Question 1

*Explain the Social Sins listed by Mahatma Gandhi.*

**Answer**

Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. He stressed that people follow ethical principles and listed following seven Social Sins:

(i) Politics without Principles  
(ii) Wealth without Work  
(iii) Commerce without Morality  
(iv) Knowledge without Character  
(v) Pleasure without Conscience  
(vi) Science without Humanity  
(vii) Worship without Sacrifice.

The first deals with the political field. The Kings in Indian tradition were only the guardian executors and servants of 'Dharma'. For Gandhi, Rama was the symbol of a king dedicated to principles. The second dictum deals with the sphere of Economics. Tolstoy and Ruskin inspired Gandhi on the idea of bread-labour. Gandhiji developed the third maxim into the idea of trusteeship. A businessman has to act only as a trustee of the society for whatever he has gained from the society. Everything, finally, belongs to the society. The fourth dictum deals with knowledge. Education stands for the all round development of the individual and his character. Gandhi's system of basic education was the system for development of one's character. In this maxim, Gandhi emphasized on conscience. He said that pleasure without conscience is a sin. In sixth maxim, Gandhi held that science without the thought of the welfare of humanity is a sin. Science and humanity together pave the way for welfare of all. In religion, we worship, but if we are not ready to sacrifice for social service, worship has no value, it is a sin to worship without sacrifice.

Question 2

*Answer stating whether the statement is correct or incorrect with brief reason:*

© The Institute of Chartered Accountants of India
‘Ethics and morals are synonymous’.

**Answer**

**Incorrect:** Both 'ethics' and 'morals' deal with right and wrong conduct. But they are not same. Ethics deals with individual character which is a personal attribute. Ethics is the response of individual to a specific situation e.g. whether in this situation, it is ethical to state the truth. Morals deal with customs set by groups or some authority like religion. Morals are general principles e.g. you should speak truth.

**Question 3**

*What is the difference between 'Morals' and 'Ethics'?*

**Answer**

**Moral vs. Ethics:** Following are the points of difference between Ethics and Moral:

(i) The word 'Éthics' is derived from Ancient Greek éthikos’ meaning character’. The word ‘moral’ is derived from Latin ‘mos’ meaning custom’.

(ii) Character is the essence of values and habits of a person or group. It serves the analysis and employment of concepts such as right and wrong, good and evil and acting with responsibility. Moral is defined as relating to principles of right and wrong.

(iii) Character is a personal attitude, while custom is defined by a group over a period of time. For example People have character, Societies have custom.

(iv) Morals are accepted from an authority (such as cultural, religious etc.) while ethics are accepted because they follow from personally accepted principles. An ethical view might be based on an idea of personal property that should not be taken without social consent. Moral norms can usually be expressed as general rules and statements such as ‘always tell the truth’.

(v) Morals work on smaller scale than ethics, more reliably, but by addressing human needs for belonging and emulation, while ethics has a much wider scope.

**Question 4**

*Explain the meaning of the terms ‘ethics’ and ‘business ethics’ and also state the requirements of ‘business ethics’.*

**Answer**

**Ethics:** The term 'Ethics' has a variety of meanings. One of the meanings is 'Ethics' are the principles of conduct governing an individual or a group. Another definition describes ethics as relating to what is good or bad and having to do with moral duty and obligation.

**Business Ethics:** In a broad sense, ethics in business refers to the application of day-to-day moral and ethical norms to business. Business ethics are the principles and standards that determine acceptable conduct in business organisation.
Requirements: Being ethical in business requires acting with an awareness of -

(a) The need for complying with rules (e.g.) (i) laws of the land, (ii) customs and expectation of the community (iii) principles of morality (iv) policies of the organization and (v) general concerns such as the needs of others and fairness.

(b) How the products, services and actions of a business enterprise can affect its stakeholders (i.e. employees, customers, suppliers, shareholders and community society as a whole) either positively or negatively.

Question 5

*Explain the fundamental principles relating to ethics.*

**Answer**

The fundamental principles relating to ethics may be summarized as under:

1. **The Principle of Integrity:** It calls upon all accounting and finance professionals to adhere to honesty and straightforwardness while discharging their respective professional duties.

2. **The Principle of Objectivity:** This principle requires accounting and finance professionals to stick to their professional and financial judgment.

3. **The Principle of Confidentiality:** This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.

4. **The Principle of Professional Competence and due care:** Finance and accounting professionals need to update their professional skills from time to time in order to provide competent professional services to their clients.

5. **The Principle of Professional Behaviour:** This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result in discrediting the profession.

Question 6

“To maintain social contract between society and business, the trusteeship relations are essential”. *Describe the role of business ethics in this reference.*

**Answer**

**Businesses as trustees:** Mahatma Gandhi, the father of the nation, had aptly said that trusteeship provides a means for transforming the present capitalist order of society into an egalitarian one. A business man has to act only as a trustee of the society for whatever he has gained from the society. Everything finally belongs to the society. Society bestows upon business the authority to own and use land and natural resources. In return the society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community.
Business ethics is required to implement the laws of land, customs, expectations of community, principles of morality, etc. The products and services of an organization affect its employees, the community and society as a whole. Business ethics also subserve the management discipline. Business houses may also use their financial and public influence to address social problems like poverty, crime, equal rights, environmental problems, public health and education. Society at large has also come to realize that since businessmen are making profits by using the country’s resources, they owe it to the country to work for its development. Sound workplace ethics ensure that a company's employees are highly motivated and identify themselves with their employer. Following ethical business practices safeguard a company from getting entangled with law enforcement agencies. A reputation for highly ethical behaviour also ensures increased sales and customer loyalty. Certain eco-friendly practices also reduce operation costs. Thus, society derives benefits as well as business prospers when businesses are ethically driven.

Question 7

State with reasons whether the following statements are correct or incorrect.

Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one.

Answer

Correct: Commerce without morality was developed into the idea of Trusteeship by Gandhiji. A businessman has to act only as a trustee of the society for whatever he has gained from the society. Everything, finally, belongs to the society. Hence, "Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one."

Question 8

Examine the following hypothetical situation and give a brief analytical note on it.

Mr. XYZ is a CEO of a pharmaceutical company. His R&D department, while experimenting with a chemical molecule, sees the possibility that the molecule may be developed into a drug for a rare, painful, life-threatening genetic disease that afflicts only one child in ten million. But to develop the drug, his company may have to invest huge sums of the shareholders’ money, despite the drug not having wide salability. Is Mr. XYZ confronted by an ethical dilemma? How should he resolve the issue?

Answer

Mr. XYZ is in a situation where he has to choose between carrying on the development of a drug for a painful and life threatening disease which afflicts one in ten million and the action of spending huge sum of shareholders’ money for such development. As we can see, both are positive and ethically right choices. As a socially responsible person he has to think in terms of eliminating a serious illness but at the same time he must be careful in dealing with shareholders’ money. This is a classic case of an ethical dilemma. Such an ethical dilemma must be resolved by addressing the following points:
1. Defining the problem clearly.
2. How to define the problem if you stood on the other side of the fence?
3. How did the situation arise?
4. To whom are you loyal as a person and as a member of the organization?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period?
10. Could you disclose without any doubt your decision or action to your boss, your CEO, the Board of Directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? Misunderstood?
12. Under what conditions would you allow exceptions to your stand?

Question 9

"To pay proper attention to business ethics is certainly beneficial in the interest of business. Describe four such benefits which may be obtained by paying attention to business ethics.

Answer

Benefits which may be obtained by paying attention to business ethics: Ethics is the concern for good behaviour – doing the right thing. In business, self interest prevails and there is always inconsistency between ethics and business. But it is a well settled principle that ethical behaviour creates a positive reputation that expands the opportunities for profit. The awareness regarding products and services of an organization, and the actions of its employees can affect its stakeholders and society as a whole. Therefore to pay proper attention to business ethics may be beneficial in the interest of business. These benefits may be enumerated as follows:

(1) In the recent past ruthless exploitation of children and workers, trust control over the market, termination of employees based on personalities and other factors had affected society and a demand arose to place a high value on ethics, fairness and equal rights resulting in framing of anti-trust laws, establishment of governmental agencies and recognition of labour unions.

(2) Easier change management: Attention to business ethics is also critical during times of fundamental change. The apparent dilemma may be whether to be non profit or for profit. In such situations, often there is no clear moral compass to guide leaders about what is
right or wrong. Continuing attention to ethics in the workplace sensitises leaders and staff for maintaining consistency in their actions.

(3) Strong team work and greater productivity: Ongoing attention and dialogues regarding ethical values in the workplace builds openness, integrity and a sense of community which leads to, among the employees, a strong alignment between their values and those of the organisation resulting in strong motivation and better performance.

(4) Enhanced employee growth: Attention to ethics in the workplace helps employees face the reality - both good and bad in the organisation and gain the confidence of dealing with complex work situations.

(5) Ethical programmes help guarantee that personnel policies are legal: A major objective of personnel policies is to ensure ethical treatment of employees. In matters of hiring, evaluating, disciplining, firing etc. An employer can be sued for breach of contract for failure to comply with any promise. The gap between corporate culture and actual practice has significant legal and ethical implications. Attention to ethics ensures highly ethical policies and procedures in the work place. Ethics management programmes are useful in managing diversity. Such programmes require the recognition and application of diverse values and perspectives which are the basis of a sound ethics management programme. Most organisations feel that cost of mechanisms to ensure ethical programme may be more helpful in minimizing the costs of litigations.

(6) Ethical programmes help to detect ethical issues and violations early, so that criminal acts “of omission” may be avoided.

(7) Ethical values help to manage values associated with quality management, strategic planning and diversity management.

**Question 10**

*Answer whether the statement is correct or incorrect with brief reasons.*

*In the long run those business firms which do not respond to society’s needs favourably will survive.*

**Answer**

Incorrect. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society’s expectations. Therefore, if a business intends to retain its existing role and power it must respond to society’s needs constructively.

**Question 11**

*State with reasons whether the following statement is correct or incorrect:*

*Business ethics helps to promote public reputation.*

**Answer**

Correct: Ethics helps to promote a strong public image. An organization that pays attention to its ethics can portray a strong and positive image to the public. People see such organizations
as valuing people more than profit and striving to operate with the integrity and honour.

Question 12

State with reasons whether the following statement are correct or incorrect:

Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management.

Answer

Incorrect: Ethics programs help identifying the preferred values and ensuring that organizational behaviors are aligned with those values. This includes recording the values, developing policies and procedures to align behaviors with preferred values and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management, strategic planning and diversity management. For example, total quality management initiatives include high priority on certain operating values, e.g. trust among stakeholders, performance, reliability, measurement and feedback.

Question 13

State with reasons whether the following statements are correct or incorrect:

(i) ‘Fairness and Justice’ are two different approaches as a source of ethical standards.

(ii) Inclusion of environmental consideration as a part of corporate strategy improves corporate performance.

Answer

(i) INCORRECT: The given statement “Fairness and Justice” are two different approaches as a source of ethical standards is incorrect.

Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally or if unequally, then fairly based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; may ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.

(ii) CORRECT: Inclusion of environmental consideration as a part of corporate strategy improves corporate performance is a correct statement.

Environmental consideration is a part of corporate strategy, which means incorporating environmental issues in the process of developing a product, in new investments and in the organizational set up. A good environmental practice
improves corporate performance. In many industries it has been found that environmental friendly practices have resulted in more saving; for example the process of recycling the waste. Thus, environmental considerations play a key role in corporate strategy. Markets of new millennium will be able to create wealth if they respond to the challenges of sustainable development, as unsustainable products will become obsolete.

Question 14

Explain any four sources of ethical standard.

Answer

Sources of Ethical Standards:

1. The Utilitarian Approach: Some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected - customers, employees, shareholders, the community, and the environment. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.

2. The Rights Approach (The Deontological Approach): Other philosophers and ethicists suggest that the ethical action is the one that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights -including the rights to make one's own choices about what kind of life to lead, to be told the truth, not to be injured, to a degree of privacy, and so on-is widely debated; some now argue that non-humans have rights, too. Also, it is often said that rights imply duties-in particular, the duty to respect others' rights.

3. The Fairness or Justice Approach: Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally-or if unequally, then fairly based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; many ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.

4. The Common Good Approach: The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society
are the basis of ethical reasoning and that respect and compassion for all others—especially the vulnerable—are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of Laws, effective police and fire departments, health care, a public educational system, or even public recreational areas.

5. The Virtue Approach: A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. Virtue ethics asks of any action, "What kind of person will I become if I do this?" or "Is this action consistent with my acting at my best?"

Exercise

1. Explain the Utilitarian Approach as the ethical standards?
   [Hints: Some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected - customers, employees, shareholders, the community, and the environment. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.]

2. Enumerate the nature of Ethics.
   [Hints: Simply stated, ethics refers to standards of behavior that tell us how human beings ought to act in the many situations in which they find themselves— as friends, parents, children, citizens, businesspeople, teachers, professionals, and so on. Thus Ethics is not a feelings or a religion or culturally accepted norms or is a science]
Question 1

*What is meant by corporate governance? Explain the benefits of good corporate governance.*

**Answer**

**Meaning:** According to J. Wolfensohn, President of the World bank, “Corporate governance is about promoting corporate fairness, transparency and accountability”. It is concerned with structures and processes for decision-making, accountability, control and behavior at the top level of organizations. It influences how the objectives of an organisation are set and achieved, how risk is monitored and assessed and how performance is optimized.

Corporate Governance can also be defined “as the formal system of accountability and control for ethical and socially responsible organizational decisions and use of resources.”

**Benefits of goods Corporate Governance:**

1. Protection of investor interests and strong capital markets,
2. Studies show clear evidence that good governance is rewarded with a higher market valuation.
3. Ensure commitment of the board in managing the company in a transparent manner.

Question 2

*Answer whether the statement is correct or incorrect with brief reason:*

*Company management has responsibility only towards its shareholders.*

**Answer**

**Incorrect:** Company management is responsible not only to the shareholders, but also to other stakeholders i.e. people who have an interest in the conduct of the business of the company. These include employees, customers, vendors, the local community and even society as a whole. These stakeholders have certain rights with regard to how the business operates.

Question 3

*Answer whether the statement is correct or incorrect with brief reason:*

*‘The Governance Model positions management as accountable solely to investors’.*

**OR**

*The responsibility of the corporate management lies towards shareholders only.*
Answer

Incorrect: The traditional governance model positions management as accountable not to investors only but a growing number of corporations in the late part of the 20th century accept that constituents like employees, trade unions, customers, suppliers along with the investors are affected by corporate activity and therefore the corporate must be answerable to them also. Such constituents of an organization are also called the stakeholders.

Question 4

What is meant by ‘Stakeholders’? Describe those stakeholders who are affected by or can affect the organization?

OR

What is meant by ‘Stakeholders’? Give the list of such stakeholders.

Answer

Meaning of Stakeholders: The traditional governance model positions management as accountable solely to investors or shareholders. But an increasing number of corporations accept that constituents other than shareholders are affected by corporate activity, and that the corporation must therefore be answerable and accountable to them. The word stakeholders describes such constituents of an organization – the individuals, groups or other organization(s) which are affected by, or can affect the organization in pursuit of its goals. A typical list of stakeholders of a company would be employees, trade unions, customers, shareholders and investors, suppliers, local communities, government and competitors.

Question 5

What is meant by ‘Corporate Governance’? State the major 'characteristics' of good corporate governance.

Answer

Corporate Governance: Simply stated, ‘Governance’ means the process of decision making and the process by which decisions are implemented. The term corporate governance is understood and defined in various ways. Corporate governance can be defined as the formal system of accountability and control for ethical and socially responsible organisational decisions and use of resources and accountability relates to how well the content of workplace decisions is aligned with the organisation's strategic direction. Control involves the process of auditing and improving organisation decisions and actions. Good corporate governance has the following major characteristics:

(i) Participatory
(ii) Consensus oriented
(iii) Accountable
(iv) Transparent
Question 6

What is Corporate Social Responsibility? Why it is needed in Indian Business environment?

Answer

The concept of Corporate Social Responsibility (CSR) focuses on the idea that beyond making profit, a business has social obligations. It is the responsibility of the companies to produce an overall positive impact on the society. CSR is pursued by business to balance their economic, environmental and social objectives while at the same time addressing stakeholders’ expectations and enhancing shareholders’ values. Stakeholders, including shareholders, analysts, regulators, labour unions, employees, community organisations and mass media expect companies to be accountable not only for their own performance but for the performance of their entire supply chain. Issues such as peace, sustainable development, security, poverty alleviation, environmental quality and human rights have a profound effect on business and its environment.

Corporate Social Responsibility is the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Need for social responsibility:
1. The iron law of responsibility
2. To fulfil long term self-interest
3. To establish a better public image
4. To avoid government regulation and control
5. To avoid misuse of National Resources and Economic Power
6. To convert Resistances into Resources
7. To minimise Environmental damage.

Question 7

State with reasons whether the following statement is correct or incorrect:

Corporate Social Responsibility is closely linked with the principles of sustainable development.

Answer

Corporate Social Responsibility (CSR) is a concept that organizations, have an obligation to consider the interests of customers, employees, shareholders, communities and ecological considerations in all aspects of their operations. This obligation is seen to extend beyond their statutory obligation to comply with legislation. CSR is closely linked with the principles of
Sustainable Development, which argues that enterprises should make decisions based not only on financial factors such as profits or dividends, but also based on the immediate and long-term social and environmental consequences of their activities. It is an integrated combination of policies, programs, education, and practices that extend throughout a corporation's operations and into the communities in which they operate, about how companies voluntarily manage the business processes to produce an overall positive impact on society.

Question 8
State the "Common Corporate Social responsibility" (CSR) policies for business organizations.

Answer
Common Policies under CSR are as under:

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

Question 9
Write a note on “Social Accountability-8000”.

Answer
Social Accountability 8000: SA 8000 is a comprehensive, global, verifiable performance standard for auditing and certifying compliance with corporate responsibility. The heart of the standard is the belief that all workplaces should be managed in such a manner that basic human rights are supported and that management is prepared to accept accountability for this. SA8000 is an international standard for improving working conditions. This standard is based
on the principles of the international human rights norms as described in International Labour Organization conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. The requirements of this standard apply regardless of geographic location, industry sector, or company size.

Question 10

Explain the role played by different committees in regulating the ‘Corporate Governance’.

Answer

Role of different committees in regulating corporate governance: The core roles of the various committees in regulation of corporate governance are as follows:

1. Board of Directors: The Board’s role is that of trusteeship to protect and enhance shareholders value through strategic supervision. The strategy should aim at accountability and fulfillment of goals.

2. Audit Committee: They have to provide assurance to Board on adequacy of internal control systems and financial disclosures.

3. Compensation Committee: The committee has to recommend to the Board compensation terms for executive Directors and the senior most level of management below the Executive Directors.

4. Nomination Committee: It is to recommend to the Board nominations for membership of the Corporate Management Committee and the Board, and oversee succession to the senior most level of management below the Executive Directors.

5. Investor Services Committee: It is to look into redressal of Shareholders’ and Investors’ grievances, approval of transmissions, sub-division of shares, issue of duplicate shares etc.

6. Corporate Management Committee: Its primary role is strategic management of company’s businesses within Board’s approved direction/framework.

7. Divisional Management Committee: It is to realize tactical and strategic objectives in accordance with Corporate Management Committee/Board approved plan.

Question 11

State the benefits of socially responsible corporate performance.

Answer

Socially Responsible Corporate Performance: The benefits arising out of socially responsible corporate performance include the following:

1. Enhanced brand image and reputation.
2. Reduced Government regulations and controls.
3. Helps to minimize ecological damage.
5. Reduced operating costs.
6. Increased sales and customer loyalty.
7. Increased productivity and quality of work life.
8. Increased ability to attract and retain employees.
9. Achievement of certain other objectives like easier access to capital including international capital.

Question 12

Explain how corporate social responsibility minimises the ecological damage and helps in achieving long-term objectives, so that the business may gain long-term profit maximization.

Answer

Corporate social responsibility and ecological damage: The business institution exists and flourishes only because it performs invaluable services to society. Society gives business its license to exist which may be revoked and amended at any time if they do not fulfill the society’s expectations. Therefore, if a business intends to retain its existing social role and power, it must serve society’s needs constructively.

A business organization acts in its own self interest and uses natural resources also. The effluents of many businesses damage the surrounding environment. By their own socially responsible behaviour, they can prevent government intervention if they are proactive in recognizing their ecological responsibility towards society. Companies must recognize that a strategy for corporate responsibility can play a valuable role not only in meeting the challenges of globalization by mitigating risks domestically and internationally, but also in providing benefits beyond risk management.

Question 13

Explain the meaning of the “Iron Law of Responsibility”. State the resulting benefits which may be acquired by achieving the long-term objectives through the business activities.

Answer

The Iron Law of Responsibility: The institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society’s needs constructively. This is known as the “Iron Law of Responsibility”. In the long-term those who do not use power in a manner that society considers responsible, will tend to lose it.

Businesses have been delegated economic power and have access to productive resources of a community. They are obliged to use these resources for the common good of society so that more wealth for its betterment may be generated. Technical and creative resources are also
helpful to it. A business organisation sensitive to community needs would in its own self interest like to have a better community within which the business may be conducted. This way, the resulting benefits would be:

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

This way a better society would produce a better environment in which the business may gain long term profit maximization.

Question 14

State with reasons whether the following statements are correct or incorrect:

The phrase ‘Iron Law of Responsibility” means that the institution of business exists only because it performs invaluable services towards its promoters.

Answer

Incorrect: The phrase “Iron Law of Responsibility” means the institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society’s expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society’s needs constructively rather than it performs invaluable services towards its promoters.

Question 15

State with reasons whether the following statements are correct or incorrect:

“The institution of business exists only if it fulfils the society’s expectations”

Answer

The given statement is Correct. It is the society which bestows upon businesses the authority to own and use land and natural resources. In return, society has the right to expect the productive organizations, enhancing the general interest of consumers, employees and community. Society may also expect that organizations to honour existing rights and limit their activities within the bounds of justice. So, under this ‘social contract’ between society and business, Business ethics provide the guidance as to regulation of the behavior of business enterprises and the minimal duties of the business professionals, including the consequences and complications of their actions. Thus, business ethics is that set of principles or reasons which should govern the conduct of business – whether at the individual or collective level by
the application of ethical reasoning to specific business situations and activities. Thus, it can be said that the institution of business exists only if it fulfills the society’s expectations.

**Question 16**

*Explain briefly the key strategies which can be used at the time of implementation of Corporate Social Responsibility policies and practices in a company.***

**Answer**

Each company differs in how it implements Corporate Social Responsibility (CSR). The distinction depends on such factors as the company’s size, sector, culture and the commitment of its leadership. Below are some key strategies that companies can use when implementing CSR policies and practices in a company.

(i) Mission, Vision and Value Statements
(ii) Cultural Values
(iii) Management Structures
(iv) Strategic Planning
(v) General Accountability
(vi) Employee Recognition and Rewards
(vii) Communications, Education and Training
(viii) CSR Reporting

**Question 17**

*Examine the concept of Corporate Social Responsibility (CSR) and also explain in brief some of the key strategies which can be used by companies while implementing CSR policies and practices.*

**Answer**

**CSR Concept** - Some companies have established committees that are specifically responsible for identifying and addressing social or environmental issues, or have broadened the scope of more traditional standing committees to include responsibility for CSR; while others have strategically appointed directors on the board based on the unique expertise and experience they bring on specific issues, who then serve as advisors to others on the board. Moreover, companies are finding that a board that is diverse in terms of gender, ethnicity and professional experience is better equipped to grapple with emerging and complex challenges.

Companies implement CSR by putting in place internal management systems that generally promote:

i. Adherence to labour standards by them as well their business patterns;

ii. Respect for human rights;

iii. Protection of the local and global environment;
iv. Reducing the negative impacts of operating in conflict zones;
v. Avoiding bribery and corruption and;
vi. Consumer protection.

Key strategies which can be used by companies while implementing CSR policies and practice - Some of the key strategies which can be used by companies when implementing CSR policies and practices are as follows:
(a) Mission, vision and values statements
(b) Cultural values
(c) Management structures
(d) Strategic planning
(e) General accountability
(f) Employee recognition and rewards
(g) Communication, education and training
(h) CSR reporting

Question 18
State with reason whether the following statement is correct or incorrect:
Inclusion of environmental consideration as a part of corporate strategy improves corporate performance.

Answer
CORRECT: Inclusion of environmental consideration as a part of corporate strategy improves corporate performance is a correct statement.
Environmental consideration is a part of corporate strategy, which means incorporating environmental issues in the process of developing a product, in new investments and in the organizational set up. A good environmental practice improves corporate performance. In many industries it has been found that environmental friendly practices have resulted in more saving; for example the process of recycling the waste. Thus, environmental considerations play a key role in corporate strategy. Markets of new millennium will be able to create wealth if they respond to the challenges of sustainable development, as unsustainable products will become obsolete.

Question 19
What is meant by ‘Corporate Governance’? State the ‘measures of Corporate Governance’ with reference to Indian companies.

Answer
Meaning and Measures of Corporate Governance:
Meaning: “Corporate governance is about promoting corporate fairness, transparency and accountability. It is concerned with the structures and processes for decision-making, accountability, control and behavior at the top level of organizations. It influences how the objectives of an organization are set and achieved, how risk is monitored and assessed and how performance is optimized.

Measures: In general, corporate governance measures include appointing non-executive directors, placing constraints on management power and ownership concentration, as well as ensuring proper disclosure of financial information and executive compensation. Many companies have established ethical and/or social responsibility committees on their Boards to review strategic plans, assess progress and offer guidance on social responsibilities of their business. In addition to having committees and Boards, some companies have adopted guidelines governing their own policies around such issues like board diversity, independence, and compensation. Indian companies are also required to comply with Clause 49 of the listing agreement.

Exercise

1. Write short notes on:
   (i) Code of Conduct on Insider Trading
   (ii) (APEC) Business Code of Conduct
   [Hints: (i) In pursuance of the Securities and Exchange Board of India ((Prohibition of Insider Trading) Regulations, 1992 (duly amended), the Board has approved the Code of Conduct for Prevention of Insider Trading. The objective of the Code is to prevent purchase and/or sale of shares of the Company by an Insider on the basis of unpublished price sensitive information.]
   (ii) APEC is known as the primary international organization for promoting open trade and economic cooperation among 21 member countries. The Code, issued as a draft in 1999, is a standard that draws significantly on a variety of other internationally recognized codes and standards. The drafting of the Code was initiated by business leaders from companies operating in APEC countries and is designed to supplement and support companies existing codes of conduct]

2. Explain the meaning of Corporate citizenship.
   [Hints: The term corporate citizenship denotes the extent to which businesses meet the legal, ethical, economic and voluntary responsibilities placed on them by their stakeholders. Companies can best benefit their stakeholders by fulfilling their economic, legal, ethical, and discretionary responsibilities. The benefits of good corporate citizenship, include:
     ♦ A stable socio-political-legal environment for business as well as enhanced competitive advantage through better corporate reputation and brand image.
     ♦ improved employee recruitment, retention and motivation, improved stakeholder relations and a more secure environment in which to operate]
Question 1

Explain the factors that influence ethical behaviour of an employee. List out some examples of various ethical issues faced in a workplace.

Or

State some examples of ethical issues faced by an individual at the workplace.

Or

State the ethical issues which are being faced by an individual at the workplace of an industrial organization.

Answer

Ethical decisions are influenced by three key factors: Individual moral standards, the influence of managers and co-workers and the opportunity to engage in misconduct. While one may have great control over personal ethics outside the workplace, co-workers and the management exert significant control on one’s choices at work. The activities and examples set by co-workers along with rules and policies are critical in gaining consistent ethical compliance in an organization. If a company fails to provide good examples and direction for appropriate conduct, confusion and conflict will develop and result in the opportunity for unethical behaviour. Example: If the boss or co-workers leave work early, one may be tempted to do so as well. If one sees co-workers making personal long distance phone calls at work and charging them to the company, one may be more likely to do so also. In addition having sound personal values contributes to an ethical workplace.

Some examples of ethical issues faced by an individual in the workplace are:

1. Relationships with suppliers and business partners
   a. Bribery and immoral entertainment
   b. Discrimination between suppliers
   c. Dishonesty in making and keeping contracts

2. Relationship with customers
   a. Unfair pricing
Workplace Ethics 9.2

b. Cheating customers
c. Dishonest advertising

3. Relationship with employees
   a. Discrimination in hiring, promoting, etc
   b. Unequal treatment

4. Management of resources
   a. Misuse of official funds
   b. Tax evasion

Question 2
Describe the factors which influence the ethical behaviour at work in an organization

Answer
Factors which influence the ethical behaviour at work- Ethical decisions in an organization are influenced by three key factors:
1. Individual moral standards: One may have great control over personal ethics outside workplace.
2. The influence of managers and co-workers: The activities and examples set by co-workers along with rules and policies established by the firm are critical in gaining consistent ethical compliance in an organization.
3. The opportunity to engage in misconduct: If a company fails to provide good examples and direction for appropriate conduct; confusion and conflict will develop and result in the opportunity for unethical behavior.

Question 3
State with reasons whether the following statement is correct or incorrect:
Fairness and honesty are the pillars of success in business.

Answer
Correct: The success of the business depends very much on fairness and honesty in the business. Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. At a minimum, business professionals and persons are expected to follows all applicable laws and regulation. Even then, they are expected not to harm customers, employees, clients or competitors knowingly through deception, misrepresentation, coercion or discrimination.
One aspect of fairness and honesty is related to disclosure of potential harm caused by product use. For example, Mitsubishi Motors, a Japanese automaker, faced criminal charges
and negative publicity after executives admitted that the company had systematically covered up customer complaints about tens of thousands of defective automobiles over a 20 year period in order to avoid expensive and embarrassing product recalls.

Another aspect of fairness relates to competition. Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies sometimes gain control over markets by using questionable practices that harm competition.

Rivals of Microsoft, for example, accused the software giant of using unfair and monopolistic practices to maintain market dominance with its Internet Explorer browser.

These aforesaid examples show that fairness and honesty pay in the long run; they secure the stability of the business and overall reputation in the business world. Therefore, we may say that fairness and honesty are the pillars of success in the business.

**Question 4**

Answer whether the statement is correct or incorrect with brief reason:

*Promotion policies based on individual merit and not purely on the basis of seniority is discriminatory.*

**Answer**

**Incorrect:** Discrimination is action based on prejudice resulting in unfair treatment of people. To discriminate socially is to make a distinction between people on the basis of class or category without regard to individual merit. Examples of such discrimination include racial, religious or gender-based discrimination. Distinctions between people which are based just on individual merit (such as personal achievements, skill or ability) are generally not considered socially discriminatory. So seniority alone cannot be the deciding factor for promotion, if the senior person is not fit for the job.

**Question 5**

What do you understand by the term 'discrimination' in employment as sometime found in an establishment? Explain the basic elements of 'discrimination'.

**OR**

State the elements which create discrimination in employment in the business organizations.

**Answer**

The root meaning of the term discriminate is “to distinguish one object from another”. Employment discrimination is treating one person better than another because of their age, gender, race, religion or other protected class of status. Discrimination in employment is wrong because it violates the basic principle of equality. Discrimination is to treat people differently. It is usually intended to refer to the wrongful act of making a difference in treatment or favour on a basis other than individual merit.
Elements of Discrimination: Generally, the discrimination means to distinguish one object from another or treating people differently. It is usually intended to refer to the wrongful act of making a difference in treatment or favour on a basis other than individual merit. Such discrimination may also be related in employment in business organization. The elements which create discrimination may be summarized as follows:

(i) If the decision against one or more employees is taken which is not based on individual merit, such as the ability to perform a given job, seniority or other morally legitimate qualification.

(ii) If the decision has been derived solely from racial or sexual prejudice, false stereotypes or other kind of morally unjustified attitude against members of which the employee belongs.

(iii) If the decision has a harmful or negative impact on the interests of the employees, perhaps costing them jobs, promotions or better pay.

Discrimination in employment is wrong because it violates the basic principle of justice by differentiating between people on the basis of characteristics (race or sex) that are not relevant to the tasks they must perform. Looking to these aspects law has also been changed to conform to these moral requirements and to minimize the discrimination in employment in this respect.

Question 6

*Write a note on harassment at workplace.*

**Answer**

Harassment is “tormenting by subjecting to constant interference or intimidation”. Law prohibits harassing acts and conduct that “creates an intimidating hostile or offensive working environment,” which could be a term or condition of an individual’s employment, either explicitly or implicitly or such conduct which has the purpose or effect of unreasonably interfering with an individual’s work performance or creating an intimidating, hostile or offensive working environment. Another type of harassment is sexual harassment – situations in which an employee is coerced into giving in to another employee’s sexual demands by the threat of losing some significant job benefit, such as a promotion, raise or even the job. Sexual harassment is prohibited and an employer is held responsible for all sexual harassment engaged in by employees, “regardless of whether the employer knew or should have known” the harassment was occurring and regardless of whether it was “forbidden by the employer.”

Question 7

*Explain the concept of “Sexual harassment” in relation to work place*
Answer

Concept of Sexual harassment: Sexual harassment is a situation in which an employee is coerced into giving into another employee's sexual demands by the threat of losing some significant job benefit, such as a promotion, raise, or even the job. This kind of degrading coercion exerted on employees who are vulnerable and defenseless inflicts great psychological harm on the employee, violates the employee's most basic right to freedom and dignity and is an unjust misuse of the unequal power that an employer can exercise over the employee. Sexual harassment is prohibited, and an employer is held responsible for all sexual harassment engaged in by employees.

Question 8

Answer whether the statement is correct or incorrect with brief reasons.

Ethical behaviour is not essential to working environment at the workplace.

Or

Explain the importance of ethical behavior at the workplace.

OR

What problems may arise at workplace when ethical behavior is not adopted?

Answer

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

(i) Increased risk of employees making unethical decisions.

(ii) Increased tendency of employees to report violations to outside regulatory authorities (whistle blowing) because they lack an adequate internal forum.

(iii) Inability to recruit and retain top people.

(iv) Diminished reputation in the industry and the community.

(v) Significant legal exposure and loss of competitive advantage in the market place.

Therefore, ethical behaviour is essential to working environment at the workplace.

Question 9

Explain in brief the measures to ensure ethics in the Workplace.

Or
State in brief the guidelines for managing ethics and to prevent the need for whistle-blowing in the work place.

**Answer**

**Managing ethics and preventing whistle-blowing:** The focus on core values and sound ethics, the hallmark of ethical management, is being recognized as an important way to ensure the long term effectiveness of governance structures and procedures and to avoid the need for whistle blowing.

Employers, who understand the importance of work place ethics, provide their work force with an effective framework and guiding principles of identity and address ethical issues as they arise. These guidelines for managing ethics and to avoid the need for whistle-blowing in the work place may be summarized as follows:-

(a) Have a Code of Conduct and ethics.
(b) Establishment open communication.
(c) Make ethical decisions in group and make decision public whenever appropriate.
(d) Integrate ethics with other management practices.
(e) Use of cross functional teams when developing and implementing the ethics management programme.
(f) Appointing an ombudsman.
(g) Creating an atmosphere of trust.
(h) Regularly updating of policies and procedures
(i) Include a grievance policy for employees
(j) Set an example from the top.

**Question 10**

**Explain the various socio-psychological factors responsible for developing negative attitude by an individual at workplace.**

**Answer**

**Socio-Psychological Factors Responsible for Developing Negative Attitude by an Individual at Work Place:**

An ethical issue is an identifiable problem, situation or opportunity that requires a person to choose from several actions which could be evaluated as right or wrong. Values reflect enduring beliefs that one holds that influences attitude, action and the choices one make. As individuals, our values are shaped by our personal beliefs. Values developed in childhood and youth are constantly tested and on-the-job decisions reflect the employee’s understanding of ethical responsibility. Various socio-
psychological factors that could be responsible why individuals could develop negative attitudes or lose personal motivation are:

(i) Negative work or life experiences.

(ii) Employees failing to respect each others unique personalities.

(iii) Overly aggressive financial or business targets.

(iv) Pressures to perform and take quick decisions.

Question 11

Explain the practices widely recognized as discriminatory in employment.

Answer

Discriminatory Practices in Employment: Discrimination in employment is wrong because it violates the basic principle of justice by differentiating between people on the basis of characteristics (race or sex) that are not relevant to the tasks they must perform.

It is consequently understandable that the law has gradually been changed to conform to these moral requirements, and that there has been a growing recognition of the various ways in which discrimination in employment occurs. Among the practices now widely recognized as discriminatory are the following:

Recruitment Practices: Firms that rely solely on the word-of-mouth referrals of present employees to recruit new workers tend to recruit only from those racial and sexual groups that are already represented in their labor force. Also, when desirable job positions are only advertised in media that are not used by minorities or women or are classified as for men only, recruitment would also tend to be discriminatory.

Screening Practices: Job qualifications are discriminatory when they are not relevant to the job to be performed (e.g., requiring a high school diploma or a credential for an essentially manual task.). Job interviews are discriminatory if the interviewer routinely disqualifies certain class of people - for example assumptions about occupations “suitable for women” or the propriety of putting women in “male” environments.

Promotion Practices: Promotion, job progression, and transfer practices are discriminatory when employers place males on job tracks separate from those open to women and minorities. When promotions rely on the subjective recommendations of immediate supervisors.

Conditions of Employment: Many times wages and salaries are discriminatory to the extent that equal wages and salaries are not given to people who are doing essentially the same work. Another issue is related to fair wages and treatment to workers. Companies subcontracting manufacturing operations abroad are now aware of the ethical issues associated with supporting facilities like child labour that abuse and/or underpay their work forces. Such facilities have been termed “sweatshops.”
Dismissing: Firing an employee on the basis of his or her race or sex is a clear form of discrimination. Less blatant but still discriminatory are layoff policies that rely on a seniority system, in which women and minorities have the lowest seniority because of past discrimination.

Exercise

1. **Explain the importance of Ombudsperson in the workplace?**

   [Hints: The ombudsperson is responsible to help & coordinate development of the policies and procedures to institutionalise moral values in the workplace. This establishes a point of contact where employees can go to ask questions in confidence about the work situations they confront and seek advice]

2. **Elaborate ‘Communication as an ethical issues’**.

   [Hints: Communications is another area in which ethical concerns may arise. False and misleading advertising, as well as deceptive personal-selling tactics, anger consumers and can lead to the failure of a business. Truthfulness about product safety and quality and product labelling are also important to consumers]
Question 1

What is meant by ‘Sustainable Development’? State the special responsibilities of the industries that are based on natural resources. How the adoption of Green Accounting System helps in avoiding policy decisions which are non-sustainable for the country?

OR

The industries that are based on natural resources, like minerals, timber, fibre and foodstuffs, have some special responsibility for making "environment-friendly products". Examine this statement and also explain in brief the concept of Green Accounting System.

Answer

Sustainable Development: Literally sustainable development refers to maintaining development over time. It may be defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. A nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interests of future generations.

Special responsibilities of industries based on natural resources: Industries that are based on natural resources, like minerals, timber, fibre, and foodstuffs etc. have a special responsibility for:

1. adopting practices that have built-in environmental consideration
2. introducing processes that minimize the use of natural resources and energy, reduce waste, and prevent pollution.
3. making products that are ‘environment-friendly’, with minimum adverse impact on people and ecosystem.

Green accounting systems: Conventional accounts may result in policy decisions which are non-sustainable for the country. Green accounting on the other hand is focused on addressing such deficiencies in conventional accounts with respect to environment. If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Such measures would facilitate the approach of ‘polluter pays principle’. Removing subsidies that encourage environmental damage is another measure.
There is no doubt, that with the public opinion moving towards accountable socio-economic structures, ethical and eco-friendly business practices would be standard corporate norms.

Question 2

Answer whether the statement is correct or incorrect with brief reasons.

‘There is no economic growth without ecological costs’.

Answer

Correct. Economic growth has to be environmentally sustainable. There is no economic growth without ecological costs. Industrialization and rapid development have affected the environment. Everybody should realize that such development is related to environmental damage and resource depletion.

Therefore, an element of resource regeneration and positive approach to environment has to be incorporated in development programs. Sustainable development refers to maintaining development over time. Sustainable development is development that meets the needs of the present without comprising the ability of future generations to meet their own needs. A nation or society should satisfy its social, economic and other requirement without jeopardizing the interest of future generations.

High economic growth means high rate of extraction, transformation and utilization of non-renewable resources. Therefore, it is suggested that economic growth has to be environmentally sustainable because it is sure that there is no economic growth without ecological cost.

Question 3

State with reason whether the following statement is correct or incorrect:

Creation of proper ethical environment requires a proper understanding of the reasons which lead to an unethical behavior.

Answer

Correct: A creation of a proper ethical environment requires a proper understanding of the reasons which lead to an unethical behavior. The reasons may be summarized as follows:

(a) Emphasis on short term results
(b) Ignoring small unethical issues
(c) Economic Cycles
(d) Change in accounting rules.

Question 4

Write a note on ecological ethics.
Answer

Note on Ecological Ethics: The problem of pollution and other environmental issues can best be framed in terms of our duty to recognize and preserve the ecological systems within which we live. An ecological system is an interrelated and interdependent set of organisms and environments, such as a lake, in which the fish depend on small aquatic organisms, which in turn live off decaying plant and fish waste products. Since the various parts of an ecological system are interrelated, the activities of one of its parts will affect all other parts. Business and all social firms are parts of a larger ecological system. Business firms depend on the natural environment for their energy, material resources, waste disposal and that environment in turn is affected by the commercial activities of business firms. Unless business recognize the interrelationship and interdependencies of the ecological systems within which they operate and unless they ensure that their activities will not seriously injure these systems one cannot hope to deal with the problem of pollution. Ecological ethics is based on the idea that the environment should be protected not only for the sake of human being but also for its own sake. The issue of environmental ethics goes beyond the problem relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal. It is the issue of exploitive human nature and attitudes that should be addressed in a rational way. Problems like global warming, ozone depletion and disposal of hazardous waste that concern the entire world. They require international cooperation and have to be tackled at the global level.

Question 5
State with reason whether the following statement is correct or incorrect:
A nation should satisfy its social and economic requirements without damaging the interest of future generations.

Answer
Correct: An element of resource regeneration and positive approach to environment has to be incorporated in developmental programmes. Sustainable development is necessary because it meets the needs of the present without compromising the ability of future generations to meet their own needs.

Question 6
Answer whether the statement is correct or incorrect with brief reason:
Depletion of Ozone layer will have adverse effect on human beings and not on vegetation.

Answer
Incorrect: Ozone depletion results in the increase of ultraviolet rays. Experts believe that this could cause several hundred thousands of new cases of skin cancer and could also lead to
considerable destruction of 75% of the world’s major crops that are sensitive to ultraviolet light.

Question 7

Answer whether the statement is correct or incorrect with brief reason:

Water pollution is also a kind of resource depletion.

Answer

Correct: Water pollution is also a kind of resource depletion because contamination of air, water or land diminishes their beneficial qualities. Oceanographers have found traces of plutonium, cesium and other radioactive materials in seawater that have apparently leaked from the sealed drums in which radioactive wastes are disposed. An increase in population and economic activity in urban area has also resulted in increased demands of water. The ground water is also shrinking because of the decreasing rainfall and wastage of water.

Question 8

What is meant by ‘Environmental ethics’? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain.

Answer

Ecological ethics is based on the idea that the environment should be protected not only for the sake of human beings but also for its own sake. The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal.

Business and Industry are closely linked with environment and resource utilization. Production process and strategy for eco-friendly technologies throughout the product life cycle and minimization of waste play major role in protection the environment and conservation of resources. Business, Industry and multinational corporations have to recognize environmental management as the priority area and a key determinant to sustainable development. Sound management of wastes is among the major environmental issues for maintaining the quality of Earth’s environment and achieving sustainable development.

If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Price signal will also influence behaviour to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of “Polluter Pays Principle”. Removing subsidies that encourage environmental damage is another measure.

Question 9

Answer whether the statement is correct or incorrect with brief reason:

‘Business does not sub-serve environmental ethics’. 
10.5 Business Laws, Ethics and Communication

Answer

Incorrect: Previously the business concerns were mainly concerned with only good business in economic sense. The conservation of natural resources was a motive of more economic gains. But now due to awareness of social responsibility and ethical norms the motive of business is not only concerned with business interest of the shareholders but also a general concern for the community. Now the business houses have realized that environmental ethics make good business sense if quality, ethics and environmental standards are maintained.

Question 10

State with reason whether the following statement is correct or incorrect:
‘A good environmental practice improves corporate performance’

Answer

Environmental consideration have become a part of corporate strategy, which means incorporating environmental issues in the process of developing a product, in new investments and in the organisational set up. A good environmental practice improves corporate performance. In many industries it has been found that environmental friendly practices have resulted in more saving; for example the process of recycling the waste. Thus environmental considerations play a key role in corporate strategy. Markets of new millennium will be able to create wealth if they respond to the challenges of sustainable development, as unsustainable products will become obsolete.

Question 11

State with reason whether the following statement is correct or incorrect.
‘Business and industry are closely linked with environment and resource utilization’.

Answer

Correct: Business and industry are closely linked with environment and resource utilization. Production process and strategy for eco-friendly technologies throughout the product life cycle and minimization of waste play a major role in the protection of the environment and conservation of resources. Business, industry and multinational corporations have to recognize environmental management as the priority area and a key determinant to sustainable development.

Question 12

What do you understand by the term “Acid Rain”? How does it adversely affect the environment?

Answer

Like a Global Warming, “Acid Rain” is a threat to the environment that is closely related to the combustion of fossil fuels (oil, coal and natural gases) which are heavily used by utilities to
produce electricity. Burning fossil fuels, particularly coal containing high levels of sulphur, releases large quantities of sulphur oxides and nitrogen oxides into the atmosphere. When these gases are carried into the air, they combine with water vapour in clouds to form nitric acid and sulphuric acid. These acids are then carried down in rain, which often falls hundreds of miles away from the original sources of the oxides raising the acidity of the water sources. It also soaks into soils and falls directly on trees and other vegetations.

Numerous studies have shown that many fish populations and other aquatic organisms are unable to survive in lakes and rivers that have become highly acidic due to acid rain. Other studies have shown that acid rain directly damages forests and indirectly destroys the wildlife and species that depend on forests for food and breeding. Acidic rain water can also contaminate drinking water. Acid rain can corrode and damage buildings, statues and other objects, particularly those made of iron, lime stone and marble thereby causing great threat to life and property over a long period of time.

**Question 13**

Discuss different environmental phenomena of ethical concern?

**Answer**

Different environmental phenomena of ethical concern: An ecological system is an interrelated and interdependent set of organisms and environments, such as a lake, in which the fish depend on small aquatic organisms, which in turn live off decaying plant and fish waste products. Since the various parts of an ecological system are interrelated, the activities of one of its parts will affect all the other parts. Business firms (and all other social institutions) are parts of a larger ecological system. Business firms depend on the natural environment for their energy, material resources, and waste disposal, and that environment in turn is affected by the commercial activities of business firms.

The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal. It is the issues of exploitive human nature and attitudes that should be addressed in a rational way. Problems like Global warming, Ozone depletion and disposal of hazardous wastes that concern the entire world. They require International cooperation and have to be tackled at the global level.

Few decades ago, the corporate world, the industry or others engaged in the use of natural resources or environmental services were mainly concerned with good business in economic sense. There is now a growing concern for Social responsibility and ethical norms in all spheres of human activities; be it public behaviour, business or environment and there are ethical concerns to look after not only the interest of stakeholders but also that of community; as the regulatory / mandatory requirements have also become more stringent. This translates into providing safety for the workers at workplace, concern for their health, reducing pollution and incorporating environmental values in governance.
1. **Write short note on ‘Business and Environment Ethics’**.

   **Hints:** Environmental ethics is a larger issue that concerns ethical behaviour of all types of organisations ranging from International bodies, national governments, opinion makers, media, intelligentsia, public and private enterprises and NGOs. In India many companies have come to realize that ethical practices make good business sense especially the organizations engaged in exports as these organisations have to satisfy the importer in regard to the quality, ethics and environmental standards.

2. **Short Note on:**
   (i) **Global Warming**
   (ii) **Ozone Depletion**

   **Hints:**
   (i) Greenhouse gases - carbon dioxide, nitrous oxide, methane, and chloro-fluorocarbons, occur naturally in the atmosphere to absorb and hold heat from the sun, preventing it from escaping back into space.
   (ii) A layer of ozone in the lower stratosphere screens all life on earth from harmful ultraviolet radiation. This ozone layer, however, is destroyed by CFC gases.
Question 1

Explain the extent to which it is possible to observe ethical behaviour in marketing. Also explain in brief the merits and demerits of the above.

Answer

Ethical behaviour in Marketing; Merits and Demerits: Market is flooded with duplicate goods having fake labels for selling drugs, food stuffs, consumables like agarbathis, suparis etc. followed by misleading advertisements. This results in disrepute for the products of good companies even though such fake goods are small in quantities. Setting high ethical standard and enforcing them reverses the position. If government notices such depletion of ethical standard, rigid regulations are brought in and are never withdrawn. Marketing executives enjoy great amount of social power in influencing the society. They also are the emblems for the organization. Once the virtues are lost it is difficult to regain the social power, influence and image.

Question 2

Answer ‘yes’ or ‘no’ with brief reason:
Ethics are necessary in marketing to build Brand image only.

Answer

No, the ethics are necessary in marketing not only to build image, but ethics are necessary for sustainable development of business, and ultimately for transparency and good corporate governance in the country.

Question 3

Answer whether the statement is correct or incorrect with brief reason:
Ethical behaviour in marketing is necessary to avoid Government intervention/ regulation.

Answer

Correct: Business apathy, resistance or token responses to unethical behaviour simply increase the probability of more Governmental regulation. Indeed, most of the Governmental limitations on marketing are the results of management’s failure to live up to its ethical responsibilities at one time or other. However, once some form of government control has
been introduced, it is rarely removed. So, business enterprises in their own interest must behave ethically in marketing.

Question 4

Explain the pragmatic reasons for maintaining ethical behaviour in marketing through marketing executives.

OR

What reasons force a marketing executive to adopt ethical practices in marketing? Explain.

Answer

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

1. **To reverse declining public confidence in marketing:** Sometime misleading package labels, false claim in advertisement, phony list prices, infringement of trademarks pervert the market trends and such behaviour damages the marketers’ reputation. To reverse this situation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will fulfill it. Companies must set high ethical standards and enforce them. Moreover, it is in management’s interest to be concerned with the well being of consumers, since they are the lifeblood of a business.

2. **To avoid increase in government regulation:** Business apathy, resistance, or token responses to unethical behaviour increase the probability of more governmental regulation. The governmental limitations may also result from management’s failure to live up to its ethical responsibilities. Moreover, once the government control is introduced, it is rarely removed.

3. **To retain power granted by society:** Marketing executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility tied to that power. If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.

4. **To protect the image of the organisation:** Buyers often form an impression of an entire organisation based on their contact with one person. That person represents the marketing function. Some times a single sales clerk may pervert the market opinion in relation to that company which he represents.

Therefore, the ethical behaviour in marketing may be strengthened only through the behaviour of the marketing executives.

Question 5

Answer ‘yes’ or ‘no’ with brief reason:

Consumer purchases goods and health services for personal purposes only.
Answer

No. The consumer does not purchase goods and health services for personal purposes only, because on certain occasions various items are purchased for public welfare and development of the society as a whole. Further, under the Competition Act, 2002, a consumer is also one who may purchase goods for commercial purposes also.

Question 6

Answer whether the statement is correct or incorrect with brief reason:

‘Competition Act, 2002 protects the interest of consumers’.

Answer

Correct: The Competition Act, 2002 intends to protect the interests of consumers by establishing a commission to prevent practices having adverse effect on competition and to promote and sustain competition in markets. The commission is empowered to prohibit certain agreements which are considered as anti-competitive in nature, abuse of dominant position and regulation of combinations likely to cause appreciable adverse effect on competition.

Question 7

A retailer was purchasing goods regularly from XYZ Ltd. for the purpose of resale. There were defects in the goods in one of the purchase lot and as a result the retailer suffered loss of his share in competition. The retailer sued the said company for this reason. The company contended that the goods were purchased for the purpose of resale and therefore, not bound. Is it a valid contention? Explain clearly the provisions of the Competition Act, 2002 in this regard

Answer

The problem as asked in the question is based on the provisions of Section 2(f) of the Competition Act, 2002. The Section provides that “consumer” means any person who buys any goods for a consideration which has been paid or promised or partly paid or partly promised or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised or under any system of deferred payment when such use is made with the approval of such person whether such purchase of goods is for resale or for any commercial purpose or for personal use.

Hence Section 2(f) of the Competition Act, 2002 provides that whether purchase of goods is for resale or for any commercial purpose or for personal use, the purchaser is a consumer. Thus consumer will also include a person who purchases goods for re-sale. Therefore the contention of XYZ Ltd. is not valid and not tenable.
Question 8

Answer whether the statement is correct or incorrect with brief reason:

‘Consumer for personal use and consumer for commercial use are synonymous’.

Answer

Incorrect: It seems that the definitions of “consumer” under Competition Act, 2002 and under Consumer Protection Act, 1986 are substantially the same. But there is difference between the two and that difference is that under clause (1) of Section 2(f) in Competition Act, the words used are “whether such purchase of goods is for the resale of for any commercial purpose or for personal use” in place of the words “but does not include a person who obtains such goods for resale of for any commercial purpose” as in the Consumer Protection Act. Likewise in clause (ii) the words used in the Competition Act are “Whether such hiring or availing of services is for any commercial purpose or for personal use” in place of the words “but does not include a person who avails of such services for any commercial purpose” as in the Consumer Protection Act. Thus in case of Competition Act the word consumer includes both consumer for personal use and for commercial use but it is not so in the case of the Consumer Protection Act.

Question 9

Answer whether the statement is correct or incorrect with brief reason.

‘Consumer interest’ and ‘Public interest’ are synonymous’.

Or

Differentiate between ‘consumer interest’ and ‘public interest’.

Answer

Incorrect: Apparently it seems that public interest and consumer interest are synonymous, but it is not so. They may be differentiated as under:

(i) In the name of public interest, many Governmental policies are formulated which manifest themselves in anti-competitive behaviour. If the consumer is at the fulcrum, consumer interest and welfare should have primacy in all governmental policy formulations.

(ii) Consumer is a member of a broad class of people who purchase, use, maintain and dispose of products and services. They are being affected by pricing policy, financing practice, quality of goods, services and trade practices. They are clearly distinguished from manufacturers who produce goods for wholesalers, retailers who sell goods in public interest.

Public interest is something in which the society as a whole has some interest, and is seen as an externality to competitive markets. There is also a justifiable apprehension that in the name of public interest, Governmental policies may be fashioned and
introduced which may not be in the ultimate interest of the consumers. In fact in such situations, there is the possibility that a conflict could arise between public interest and consumer interest.

**Question 10**

*What are the United Nations’ guidelines themes on consumer protection? Enumerate also the consumer rights enshrined therein.*

**Answer**

The UN Guidelines call upon governments to develop, strengthen and maintain a strong consumer policy, and provide for enhanced protection of consumers by enunciating various steps and measures around eight themes (UNCTAD, 2001). These eight themes are:

1. Physical safety
2. Economic interests
3. Standards
4. Essential goods and services
5. Redress
6. Education and information
7. Specific areas concerning health
8. Sustainable consumption

The Guidelines have implicitly recognised eight consumer rights, which were made explicit in the Charter of Consumer International as follows:

- Right to basic needs
- Right to safety
- Right to choice
- Right to redress
- Right to information
- Right to consumer education
- Right to representation
- Right to healthy environment

These eight consumer rights can be used as the touchstones for assessing the consumer welfare implications of competition policy and law, and to see how they help or hinder the promotion of these rights.
Question 11

Examine the following hypothetical situation and give a brief analytical note on it.

ABC Ltd. has been the leading scientific equipment manufacturing company in South India. But it suddenly finds that certain companies from North India that do not have anywhere near its own kind of clout in their own turfs, are trying to enter the south Indian market. But because of its superior clout, ABC Ltd coerces them to enter into agreement with itself such that they do not sell at prices above that of its own products. Please comment on the legality of such agreements. Conversely, if ABC Ltd were to enter into agreements with distributors such that the distributors are prevented from marketing the products of the North Indian companies, would that be illegal?

Answer

The Competition Act, 2002 intends to provide, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto.

The Act deals with the following:

- **Prohibition of certain agreements**, which are considered to be anti-competitive in nature. Such agreements [namely tie in arrangements, exclusive dealings (supply and distribution), refusal to deal and resale price maintenance] shall be presumed as anti-competitive if they cause or are likely to cause an appreciable adverse effect on competition within India.

- **Abuse of dominant position** by imposing unfair or discriminatory conditions or limiting and restricting production of goods or services or indulging in practices resulting in denial of market access or through in any other mode are prohibited.

- **Regulation of combinations** which cause or likely to cause an appreciable adverse effect on competition within the relevant market in India.

In light of the above points, any agreement that ABC Ltd. may enter into with its competitors from North India to tie-up the price at a certain level is prohibited. Such agreements would also amount to abuse of dominant position.

Conversely, agreements with distributors preventing the latter from distributing the goods of its competitors would also be illegal since they would restrict market access and can be deemed anti-competitive.

**Question 12**

*State the objectives of the Central Consumer Protection Council in India.*

Or
What are the objects of the “Central Consumer Protection Council” in relation to protection of rights of the consumers?

Answer

The objectives of the Central Consumer Protection Council in India are to promote and protect the rights of the consumers such as:-

(i) the right to be protected against the marketing of goods and services which are hazardous to life and property;

(ii) the right to be informed about the quality, quantity, potency, purity, standard and price of goods/services so as to protect the consumer against unfair trade practices;

(iii) the right to be assured, whichever possible, access to a variety of goods and services at competitive prices;

(iv) the right to be heard and to be assured that consumers interest will receive due consideration at appropriate terms;

(v) the right to seek redressal against unfair trade practices;

(vi) the right to consumer education.

Question 13

Which parameters are applicable in relation to Competition Law in India?

Answer

Parameter under Competition Law in India:

- Prohibition of certain agreements, which are considered to be anti-competitive in nature. Such agreements namely tie in arrangements, exclusive dealings (supply and distribution), refusal to deal and resale price maintenance shall be presumed as anti-competitive if they cause or likely to cause an appreciable adverse effect on competition within India.

- Abuse of dominant position by imposing unfair or discriminatory conditions or limiting and restricting production of goods or services or indulging in practices resulting in denial of market excess or through in any other mode are prohibited.

- Regulation of combinations which cause or likely to cause an appreciable adverse effect on competition within the relevant market in India is also considered to be void.

Exercise

1. Mark the correct answer:

   Ethics are necessary in marketing because

   (a) To avoid intervention by the Government

   (b) To get recognition from the society
11.8 Business Laws, Ethics and Communication

(c) To build brand image
(d) (a) & (b) only

[Hints: The Correct option is (d)]

2. What is the object behind the enactment of the Competition of Act, 2002?

[Hints: The Competition Act, 2002 intends to provide, keeping in view of the economic development of the country, for the establishment of a Commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interests of consumers and to ensure freedom of trade carried on by other participants in markets, in India, and for matters connected therewith or incidental thereto]
Ethics in accounting and Finance

Question 1
Answer whether the statement is correct or incorrect with brief reason:
‘Window-dressing of financial statements will not be useful in the long run’.
Answer
Correct: In window-dressing, efforts are made to show a 'good balance sheet' by manipulating accounting entries. This can help companies to boost their market image and obtain further capital from the market for some time. Window dressing is on the assumption that next year performance will be better and accounts will be regularised next year. Window dressing can go on for 2 or 3 years but not more. It will lead to the downfall of the company in a few years.

Question 2
Answer whether the statement is correct or incorrect with brief reason:
‘Ensuring fair treatment to whistle blowers will help in creating good ethical accounting environment in a business enterprise’.
Answer
Correct: A whistle blower is an employee/person who reports fraud, mismanagement or unethical practices to the appropriate levels of management. Fair treatment and appreciation of whistle blowers is necessary to check fraud. This will help in creating good accounting environment in a business enterprise.

Question 3
State, how far a sound ethical environment in a company may be created and corporate scandals may be avoided.
Answer
Creating an ethical environment in company: A sound ethical environment in a company may be created and corporate scandals may be avoided by adopting the following methods:
(i) Ensuring that employees are aware of their legal and ethical responsibilities.
Some ethical organisations are having policies to train and motivate employees towards ethical behaviour. To start with, such initiation should be from the top. A number of companies in India
and abroad are being known for their quality and soundness of their ethics programmes. Companies like Raytheon, Texas Instruments, Wipro are pioneers in establishing ethical environment among the employees enabling them to take ethical decisions.

(ii) Providing a communication system between the management and employees so that anyone in the company can report fraud and mismanagement without the fear of being reprimanded.

In India, Wipro has introduced a helpline comprising of senior members of the company, who are available for guidance on any moral, legal or ethical issues that an employee of the company may face.

(iii) Ensuring fair treatment to those who act as whistle blowers:

This is perhaps the most important and sensitive issue. Fair treatment to whistle blowers is a basic necessity to check fraud. Some acts must be appreciated and that appreciation should be extended from within the company rather than outside.

Question 4

Explain the reasons for unethical behaviour among finance and accounting professionals.

Answer

The reasons which lead to unethical behaviour are as follows:

(i) Emphasis on short term results.

This is one of the primary reasons which has led to the downfall of many companies like Enron and Worldcom.

(ii) Ignoring small unethical issues.

It is a known fact that most of the compromises we make are small but however they lead us into committing large infractions. And ignoring minor lapses, lead to bigger and more huge mistakes.

(iii) Economic cycles.

In good times, companies are relaxed in their accounting procedures or disclosures, as there is a pervasive feel-good effect. But when times of hardship follow, then the hit taken by them is almost fatal, as was proved in the Enron case. So companies need to watch out for economic cycles and be vigilant in good times as well as bad.

(iv) Accounting rules.

In the era of globalization and massive cross border flow of capital, accounting rules are changing faster than ever before. The rules have become more complex and it is difficult to identify deviations from these complex set of requirements. The complexity of these principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behaviour.
Question 5

Self interest threats may occur as a result of financial or other interests of finance and accounting professional. Give three examples each of such threats when the accounting professional is working as-

(i) An auditor or consultant

(ii) An employee in a company.

Answer

Self Interest Threats: Auditors: Employees:

(i) Self interest threats for finance and accounting professionals working as consultants or auditors are given below:

(a) A financial interest in a client or jointly holding a financial interest with a client.

(b) Undue dependence on total fees from a client,

(c) Having a close business relationship with a client.

(d) Concern about the possibility of losing a client,

(e) Potential employment with a client.

(f) Contingent fees relating to an assurance engagement.

(ii) Self interest threats for finance and accounting professionals working as an employee are given below:

(a) Financial interests, loans and guarantees in the company in which the professional is working.

(b) Incentive compensation arrangements.

(c) Inappropriate personal use of corporate assets.

(d) Concern over employment security.

(e) Commercial pressure from outside the employing organization.

Question 6

Finance and accounting professionals working as employees in an organisation have to face various threats which make it difficult for them to comply with fundamental principles relating to ethics. Explain the safeguards in the work environment which may be created by a business enterprise to overcome such threats.

Answer

Safeguards in the work environment: Safeguards against threats faced by professional shall be to (i) Ensure an ethical environment, (ii) Increase the likelihood of identifying or deterring unethical behaviour and (iii) Eliminate or reduce threats to acceptable level.
The following safeguards may be created by a business enterprise in the work environment:

(i) The employing organisations’ systems or corporate oversight or other oversight structures.
(ii) The employing organisation's ethics and conduct programmes.
(iii) Recruitment procedures in the employing organisation emphasizing the importance of employing high caliber competent staff.
(iv) Strong internal controls.
(v) Appropriate disciplinary process.
(vi) Leadership that stresses the importance of ethical behaviour and expectation that employees will act in an ethical manner.
(vii) Policies and procedures to implement and monitor the quality of employee performance.
(viii) Timely communication of the employing organisation's policies and procedures, including any changes to them, to all employees and appropriate training and education on such policies and procedures.

Question 7
What are the fundamental principles of ethics applicable to the persons of finance and accounting profession?

Answer

Principles of Ethics

The fundamental principles relating to ethics as applicable to accounting and finance professionals are as follows:

(i) The principle of integrity: Integrity means veracity. The principle requires all accounting and finance personnel to be honest and straight-forward in discharging their respective professional duties.
(ii) The principle of objectivity: The principle requires accounting and financial professionals to stick to their professional and financial judgement without bias, conflicting interests, or under influence of others.
(iii) The principle of confidentiality: The principle requires accounting and financial professionals to refrain from disclosing confidential information related to their work.
(iv) The principle of professional competence and due care: The financial and accounting professional need to update their professional skill in the modern competitive environment.
(v) The principle of professional behavior: The principle requires accounting and financial professional to comply with relevant laws and regulations and avoid such action which may result into discrediting the profession.
Question 8

State the pressures which are faced by the finance and accounting professionals’ in an organization in the compliance of fundamental principles of ethics.

Answer

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

(a) To act contrary to Law or Regulation
(b) To act contrary to technical a professional standards.
(c) To facilitate unethical or illegal earnings management strategies.
(d) Lie to, or otherwise intentionally mislead other, in particular the auditors of the employing organization or Regulators.
(e) To issue or otherwise be associated with, a financial or non financial report that materially misrepresents the facts, including statements, in connection with. For example:
   (i) The financial statements
   (ii) Tax compliance
   (iii) Legal compliance, or
   (iv) Reports required by securities regulators.

Question 9

Describe the safeguards which may be created by finance and accounting profession and legislation to eliminate or reduce the threats to an acceptable level to ensure an ethical environment in an organization.

Answer

Safeguards created by the profession, legislation or regulation are as follows:

i. Educational, training and experience requirements for entry into the profession.
ii. Continuing professional development requirements
iii. Corporate governance regulations
iv. Professional standards
v. Professional or regulatory monitoring and disciplinary procedures.
vi. External review by a legally empowered third party of the reports, returns, communications or information produced by concerned professionals.

**Question 10**

Which threats are existing in environment which adversely affect the fundamental principles of ethics?

OR

Explain the ‘threats faced by an accounting and finance professional adhering to ethical principles’ at the time of performing his professional duties.

**Answer**

The dynamic environment in which businesses operate today may usher a broad range of circumstances because of which compliance with the fundamental principles may potentially be threatened. Such threats may be classified as follows:

(i) Self-interest threats, which may occur as a result of the financial or other interests of a finance and accounting professional or of an immediate or close family member:

(ii) Self-review threats, which may occur when a previous judgement needs to be reevaluated by the finance and accounting professional responsible for that judgement:

(iii) Advocacy threats occur when a professional promotes a position or opinion to the point that subsequent objectivity may be compromised:

(iv) Familiarity threats occur when finance and accounting professional has close relationship in the work environment and such relationship impair his selfless attitude towards work.

(v) Intimidation threats occur when a professional may be prohibited from acting objectively by threats, actual or perceived.

**Question 11**

Explain briefly the matters to be considered and the steps that may be taken by a Finance and Accounting professional when he is required to resolve an ethical conflict in the application of Fundamental principles.

**Answer**

**Conflict Resolution:** While evaluating compliance with the fundamental principles, a finance and accounting professional may be required to resolve a conflict on the application of fundamental principles. The following need to be considered, either individually or together with others, during a conflict resolution process:

(a) Relevant facts

(b) Ethical issues involved

(c) Fundamental principles related to the matter in question
Having considered these issues, the professional should determine the appropriate course of action that is consistent with the fundamental principles identified. The professional should weigh the consequences of each possible course of action. If the matter remains unresolved, the professional should consult other appropriate persons within the firm or employing organization for help in obtaining resolution. During times where a matter involves a conflict with or within an organization, the finance and accounting professional should also consider consulting those charged with governance of the organization, such as the Board of Directors.

It may be in the best interests of the professional to document the substance of the issues and details of any discussions held or decisions taken, concerning that issue.

If a significant conflict cannot be resolved, a professional may also obtain professional advice from the relevant professional body or legal advisors and thereby obtain guidance on ethical issues without breaching confidentiality.

If, after adopting all strategies, the ethical conflict still remains unresolved, a professional should try to disassociate from the matter causing the conflict or even from the organization, if need be.

**Question 12**

*Explain the importance of 'Ethics' for finance and accounting professionals.*

**Answer**

Finance and Accounts is perhaps the only business function which accepts responsibility to act in public interest. Hence, a finance and accounting professional's responsibility is not restricted to satisfy the needs of any particular individual or organization. While acting in public interest, it becomes imperative that the finance and accounting professional adheres to certain basic ethics in order to achieve his objectives.

Until recently, various surveys conducted globally had ranked finance and accounting professionals very high in terms of professional ethics. However, various accounting scandals witnessed during the past few years have put a serious question mark on the role of the finance and accounting professional in providing the right information for decision making both within and outside their respective organizations. As these finance and accounting professionals are in public practice, they should take reasonable steps to identify circumstances that could pose the conflict of interest and thus leading to follow unethical behavior.
Exercise

1. **State the fundamental principles relating to ethics for behaving in an ethical manner.**
   
   [Hints: The principle of Integrity, the principle of objectivity, the principle of confidentiality, the principle of professional competence and due care, and the principle of professional behavior]

2. **Explain the importance of ethics for a finance and accounting professional.**
   
   [Hints: Finance and Accounts is perhaps the only business function which accepts responsibility to act in public interest. Hence, a finance and accounting professional's responsibility is not restricted to satisfy the needs of any particular individual or organisation. While acting in public interest, it becomes imperative that the finance and accounting professional adheres to certain basic ethics in order to achieve his objective]