomplishment. In the corporate sector, the link between profit and being ethical is very perplexing. It is a debate about which it is difficult, to be definitive, because there are so many variables and uncertainties. Organizations pursue ethical practices and behaviours for a wide range of reasons. Not all of these, it would appear, are based upon the highest ethical considerations. The corporate sector have a stronger focus on those ideals that may be indicative of a more mercenary perspective, while the public sector organizations seem to focus more upon altruistic ideals. This difference in focus could well be just as a result of their different roles and goals within society.

12.11 HOW DOES ETHICS AND SOCIAL RESPONSIBILITY DEPEND ON QUALITY?

Ethics encompasses moral principles and values that control actions and decisions of an individual or a group. Increased pressure for achieving larger quantities, to match the demand may lead to decline in business ethics and devaluation of values and culture. Judicial blending of social culture and norms, business culture and industry practices, and corporate culture and expectations will result in creation of a friendly environment for increasing productivity, participation and involvement, quality and thereby achieving improvement in profitability. Social responsibility has taken the frontline today and like any other audit, social audit also is made mandatory for ensuring right practice of ethics.

Marketing has a great deal to do with consumers and unless a proactive philosophy is adopted by the industrial houses, the consumers will switch from one to the other, depending on the quality of product or service, after sale services, extent of warranty/guaranty etc. Post purchase behavior influences the clients to a very great extent. A mutually beneficial relation between the customer and the seller ensure and re-ensures customer loyalty. Customers' perception is yet another important feature, which has strong link with ethics and manners in marketing. Customer friendly organizations always try to improve their commitment to the society through excellent business practices. The socially responsible company cares for the customers, employees, suppliers and society at large.

American Marketing Association (AMA) points out that ethical marketing alone is good marketing and it results in developing a long term relationship with the customers.

Successful business depends upon customers' loyalty and the business house also has to meet the requirements of the interested parties like customers, employees, suppliers, banking institutions, public etc. In order to get a hand on experience on the impact of quality on ethics and marketing in industries in Kerala, an extensive survey has been conducted. As an indicator of the impact of quality on the above mentioned factors, parameters such as top

management commitment, involvement of people, customer focus and communication have been arrived at and analysis was done to arrive at certain conclusions. The descriptive research carried out comprised industries in Kerala in the private/ public/undertakings/ R&D sectors. The results and conclusions are given later in this paper. The organizational survey included private and public sector undertakings, production and establishments. The methodology adopted was a combination of sample survey technique and the group discussions. The study covered five organizations which are practicing quality and have been purposively selected, taking into considerations in the variations of practices in different sectors. A questionnaire was circulated to the respondents and typical traits of quality like Top Management Commitment, Involvement of People, Customer Focus and Communication, as perceived by them were observed and evaluated on a five point Likert scale, starting from strongly agree, through weakly agree, agree, weakly disagree and strongly disagree. The computation of the various indices on account of the above is as follows :

The level of quality is dictated by the quality of products, processes, personnel and input materials. Whenever quality of a high order is maintained in these domains, this is an indirect reflection of professional ethics and social responsibility practiced in the organization, especially in marketing. This is because marketing or business development is one of the primary organs which decide strategy, structure and policy of the company.

	K&D NON-ISO	R&D ISO	Govt.of India undertaking (ISO Certified)	Public Ltd. Company ISO Certified	Public Ltd. Company ISO Certified
Top Management Commitment	15.4	14.72	97	24.2	50.79
Involvement of People	63.08	31.88	97	74.10	50
Customer Focus	51.21	11.37	55	7.5	84.38
Communication	49.24	58.83	98	91.60	70.83

The names or the organizations, where the survey was conducted are kept anonymous, based on their request. However the messages are loud and clear.

12.11.1 Management Commitment

ISO Certified organization in the production sector has recorded the highest top management commitment and this is because of the fact that the leader is an outstanding personality in marketing and so ethics and social responsibility are given highest priority. The lowest commitment is accounted against the organization in R&D sector. Which has produced excellent results, but due to the very large Strength of the employees and an inordinate span of control, the index has become low.

In the case of a public Ltd. company, working on a production mode the commitment has been found to be excellent because it started with a very humble beginning and the workers are self motivated. In this case, the social responsibility is of a very high order.

12.11.2 Involvement

Involvement across the organization is essential for maintaining quality and abundance of this is a clear indication of social responsibility.

While the high scorer remains to be the same, a public limited company with an ISO Certification ranks second, where as a non ISO Company the R&D sector has done extremely well, primarily because it has a smaller army with it.

12.11.3 Customer Focus

The outstanding customer focus is an indication of professional ethics and it has been scored high by a public limited company in the production sector. This is primarily because of the fact that the number of customers are far and few and the company gives exceedingly high priority for customer delight and customer retention.

The R&D organization with a low strength of personnel also has come off well where as the public sector undertaking, with production background has done miserably because the product is more like a monopoly and the customers are not adequately enthused.

12.11.4 Communication

This is the backbone of any organization, whether it is top down, bottom up or all round. The lowest level of communication is recorded in the organization with the lowest strength and this paradox can be explained only by the poor top management commitment existing in this organizations.

While there are many indices for assessing ethics and social responsibility, quality is one single factor which can throw maximum light on their practice, whether it is past, present or the future.

13 SUMMARY

Ethics is pervasive in all organizations whether it is a public, private or a charitable organization. There is difference between ethics followed by public sector organizations to the private sector organization this commensurate with the work culture environment of respective organizations. Ethics are followed by employees of these organizations. They share same ethical beliefs but under different professional assumptions. This difference is also because the factors at work are different in both types of organizations. These factors are the work environment of organization, specific duties pertaining to specific jobs, the culture of organization and the significant conditions that pertain at a specific time. If we compare the ethics of public vs. private organizations, we see that they differ in the development of codes of ethics, implementation of codes, communication of codes to the employees, consequences for a breach of the code, the use of codes in strategic planning, ethical, evaluations, the perceived benefits of the codes and profits and outcomes that result from proper follow of the code of ethics.

14. SELF CHECK EXERCISE II

1. Is private sector inherently unethical or immoral?
2. Who is the steward of public?

15. KEYWORDS

Ethics committee, social responsibility, codes

16. ANSWERS TO SELF CHECK EXERCISE

EXERCISE I

1. All of the above
2. Private sector

EXERCISE II

1. No
2. Public sector

17. SHORT ANSWER TYPE QUESTIONS

1. How to develop an ethics policy for a company purpose.
2. Define standing ethics committee.

3. Discuss the consequences of breach of a code.

18. **LONG ANSWER TYPE QUESTIONS**

1. Explain Comparison between corporate and public sector business ethics.
2. Explain the concept of management commitment in detail.
3. How does ethics and social responsibility depend on quality?
4. Explain the use of codes of ethics in strategic planning.

19. **SUGGESTED READINGS**

- Ethics 101 *by John C. Maxwell*
- Business Ethics and Corporate Social Responsibility by tnchhabra
- Business ethics by kurt Stanberry

**MBA-DISTANCE EDUCATION(SECOND YEAR)
BEV 303**

Semester- III

BUSINESS ETHICS AND VALUES

Lesson No. 13

AUTHOR: SANJEEV KUMAR MODI

FORECASTING EXCHANGE RATES

STRUCTURE

13.1. **Objective**

13.2. Introduction

13.3. Forecasting Exchange Rates

13.3.1. Fundamental Approach

13.3.2. Technical Approach

13.4. Looking Ahead : Exchange Rate Volatility

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13.10 Answers to self check exercise

13.11 Short answer type questions

13.12 Long answer type questions

13.13 Suggested readings

13.1 OBJECTIVES

After reading this students should be able to :

- Determine the Forecasting Exchange rates, Fundamental approach. Technical approach and exchange rate volatility.
- They are able to know about the basic forecasting models.

13.2 INTRODUCTION

One of the goals of studying the behavior of exchange rates is to be able to forecast exchange rates. The main theories used to explain the movement of exchange rates. These theories fail to provide a good approximation to the behavior of exchange rates. This chapter analyzes and evaluates the different methods used to forecast exchange rates. This chapter closes with a discussion of exchange rate volatility.

13.3 FORECASTING EXCHANGE RATES

International transactions are usually settled in the near future. Exchange rate forecasts are necessary to evaluate the foreign denominated cash flows involved in international transactions. Thus, exchange rate forecasting is very important to evaluate the benefits and risks attached to the international business environment.

There are two pure approaches to forecasting foreign exchange rates :

- (1) The fundamental approach.
- (2) The technical approach.

13.3.1 Fundamental Approach

The fundamental approach is based on a wide range of data regarded as fundamental economic variables that determine exchange rates. These fundamental economic variables are taken from economic models. Usually included variables are GNP, consumption, trade balance, inflation rates, interest rates, unemployment, productivity indexes, etc. In general, the fundamental forecast is based on structural (equilibrium) models. These structural models are then modified to take into account statistical characteristics of the data and the experience of the forecasters. It is a mixture of art and science.

Fundamental Approach: Forecasting at Work Practitioners use the fundamental approach to generate equilibrium exchange rates. The equilibrium exchange rates can be used for projections or to generate trading signals. A trading signal can be generated every time there is a significant difference between the forecasted exchange rate and (the exchange rate observed in the market. If there is a significant difference between the forecast rate and the actual rate, the practitioner should decide if the difference is due to a mispricing or a heightened risk premium. If the practitioner decides the difference is due to mispricing, then a buy or sell signal is generated.

There are two kinds of forecasts : in-sample and out-of-sample. The first type of forecasts works within the sample at hand, while the latter works outside the sample. In-sample forecasting does not attempt to forecast the future path of one or several economic variables. In-sample forecasting uses today's information to forecast what today's spot rates should be. That is, we generate a forecast within the sample (in-samples). The fitted values estimated in a regression are in-sample forecasts. The fundamental approach generates an equilibrium exchange rate. The foreign exchange rate in-sample fundamental forecasts are interpreted as equilibrium exchange rates. Equilibrium exchange rates can be used to generate trading signals. On the other hand, out-of sample forecasting attempts to use today's information to forecast the future behavior of exchange rates. That is, we forecast the path of exchange rates outside of our sample. In general, at time t , it is very unlikely that we know the inflation rate for time $t+1$. That is, in order to generate out-of-sample forecasts, it will be necessary to make some assumptions about the future behavior of the fundamental variables.

Some Practical Issues in Fundamental Forecasting

There are several practical issues associated with any fundamental analysis forecasting, such as :

- (1) Correct specification. That is, are we using the "right model?" (In econometrics jargon, "correct specification.")
- (2) Estimation of the model. This is not a trivial issue.
- (3) Contemporaneous variables.

Fundamental Approach : Evidence

In 1979 Richard Levich, from New York University, made a comparison of the forecasting performance of several models for the magazine *Euromoney*. Levich studied the forecasting performance of various services relative to the forward rate. The forward rate is a free, observable forecast. A good forecaster has to beat the forward rate. In terms of mean absolute error, on average the forecasting services underperformed the forward rate more than two-thirds of the time. Since observation of the forward rate is free and since, as mentioned above, the forward rate is not an unbiased forecast of the future spot rate, these results suggest that paying a forecasting service might not be a wise expense. However, Levich found that forecasting services have some ability to predict whether the future spot

rate will be greater than or smaller than the current forward rate. For some investors the direction of the forecast maybe as important as the absolute or squared error.

Ms. Sternin might prefer to have a forecast that is correct in direction, and might care about the MAE. In 1980, Levich tested the number of times a profit is made from taking advantage of the direction forecasted by some forecasting services. He found that some forecasting services were able to correctly predict the direction more than 50 percent of the time. In 1982 and 1983, Levich repeated the same study and found that the forecasting services that performed well in 1980 were not the same as those that did well in the updated study. Therefore, it seems that it is very difficult to consistently predict the future spot rate relative to the forward rate.

Forecasting : "Que sera, sera... the future's not ours to see"

Forecasting exchange rates is very difficult. As mentioned above, forward rates are poor predictors of future spot rates. Forecasting services on average have a difficult time just beating the forward rate. The random walk tends to outperform the other foreign exchange rate models. Paraphrasing a popular American TV show of the fifties and early sixties, we can say: 'Doris Day knows best.'

13.3.2 Technical Approach

The technical approach (TA) focuses on a smaller subset of the available data. In general, it is based on price information. The analysis is "technical" in the sense that it does not rely on a fundamental analysis of the underlying economic determinants of exchange rates or asset prices, but only on extrapolations of past price trends. Technical analysis looks for the repetition of specific price patterns. Technical analysis is an art., not a science. Computer models attempt to detect both major trends and critical, or turning, points. These turning points are used to generate trading signals: buy or sell signals. The most popular TA models are simple and rely on filters, moving averages (MA), or momentum indicators.

Technical Analysis Models

(1) This is probably the most popular TA model. It is based on the finding that asset prices show significant, small autocorrelations. If price increases tend to be followed by increases and price decreases tend to be followed by decreases, trading signals can be used to profit from this autocorrelation. The key of the system relies on determining when exchange rates start to show significant changes, as opposed to irrelevant noisy changes. Filter methods generate buy signals when an exchange rate rises X percent (the filter!) above its most recent trough, and sell signals when it falls X percent below the previous peak. Again, the idea is to smooth (filter) daily fluctuations in order to detect lasting trends. The filter size, X, is typically between 0.5% and 2.0%. Note that there is a trade-off between the size of the filter and transaction costs. Low filter values, say 0.5%, generate more trades than a large filter, say 2%. Thus, low filters are more expensive than large filters. Large filters, however, can miss the beginning of trends and then be less profitable.

(2) The goal of a MA model is to smooth erratic daily swings of asset prices in order to signal major trends. A MA is simply an average of past prices. If we include the most recent past prices, then we calculate a short-run MA (SRMA). If we include a longer series of past prices, then we calculate a longterm MA (LRMA).

The double MA system uses two moving averages: a LRMA and a SRMA. A LRMA will always lag a SRMA because it gives a smaller weight to recent movements of exchange rates. In MA models, buy and sell signals are usually triggered when a SRMA of past rates crosses a LRMA. For example, if a currency is

moving downward, its SRMA will be below its LRMA. When it starts rising again, it soon crosses its LRMA, generating a buy signal.

- (3) Momentum models determine the strength of an asset by examining the change in velocity of the movements of asset prices. If an asset price climbs at increasing speed, a buy signal is issued.

These models monitor the derivative (slope) of a time series graph. Signals are generated when the slope varies significantly. There is a great deal of discretionary judgement in these models. Signals are sensitive to alterations in the filters used, the period length used to compute MA models and the method used to compute rates of change in momentum.

13.4 LOOKING AHEAD: EXCHANGE RATE VOLATILITY

We have seen that exchange rates are very difficult to forecast. This difficulty makes it difficult to estimate the future value assets and liabilities denominated in foreign currency. In finance, uncertainty about the value of securities creates risk. Many financial models associate the variance of an asset with an asset's riskiness. Investors require higher rates of return for riskier assets. The volatility of an asset is also important in other fields of finance. For example, option pricing formulas use as a vital input an estimate for the variance.

For many years, researchers assumed that the variance of asset returns was constant. The assumption of a constant variance is called homoscedasticity. This assumption is a common assumption in econometrics. For example, in the derivations of Appendix III we state that the variance of the error term is constant. Homoscedasticity is a convenient assumption. It simplifies the estimation of time series models.

Variances of asset returns, however, tend to be time-varying. That is, the returns of financial assets are heteroscedastic over time -i.e., non-constant variance.

13.5 SELF CHECK EXERCISE- I

1. Which type of forecasts works within the sample?
2. Which model determine the strength of an asset by examining the change in velocity of the movements of asset prices.

13.6 BASIC FORECASTING MODELS

13.6.1 Forecasting from Econometric Models

The econometric approach to forecasting consists first of formulating an econometric model that relates a dependent variable to a number of independent variables that are expected to affect it. The model is then estimated and used to obtain conditional or ' unconditional forecasts of the dependent variable. The models are generally formulated using economic theory and the statistical properties of the variables included in the model.

13.6.2 Forecasting from Time Series Models

Econometric models are generally based on some underlying economic model. A popular alternative to econometric models, especially for short-run forecasting is known as time series models. These models typically relate a dependent variable to its past and to random errors that may be serially correlated. Time series models are generally not based on any underlying economic behavior. A powerful time series model is the ARMA (Autoregressive Moving Average) process. The basic idea is that the series s_t at time t is affected by past

values of s_t in a predictable manner. A general ARMA (p,q) can be written as :

$$s_t = \alpha_0 + \alpha_1 s_{t-1} + \dots + \alpha_p s_{t-p} + \beta_1 \varepsilon_{t-1} + \dots + \beta_q \varepsilon_{t-q} + \varepsilon_t, \quad (A.2)$$

Where ε_t is the prediction error at time t assumed to have a constant variance σ^2 . The terms with the α coefficients are the moving average terms. The terms with the β 's coefficients are the moving average terms.

13.6.3 Forecasting Using a Combination of Methods

Many forecasters use a combination of the methods described in A.I and A.II. The dependent variable might depend on theoretical grounds on a set of independent variables. On empirical grounds it has been found that the dependent variable shows a high degree of autocorrelation. Although this autocorrelation is not present in the economic model, an economist might combine an economic model with an ARMA model to produce a better forecast.

13.7 SUMMARY

International transactions are usually settled in the near future. Exchange rate forecasts are necessary to evaluate the foreign denominated cash flows involved in international transactions. Thus, exchange rate forecasting is very important to evaluate the benefits and risks attached to the international business environment.

13.8 SELF CHECK EXERCISE II

1. Technical approaches focusses on (Small/ large) subset of available data.
2. Is technical approach science or art?

13.9 KEYWORDS

Exchange rate, forecasting, forecasting models, Sample, international

13.10 ANSWERS TO SELF CHECK EXERCISE

EXERCISE I

1. In- sample forecast
2. Momentum model

EXERCISE II

1. Small
2. Art

13.11 SHORT ANSWER TYPE QUESTIONS

1. Why exchange rate forecast necessary?
2. Define two kinds of forecast.
3. Describe homoscedasticity in detail.
4. Discuss some issues regarding fundamental forecasting.

13.12 LONG ANSWER TYPE QUESTIONS

1. Discuss in detail two pure approaches to forecasting foreign exchange rate.

13.13 SUGGESTED READINGS

- Ethics 101 by John C. Maxwell
- Business Ethics and Corporate Social Responsibility by tnychhabra
- Business ethics by kurt Stanberry

STRUCTURE

- 14.1. Objectives and Extent of FEMA
- 14.2. Contraventions and Penalties.
- 14.3. Investigation
- 14.4. Self-check exercise I
- 14.5 Organisational Set Up and Functions Of Enforcement Directorate
- 14.6 Procedural Provisions
- 14.7 Summary
- 14.8 Self check exercise II
- 14.9 Keywords
- 14.10 Answers to self check exercise II
- 14.11 Short answer type questions
- 14.12 Long answer type questions
- 14.13 Suggested readings

14.1 OBJECTIVES AND EXTENT OF FEMA

The objective of the Act is to consolidate and amend the law relating to foreign exchange will the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange marker in India.

FEMA extends to the whole of India. It applies to all branches, offices and agencies outside India owned or controlled by a person who is a resident of India and also to any contravention there under committed outside India by any person to whom this Act applies.

Except with the general or special permission of the Reserve Bank of India, no person can :

- deal in or transfer any foreign exchange or foreign security Lo any person not being an authorized person;
- make any payment to or for the credit of any person resident outside India in any manner;
- receive otherwise through an authorized person, any payment by order or on behalf of any person resident outside India in any manner;
- reasonable restrictions for current account transactions as may be prescribed.

Any person may sell or draw foreign exchange to or from an authorized person for a capital account transaction. The Reserve Bunk may, in consultation with the Central Government, specify

- any class or classes of capital account transactions which are permissible;
- the limit up to which foreign exchange shall be admissible for such transactions

However, the Reserve Bank cannot impose any restriction on the drawing of foreign exchange for payments due on account of amortization of loans or for depreciation of direct investments in the ordinary course of business.

The Reserve Bank ran, by regulations, prohibit, restrict or regulate the following

- transfer or issue of any foreign security by a person resident in India;
- transfer or issue of any security by a person resident outside India;
- transfer or issue of any security or foreign security by any branch, office or agency in India of a person resident outside India;
- any borrowing or lending in foreign exchange in whatever form or by whatever name culled;

- any borrowing or tending in rupees in whatever form or by whatever name valid between a person resident in India and a person resident outside India;
- deposits between persons resident in India and persons resident outside India;
- export, import or holding of currency or currency notes;
- transfer of immovable property outside India, other than a lease not exceeding five years, by a person resident in India;
- acquisition or transfer of immovable property in India, other than a lease not exceeding five years, by a person resident outside India;
- giving of a guarantee or surety in respect of any debt, obligation or other liability incurred
 - (i) by a person resident in India and owed to a person resident outside India or
 - (ii) by a person resident outside India.

A person, resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

A person resident outside India may hold, own, transfer or invest in Indian currency, security or any immovable property situated in India if such currency, security or property was acquired, held or owned by such person when he was resident in India or inherited from a person who was resident in India.

The Reserve Bank may, by regulation, prohibit, restrict, or regulate establishment in India of a branch, office or other place of business by a person resident outside India, for carrying on any activity relating to such branch, office or other place of business. Every exporter of goods and services must

• furnish to the Reserve Bank or to such other authority a declaration in such form and

in such manner as may be specified, containing true and correct material particulars, including the amount representing the full export value or, if the full export value of the goods is not ascertainable at the time of export, the value which the exporter, having regard to the prevailing market conditions, expects to receive on the sale of the goods in a market outside India;

• furnish to the Reserve Bank such other information as may be required by the Reserve

Bank for the purpose of ensuring the realization of the export proceeds by such exporter.

The Reserve Bank may, for the purpose of ensuring that the full export value of the goods or such reduced value of the goods as the Reserve Bank determines, having regard to the prevailing market-conditions, is received without any delay, direct any exporter to comply with such requirements as it deems fit.

Where any amount of foreign exchange is due or has accrued to any person resident in India, such person shall take all reasonable steps to realize and repatriate to India such foreign exchange within such period and in such manner as may be specified by the Reserve Bank.

14.2 CONTRAVENTIONS AND PENALTIES

If any person contravenes any provision of this Act, or contravenes any rule, regulation, notification, direction or order issued in exercise of the powers under this Act, or contravenes any condition subject to which an authorization is issued by the Reserve Bank, he shall, upon adjudication, be liable to a penalty up to thrice the sum involved in such

contravention where such amount is quantifiable, or up to two lakh rupees where the amount is not quantifiable, and where such contravention is a continuing one, further penalty which may extend to five thousand rupees for every day after the first day during which the contravention continues.

Any Adjudicating Authority adjudging any contravention may, if he thinks fit in addition to any penalty which he may impose for such contravention direct that any currency, security or any other money or property in respect of which the contravention has taken place shall be confiscated to the Central Government and further direct that the foreign exchange holdings, if any, of the persons committing the contraventions or any part thereof, shall be brought back into India or shall be retained outside India in accordance with the directions made in this behalf.

'Property' in respect, of which contravention has taken place, shall include deposits in a bank, where the said property is converted into such deposits, Indian currency, where the said property is converted into that currency; and any other property which has resulted out of the conversion of that property.

If any person fails to make full payment of the penalty' imposed on him within a period of ninety days from the date on which the notice for payment of such penalty is served on him, he shall be liable to civil imprisonment.

14.3 INVESTIGATION

The Directorate of Enforcement investigate to prevent leakage of foreign exchange which generally occurs through the following malpractices :

- Remittances of Indians abroad otherwise than through normal banking channels,
i. e. through compensatory payments.
- Acquisition of foreign currency illegally by person in India.
- Non-repatriation of the proceeds of the exported goods.
- Unauthorized maintenance of accounts in foreign countries.
- Under-invoicing of exports and over-invoicing of imports and any other type of invoice manipulation.
- Siphoning off of foreign exchange against fictitious and bogus imports.
- Illegal acquisition of foreign exchange through Hawala.
- Secreting of commission abroad.

14.4 SELF CHECK EXERCISE I

1. RBI can't impose restrictions on
2. Who prevents leakage of foreign exchange which occurs due to malpractices.

14.5 ORGANISATIONAL SET UP AND FUNCTIONS OF ENFORCEMENT DIRECTORATE

Directorate of Enforcement has to detect cases of violation and also perform substantially adjudicatory functions to curb above malpractices.

The Enforcement Directorate, with its Headquarters at New Delhi has seven zonal offices at Bombay, Calcutta, Delhi, Jalandhar, Madras, Ahmedabad and Bangalore. The zonal offices are headed by the Deputy Directors. The Directorate has nine sub-zonal offices at Agra, Srinagar, Jaipur, Varanasi, Trivandrum, Calicut, Hyderabad, Guwahati and Goa, which are headed by the Assistant Directors. The Directorate has also a Unit at Madurai, which is headed by a Chief Enforcement Officer. Besides, there are three Special Directors of Enforcement and one Additional Director of Enforcement.

The main functions of the Directorate are as under :

- To collect and develop intelligence relating to violation of the provisions of Foreign Exchange Regulation Act and while working out the same, depending upon the circumstances of the case:

- To conduct searches of suspected persons, conveyances and premises for seizing incriminating materials (including Indian and foreign currencies involved) and/or.
 - To enquire into and investigate suspected violations of provisions of the Foreign Exchange Management Act.
 - To adjudicate cases of violations of Foreign Exchange Management Act for levying penalties departmentally and also for confiscating the amounts involved in contraventions;
 - To realise the penalties imposed in departmental adjudication.

14.6 PROCEDURAL PROVISIONS

- For enforcing the provisions of various sections of FEMA, 1999, the officers of Enforcement Directorate of the level of Assistant Director and above will have to undertake the following functions
- Collection and development of intelligence/information.
- Keeping surveillance over suspects.
- Searches of persons/vehicles by provisions of Income-tax Act, 1961.
- Searches of premises as per provisions of Income-tax Act, 1961.
- Summoning of persons for giving evidence and producing of documents as per provisions of Income-tax Act, 1961.
- Power to examine persons as per provisions of Income-tax Act, 1961.
- Power to call for any information/document as per provisions of Income-tax Act, 1961.
- Power to seize documents etc. as per provisions of Income-tax Act, 1961.
- Custody of documents as per Income-tax Act, 1961.
- Adjudication and appeals - Officers of and above the rank of by Director of Enforcement, are cases of contravention of the provisions of the Act; these proceedings which are quasi-judicial in nature, start with the issuance of show cause notice; in the event of cause shown by the Notice-not being found satisfactory, further proceedings are held, vis. personal hearing, in which the notice has a further right to present his defence, either in person or through any authorised representative; on conclusion of these proceedings, the adjudicating authority has to examine and consider the evidence on record, in its entirety and in case the charges not being found proved, the notice is acquitted, and in the event of charges being found substantiated, such penalty, as is considered appropriate as per provisions of section 13 of the Act can be imposed, besides confiscation of amounts involved in these contraventions.

14.7 Summary

FEMA is a consolidate and amend the law relating to foreign exchange with the objective facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India.

FEMA extends to the whole of India. it applies to all branches, offices and agencies outside India owned or controlled by a person who is a resident of India and also to any contravention there under controlled outside India by any person to whom this Act applies.

14.8 SELF CHECK EXERCISE II

1. What penalty can RBI impose if the amount is quantifiable.
2. Where is the headquarter of enforcement directorate.
 - a. New delhi

- b. Mumbai
- c. Chandigarh
- d. Ahmedabad

14.9 KEYWORDS

Contravention, Penalty, foreign exchange, enforcement, provision

14.10 ANSWERS TO SELF CHECK EXERCISE

EXERCISE I

1. Drawings of foreign exchange for payment of amortization of loan.
2. Directorate of enforcement

EXERCISE II

1. Thrice the sum involved in such contravention
2. New Delhi

14.11 SHORT ANSWER TYPE QUESTIONS

1. What is FEMA? Discuss the objectives of FEMA.
2. Discuss the activities performed by RBI in context of FEMA act.
3. Explain the penalties imposed on contravention of provisions of FEMA.
4. Define civil imprisonment.

14.12 LONG ANSWER TYPE QUESTIONS

1. Explain the procedural provisions of FEMA.
2. Describe the organisational setup and functions of enforcement directorate.
3. Discuss the malpractices investigated by directorate of enforcement for prevention of leakage of foreign exchange.

14.14 SUGGESTED READINGS

- Ethics 101 by John C. Maxwell
- Business Ethics and Corporate Social Responsibility by tnychhabra
- Business ethics by kurt Stanberry