Chapter 2- Theoretical Perspective

2.1 Business Ethics and CSR : Some Introspection

The description of Ethics can be given as that branch of philosophy, which is concerned with what, is good or bad, right or wrong. Ethics is philosophy in action. Ethics is governed by something is good or not and based on the various principles of Morality, Welfare, Rights & Duty, Justice, Equality, Liberty and Virtue and is the subject matter of daily life of doing things and living with various disciplines in life what pointed above. Law, Ethics and Economics such depends on each other that sometimes it is difficult to clarify that which is to be valued more. Ethics is about for what the thing is done, who has done it and how it has done. Corporate Social Responsibility and Corporate Governance as burning issues are subject matter of ethics now a days.

The term ethics has a variety of different meanings in dictionaries and one of its meanings is: "the principles of conduct governing an individual or a group". We sometimes use the term personal ethics, for example, when referring to the rules by which an individual lives his or her personal life. We use the term accounting ethics when referring to the code that guides the professional conduct of accountants.

Another more important meaning of ethics is: “Ethics is the study of morality.” Ethicists use the term ethics to refer primarily to the study of morality, just as chemists use the term chemistry to refer to a study of the properties of chemical substances. Although ethics deals with morality, it is not quite the same as morality. Ethics is a kind of investigation—and includes both the activity of
investigating as well as the results of that investigation—whereas morality is the subject matter that ethics investigates.  

**Ethics** is the discipline that examines moral standards of individual’s of a society. Ethics asks how moral standards apply to our lives and whether these standards are reasonable or unreasonable and whether they are supported by good reasons or bad ones. Therefore, a person performs ethics when he or she takes the moral standards absorbed from family, community, society, religion, and friends and examines: For the situations in which one find oneself what do these standards imply? Are there any real senses to these standards? What are the reasons for or against these standards? Why should one continue to believe in these standards? Are these standards really reasonable for one to hold? Are their implications in this or that particular situation reasonable? Etc.  

The moral standards can be distinguished from non-moral standards using five characteristics:  

1. Moral standards deal with matters that can seriously injure or benefit human. For example, most people in American society hold moral standards against theft, rape, enslavement, murder, child abuse, assault, slander, fraud, lawbreaking, and so on.  
2. Moral standards are not established or changed by authoritative bodies. The validity of moral standards rests on the adequacy of the reasons that are taken to support and justify them; so long as these reasons are adequate, the standards remain valid.  
3. Moral standards, we feel, should be preferred to other values, including self-interest. This does not mean, of course, that it is always wrong to act
on self-interest; it only means that it is wrong to choose self-interest over morality

4. Moral standards are based on impartial considerations. {The fact that you will benefit from a lie and that I will be harmed is irrelevant to whether lying is morally wrong.}

5. Moral standards are associated with special emotions and a special vocabulary (guilt, shame, remorse, etc.).

Ethics is the process of examining the moral standards of a person or society to determine whether these standards are reasonable or unreasonable in order to apply them to concrete situations and issues. The main aim of ethics is to develop a body of moral standards that we feel are reasonable to hold and specially to hold the standards that we have thought about carefully and have decided are justified standards for us to accept and apply to the choices that fill our lives.

Ethics is the common agreed upon practice of different moral principles or values. It concentrates on the general nature of moral and the specific moral choice an individual makes in relationship to others. It represents the rules and/or standards governing the conduct of the member of a profession. The context of this inquiry will be ethics applied to business.

Ethics is not the only way to study morality. Other fields, such as the social sciences, also study ethics; but they do so descriptively, not normatively. Ethics itself, on the other hand, being normative, attempts to determine whether or not standards are correct.
A **normative study** is an investigation that attempts to reach normative conclusions—that is, conclusions about what things are good or bad or about what actions are right or wrong. In short, a normative study aims to discover what should be.\(^8\)

A **descriptive study** is one that does not try to reach any conclusions about what things are truly good or bad or right or wrong. Instead, a descriptive study attempts to describe or explain the world without reaching any conclusions about whether the world is as it should be.\(^9\)

“**Business Ethics** is a specialized study of right and wrong applied to business policies, institutions, and behaviors.”\(^10\) This is an important study since businesses are some of the most influential institutions within modern society. Business organizations are the primary economic institutions through which people in modern societies carry on the tasks of producing and distributing goods and services. They provide the fundamental structures within which the members of society combine their scarce resources—land, labor, capital, and technology—into usable goods, and they provide the channels through which these goods are distributed in the form of consumer products, employee salaries, investors' return, and government taxes. Today large corporate organizations dominate our economies.

Collins, J.W claimed Business Ethics, is an oxymoron\(^11\). By an oxymoron, we mean the bringing together of two apparently contradictory concepts, such as in ‘a cheerful pessimist’ or ‘a deafening silence’. Whichever way one looks at it, then, there appears to be good reason to suggest that business ethics as a phenomenon, and as a subject, is not an oxymoron. Whilst there will inevitably
be disagreements about what exactly constitutes ‘ethical’ business activity, it is possible at least to offer a fairly uncontroversial definition of the subject itself. So, in a nutshell, here is what we regard the subject of business ethics as: “Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed”.\(^\text{12}\) It is worth stressing that by ‘right’ and ‘wrong’ we mean morally right and wrong as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by ‘business’ ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations.

Having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. Surely the law is also about issues of right and wrong? It is believed by various people that the word ethical equates to lawful, and that by being lawful an organization, activity, or person is automatically ethical. This is not true. Many unethical things are entirely lawful although some can only be tested when/if they get to court. Some behaviours that are not necessarily unlawful but which are generally considered to be unethical in society are: dishonesty, withholding information, distortion of facts, misleading or confusing communications or positioning or advertising, manipulation of people's feelings, deception, trickery, rule-bending, fooling people, exploitation of weakness and vulnerability, excessive profit, greed, anything liable to harm or endanger people, breach of psychological contract (breaking trust, changing agreed or implied expectations - modern theory within Transactional Analysis offers a useful approach for contracting - agreeing expectations - in this sense), avoidance of blame or penalty or payment of compensation for wrong-doing,
inertia-based 'approvals' and 'agreements' (in which action proceeds unless objected to), failing to consult and notify people affected by change, secrecy and lack of transparency and resistance to reasonable investigation, coercion or inducement, harming the environment or planet, unnecessary waste or consumption, invasion of privacy or anything causing privacy to be compromised, recklessness or irresponsible use of authority, power, reputation; nepotism (the appointment or preference of family members), favouritism or decision-making based on ulterior motives (e.g., secret affiliations, deals, memberships, etc), alienation or marginalisation of people or groups, conflict of interests (having a foot in two or more competing camps), neglect of duty of care, betrayal of trust, breaking confidentiality, causing suffering of animals, 'bystanding' - failing to intervene or report wrong-doing within area of responsibility (this does not give licence to interfere anywhere and everywhere, which is itself unethical for various reasons), unfairness, unkindness, lack of compassion and humanity, etc.

Figure 2.1.1 The relationship between ethics and law

Source: Andrew Crane, Dirk Matten; Business Ethics 2nd ed. 2008, Oxford University Press.
In one sense, then, business ethics can be said to begin where the law ends.\textsuperscript{13} Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually lead to legislation once some kind of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the ‘grey areas’ of business, or where, as Treviño and Nelson put it, ‘values are in conflict’.\textsuperscript{14}

Though business ethics cover a variety of topics, there are three basic types of issues:\textsuperscript{15}

1. \textit{Systemic issues}—questions raised about the economic, political, legal, or other social systems within which businesses operate. These include questions about the morality of capitalism or of the laws, regulations, industrial structures, and social practices within which American businesses operate.

2. \textit{Corporate issues}—questions raised about a particular company. These include questions about the morality of the activities, policies, practices, or organizational structure of an individual company taken as a whole.

3. \textit{Individual issues}—questions about a particular individual within an organization and their behaviors and decisions. These include questions about the morality of the decisions, actions, or character of an individual.

Some theorists maintain that moral notions apply only to individuals, not to corporations themselves. They say that it makes no sense to hold businesses "responsible" since businesses are more like machines than people. Others
counter that corporations do act like individuals, having objectives and actions, which can be moral or immoral just as an individual's action might be.

Perhaps neither extreme view is correct. Corporate actions do depend on human individuals who should be held accountable for their actions. However, they also have policies and culture that direct individuals, and should therefore be held accountable for the effects of these corporate artifacts.

Nonetheless, it makes perfectly good sense to say that a corporate organization has moral duties and that it is morally responsible for its acts. However, organizations have moral duties and are morally responsible in a secondary sense; a corporation has a moral duty to do something only if some of its members have a moral duty to make sure it is done, and a corporation is morally responsible for something only if some of its members are morally responsible for what happened.

**Ethical relativism** is the theory that, because different societies have different ethical beliefs, there is no rational way of determining whether an action is morally right or wrong other than by asking whether the people of this or that society believe it to be right or wrong by asking whether people of a particular society believe that it is. In fact, the multiplicity of moral codes demonstrates that there is no one "right" answer to ethical questions. The best a company can do is following the old adage, "When in Rome, do as the Romans do." In other words, there are no absolute moral standards.16

Critics of ethical relativism point out that it is illogical to assume that because there is more than one answer to an ethical question that both answers are
equally correct— or even that either answer is correct. They also maintain that there are more similarities than differences even among what seem to be very divergent societies.

The late Philosopher James Rachels put the matter quite succinctly:

The fact that different societies have different moral codes proves nothing. There is also disagreement from society to society about scientific matters: in some cultures it is believed that the earth is flat, and evil spirits cause disease. We do not on that account conclude that there is no truth in geography or in medicine. Instead, we conclude that in some cultures people are better informed than in others. Similarly, disagreement in ethics might signal nothing more than that some people are less enlightened than others. At the very least, the fact of disagreement does not, by itself, entail that truth does not exist.\(^{17}\)

Why should we assume that, if ethical truth exists, everyone must know it? Some people object to the entire notion that ethical standards should be brought into business organizations. They make three general objections.

First, they argue that the pursuit of profit in perfectly competitive free markets will, by itself, ensure that the members of a society are served in the most socially beneficial ways.\(^{18}\) Of course; the assumption that industrial markets are perfectly competitive is highly suspect. Even more, there are several ways of increasing profits that will actually harm society. Producing what the buying public wants may not be the same as producing what the entirety of society needs. The argument is essentially making a normative judgment on the basis of
some assumed but unproved moral standards ("people should do whatever will benefit those who participate in markets"). Thus, although the argument tries to show that ethics does not matter, it can do this only by assuming an unproved moral standard that at least appears mistaken.

Second, they claim that employees, as "loyal agents," are obligated to serve their employers single-mindedly, in whatever ways will advance the employer's self-interest.19

As a loyal agent of his or her employer, the manager has a duty to serve his or her employer as the employer would want to be served (if the employer had the agent's expertise). An employer would want to be served in whatever ways will advance his or her self-interests.

Therefore, as a loyal agent of his or her employer, the manager has a duty to serve his or her employer in whatever ways will advance the employer's self-interests.

But this argument itself rests on an unproven moral standard that the employee has a duty to serve his or her employer and there is no reason to assume that this standard is acceptable. An agent's duties are defined by what is called the law of agency, (i.e., the law that specifies the duties of persons [agents] who agree to act on behalf of another party and who are authorized by the agreement so to act). Also, agreements to serve another do not automatically justify doing wrong on another's behalf.

Third, they say that obeying the law is sufficient for businesses and that
business ethics is, essentially, nothing more than obeying the law. However, the law and morality do not always coincide. Some laws have nothing to do with morality because they do not involve serious matters. These include parking laws, dress codes, and other laws covering similar matters. Other laws may even violate our moral standards so that they are actually contrary to morality.

Thus, none of the arguments for keeping ethics out of business seems forceful. In contrast, there are fairly strong arguments for bringing ethics into business.

One argument points out that since ethics should govern all human activity; there is no reason to exempt business activity from ethical scrutiny. Business is a cooperative activity whose very existence requires ethical behavior. Another more developed argument points out that no activity, business included, could be carried out in an ethical vacuum.

One interesting argument actually claims that ethical considerations are consistent with business activities such as the pursuit of profit. Indeed, the argument claims that ethical companies are more profitable than other companies. The data is mixed on this question, but even though it cannot demonstrate that ethical behavior is always more profitable, it does clearly show that it is not a drag on profits.

Perhaps the most fascinating argument for bringing ethics into business is the prisoner's dilemma. A **prisoners dilemma** is a situation in which two parties are each faced with a choice between two options: Either cooperate with the other party or do not cooperate. If both parties cooperate, they will both gain some benefit. If both choose not to cooperate, neither gets the benefit. If one
cooperates while the other chooses not to cooperate, the one who cooperates suffers a loss while the one who chooses not to cooperate gains a benefit. Though it may seem a bit stilted, closer examination will reveal that we all face such dilemmas in our everyday lives. The prisoner's dilemma demonstrates that cooperation is more advantageous than continuously trying to take advantage of others at least when we will meet these others again.22

This has significant implications for business. Though a business might get away with unethical behavior much of the time, if retaliation is a real threat then such behavior will impose costs that are greater than ethical behavior would have been in the first place. Even self-interested organizations have a good reason to be ethical in their business dealings: it is in their own long-term best interests. In reality, of course, most people seem to be social and so are also motivated by a concern for the welfare of others. To the extent that people are motivated by a concern for others, they will probably behave ethically. Finally, we should note that there is also a good deal of evidence that most people so value ethical behavior that they will punish those whom they perceive to be behaving unethically and reward those who are perceived to be ethical.

These are the main reasons why we think that a strong understanding of business ethics is important:23

1. The power and influence of business in society is greater than ever before. Evidence suggests that many members of the public are uneasy with such developments (Bernstein 2000). Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation.
2. Business has the potential to provide a major contribution to our societies, in terms of producing the products and services that we want, providing employment, paying taxes, and acting as an engine for economic development, to name just a few examples. How, or indeed whether, this contribution is made raises significant ethical issues that go to the heart of the social role in business in contemporary society.

3. Business malpractices have the potential to inflict enormous harm on individuals, on communities, and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as the founding editor of the Journal of Business Ethics has suggested (Michalos 1988), ‘to improve the human condition’.

4. The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, in order that firms can meet these ethical expectations more effectively.

5. Few business people in Europe and elsewhere have received formal business ethics education or training. Business ethics can help to improve ethical decision-making by providing managers with the appropriate knowledge and tools that allow them to correctly identify, diagnose, analyse, and provide solutions to the ethical problems and dilemmas they are confronted with.
6. Ethical infractions continue to occur in business. Ferrell et al. (2000: 13), for example, cite a survey revealing that 48 per cent of US employees claimed to have done something unethical or illegal in the previous year. Business ethics provides us with a way of looking at the reasons behind this, and the ways in which such problems might be dealt with by managers, regulators, and others interested in improving business ethics.

7. Business ethics can provide us with the ability to assess the benefits and problems associated with different ways of managing ethics in organizations.

8. Finally, business ethics is also extremely interesting in that it supplies us with knowledge that transcends the traditional framework of business studies and confronts us with some of the most important questions faced by society. The subject can therefore be richly rewarding to study because it provides us with knowledge and skills which are not simply helpful for doing business, but rather, by helping us to understand modern societies in a more systematic way, can advance our ability to address life situations far beyond the classroom or the office desk.

An Ethical Issue is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. 24

Many business issues may seem straightforward and easy to resolve, but in reality, a person often needs several years of experience in business to
understand what is acceptable or ethical. For example, if you are a salesperson, when does offering a gift—such as season basketball tickets—to a customer become a bribe rather than just a sales practice? Clearly, there are no easy answers to such a question. But the size of the transaction, the history of personal relationships within the particular company, as well as many other factors may determine whether an action will be judged as right or wrong by others.

Many ethical issues in business can be categorized in the context of their relation with conflicts of interest, fairness and honesty, communications, and business associations. Table No. 2.1.1

<table>
<thead>
<tr>
<th>Type of Conduct Observed</th>
<th>Employees Observing It (%)</th>
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</thead>
<tbody>
<tr>
<td>Abusive or intimidating behavior toward employees</td>
<td>21</td>
</tr>
<tr>
<td>Lying to employees, customers, vendors, or the public</td>
<td>19</td>
</tr>
<tr>
<td>Withholding needed information from employees, customers, vendors, or the public</td>
<td>18</td>
</tr>
<tr>
<td>Discounting on the basis of race, color, gender, age, or similar categories</td>
<td>13</td>
</tr>
<tr>
<td>Stealing, theft, or related fraud</td>
<td>12</td>
</tr>
<tr>
<td>Sexual harassments</td>
<td>11</td>
</tr>
<tr>
<td>Falsifying financial records and reports</td>
<td>5</td>
</tr>
<tr>
<td>Giving or accepting bribes, kickbacks, or inappropriate gifts</td>
<td>4</td>
</tr>
</tbody>
</table>


Understanding how people make ethical choices and what prompts a person to act unethically may reverse the current trend toward unethical behavior in business. Ethical decisions in an organization are influenced by three key factors: individual moral standards, the influence of managers and co-workers, and the opportunity to engage in misconduct.
Three main thinking frameworks which guide every decision of everyone which are:

1. **Consequence-based thinking**: A consequentialist theory of ethical reasoning concentrates on the consequences of human actions, and all actions are evaluated in terms of the extent to which they achieve desirable results. Two forms of consequentialism presented are:
   - **egoism**: Some consequentialists are concerned only with the consequences as it affects them as an individual. and
   - **utilitarianism**: Utilitarianism is a general term for any view that holds that actions and policies should be evaluated on the basis of the benefits and costs they will impose on society. In any situation, the "right" action or policy is the one that will produce the greatest net benefits or the lowest net costs (when all alternatives have only net costs).

2. **Right and duty based thinking**: Rights and duties are two faces of same coin. If anyone has some rights, at the same time he/she is bound with
some duties to perform towards whom given or facilitated the particular right to enjoy. Duty based thinking advocates the so-called *golden rule*: “Do unto others as you would have them do unto you.” This philosophy which is based on rights and duties attributed to Immanuel Kant’s *Categorical Imperative* which incorporates *Universalisability, Reversibility, and Equal Dignity* as criteria for determining (moral) right or wrong.

3. **Virtue based thinking**: The question ‘Would a person of good moral character do this?’ is the basic theme of virtue based thinking. An acquired disposition that is valued as a part of the character of a morally good human being and that is exhibited in the person’s habitual behaviors is known as moral virtue. Careful, Justice, Fair, Honest, etc. and many more are all the hot words which governs and define a virtuous person. Virtue is correlated with every filed and philosophy of ethics such as utilitarianism or duty.

And when discussing on the frameworks of ethics some of the most important ethical principles having much influence on management decisions are:

- **Personal benefit**: This framework acknowledges the extent to which an action produces beneficial consequences for the individual in question. It also acknowledges a person’s right to life and freedom over his/her actions or physical body, information, privacy, free expression and safety.
- **Social benefit**: Acknowledge the extent to which an action produces beneficial consequences for society.
- Principle of neutralization: It is used to lessen the possible impact of norm violating behaviours.
- Denial of responsibility
- Denial of injury
- Denial of victim
- Condemning the condemners
- Appeal to higher loyalties

- **Categorical imperatives:** This framework is based on the principle that an action is either morally right or wrong regardless of its consequences.

- **Duty:** An action is inherently right because of duty, arising out of a stated or unstated belief or value system that one possesses.
  - Moral duty
  - Social duty

- **Principle of justice:** Acknowledges a person’s right to due process, fair compensation for harm done and fair distribution of benefits.

- **Principle of lawfulness:** do not violate the law.

As the new challenges raised by the context of globalization have been emerging, considerable interest has also been directed towards the development of new ways of addressing the diverse impacts of business in society. Many of these impacts are far reaching and profound. To mention just a few, one only needs to think of impacts such as:  

- The environmental pollution caused by the production, transportation, and use of products such as cars, refrigerators, or newspapers;

- The ever-increasing problems of waste disposal and management as a result of excessive product packaging and the dominance of ‘throwaway culture’;
• The devastating consequences for individuals and communities as a result of plant closures and ‘downsizing’ as experienced throughout the world;

• The erosion of local cultures and environments due to the influx of mass tourism in places as diverse as Mallorcan fishing villages, Swiss alpine communities, or ancient Roman monuments.

Faced with such problems (and many more besides), it has been widely suggested that the goals and consequences of business require radical rethinking. Following the Rio Earth Summit of 1992, one concept in particular appears to have been widely promoted (though not universally accepted) as the essential new conceptual frame for assessing not only business activities specifically, but industrial and social development more generally. That concept is sustainability.29 Probably the most common usage of sustainability, however, is in relation to sustainable development, which is typically defined as “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”30

Figure 2.1.3 The Three Component of Sustainability

Source: Andrew Crane, Dirk Matten; Business Ethics 2nd ed. 2008, Oxford University Press.
The framing of sustainability as a goal for business is encapsulated most completely in the notion of a ‘triple bottom line’ (Figure above). The triple bottom line (TBL) is a term coined by, and vigorously advocated by, John Elkington, the director of the SustainAbility strategy consultancy and author of a number of influential books on corporate environmentalism. His view of the TBL is that it represents the idea that business does not have just one single goal—namely adding economic value—but that it has an extended goal set which necessitates adding environmental and social value too. ³¹

Why do businesses exist? What is the purpose of a business, or, in the bigger picture, any economic system? The derivation of the word company are two Latin words, _cum_ and _panis_, which mean breaking bread together. ³²

How does this origin translate in today’s business environment? What are or should be the goals of the modern corporation? Opinions differ and cover a wide spectrum:

“Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.” ³³

“I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being. As we investigate this, we inevitably come to the conclusion that a group of people get together and exist as an institution that we call a company so that they are able to accomplish
something collectively that they could not accomplish separately – they make a contribution to society, a phrase which sounds trite but is fundamental.”34

Corporate Social Responsibility (CSR) represents an attempt to address these questions.

Business is one of the critical organs of society and it draws its strength from that. In the long run a successful business can be built on the foundations of a happy community around and a motivated and satisfied workforce. For example, in the 1970s, the Articles of Association of the major Tata companies were formally amended to read that the company shall be mindful of its social and moral responsibilities to the consumers, employees, shareholders, society and the community.

Therefore, a business’ ‘society’ within which it operates, which defines the number of stakeholders to which the organization has a ‘responsibility,’ may be broad or narrow depending on the industry in which the firm operates and its perspective.

The notion of companies looking beyond profits to their role in society is generally termed corporate social responsibility (CSR)….It refers to a company linking itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. It goes beyond the occasional community service action, however, as CSR is a corporate philosophy that drives strategic decision-making, partner selection, hiring practices and, ultimately, brand development.35
The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.\textsuperscript{36}

CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment.\textsuperscript{37}

CSR is a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based. CSR is a means of discussing the extent of any obligations a business has to its immediate society; a way of proposing policy ideas on how those obligations can be met; as well as a tool by which the benefits to a business for meeting those obligations can be identified.

There are four dimensions of social responsibility: economic, legal, ethical, and voluntary.\textsuperscript{38} Earning profits is the economic foundation of the pyramid in Figure below, and complying with the law is the next step. However a business whose \textit{sole} objective is to maximize profits is not likely to consider its social responsibility, although its activities will probably be legal. Finally, voluntary responsibilities are additional activities that may not be required but which promote human welfare or goodwill. Legal and economic concerns have long been acknowledged in business, but voluntary and ethical issues are more recent concerns.
The concept of CSR in India is not new, the term may be. The process though acclaimed recently, has been followed since ancient times albeit informally.39

Philosophers like Kautilya from India and pre-Christian era philosophers in the West preached and promoted ethical principles while doing business. The concept of helping the poor and disadvantaged was cited in much of the ancient literature.40

The idea was also supported by several religions where it has been intertwined with religious laws. “Zakaat”, followed by Muslims, is donation from one’s earnings which is specifically given to the poor and disadvantaged. Similarly Hindus follow the principle of “Dhramada” and Sikhs the “Daashaant”.41
In the global context, the recent history goes back to the seventeenth century when in 1790s, England witnessed the first large scale consumer boycott over the issue of slave harvested sugar which finally forced importer to have free-labor sourcing.\textsuperscript{42}

In India, in the pre independence era, the businesses which pioneered industrialisation along with fighting for independence also followed the idea.\textsuperscript{43} They put the idea into action by setting up charitable foundations, educational and healthcare institutions, and trusts for community development.

The donations either monetary or otherwise were sporadic activities of charity or philanthropy that were taken out of personal savings which neither belonged to the shareholders nor did it constitute an integral part of business.\textsuperscript{44}

The term CSR itself came in to common use in the early 1970s although it was seldom abbreviated. By late 1990s, the concept was fully recognised; people and institutions across all sections of society started supporting it.\textsuperscript{45}

This can be corroborated by the fact that while in 1977 less than half of the Fortune 500 firms even mentioned CSR in their annual reports, by the end of 1990, approximately 90 percent Fortune 500 firms embraced CSR as an essential element in their organisational goals, and actively promoted their CSR activities in annual reports (Boli and Hartsuiker, 2001).\textsuperscript{46}

According to “Altered Images: the 2001 State of Corporate Responsibility in India Poll”, a survey conducted by Tata Energy Research Institute (TERI), the
The evolution of CSR in India has followed a chronological evolution of 4 thinking approaches: 47

Ethical Model (1930 –1950): One significant aspect of this model is the promotion of “trusteeship” that was revived and reinterpreted by Gandhiji. Under this notion the businesses were motivated to manage their business entity as a trust held in the interest of the community. The idea prompted many family run businesses to contribute towards socioeconomic development. The efforts of Tata group directed towards the well being of the society are also worth mentioning in this model. 48

Statist Model (1950 –1970s): Under the aegis of Jawahar Lal Nehru, this model came into being in the post independence era. The era was driven by a mixed and socialist kind of economy. The important feature of this model was that the state ownership and legal requirements decided the corporate responsibilities. 49

Liberal Model (1970s –1990s): The model was encapsulated by Milton Friedman. As per this model, corporate responsibility is confined to its economic bottom line. This implies that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can be directed to social ends. 50

Stakeholder Model (1990s – Present): The model came into existence during 1990s as a consequence of realisation that with growing economic profits, businesses also have certain societal roles to fulfill. The model expects companies to perform according to “triple bottom line” approach. The
businesses are also focusing on accountability and transparency through several mechanisms.\textsuperscript{51}

The worldwide time line of ethical and socially responsible concerns can be seen in figure below:

Table No. 2.1.2
A Timeline of Ethical and Socially Responsible Concerns

<table>
<thead>
<tr>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Environmental Issues</td>
<td>• Employee militancy</td>
<td>• Bribes and illegal</td>
<td>• Sweatshops and unsafe working conditions in third world countries</td>
<td></td>
</tr>
<tr>
<td>• Civil rights issues</td>
<td>• Human rights Issues</td>
<td>• Contracting practices</td>
<td>• Rising Corporate liability for personal damages (e.g., cigarette companies)</td>
<td></td>
</tr>
<tr>
<td>• Increased Employee-employer tension</td>
<td>• Covering up rather than correcting issues</td>
<td>• Influence Peddling</td>
<td>• Financial Mismanagement and fraud</td>
<td></td>
</tr>
<tr>
<td>• Honesty</td>
<td></td>
<td>• Deceptive Advertising</td>
<td>• Financial Mismanagement and fraud</td>
<td></td>
</tr>
<tr>
<td>• Changing work Ethic</td>
<td></td>
<td>• Financial fraud (e.g., saving and loan scandal)</td>
<td>• Intellectual property theft</td>
<td></td>
</tr>
<tr>
<td>• Rising drug use</td>
<td></td>
<td>• Transparency Issues</td>
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Good \textbf{Corporate Governance} practices enhance companies’ value and stakeholders’ trust resulting into robust development of capital market, the economy and also help in the evolution of a vibrant and constructive shareholders’ activism. Sound and efficient corporate governance practices are the basis for stimulating the performance of companies, maximizing their operational efficiency, achieving sustained productivity as well as ensuring protection of shareholders’ interests. Good corporate governance is essential for the integrity of corporations, financial institutions and markets. It ensures the health of our economies and their stability.

Corporate Governance typically deals with problems that result from the separation of control and ownership from each other. There is bewildering
varieties of perceptions behind available definitions of corporate governance. It varies according to the sensitivity of the analyst, the context of the degree of development of the country to which it is referred and the different standpoints of the analysts, though there is an underlying unity in all these definitions. It is noted that Cadbury Report (1992) was a forerunner and made a significant contribution to underlying the concept. Summerising the views of experts on the matter it can be said that, corporate governance means doing everything better to improve relations between companies, their owners and, shareholders; to improve the quality of outside directors; to encourage people to think of long term relations; information needs of all stakeholders are met and to ensure that executive management is properly monitored in the interest of stakeholders.

Strong governance standards focusing on fairness, transparency, accountability and responsibility are vital not only for the healthy and vibrant corporate sector growth, as well as inclusive growth of the economy. Since the last decade, good corporate governance practices have been the subject of random documentation efforts. Keeping in mind those issues of corporate governance may go well beyond the Law and the ambit of legislative or regulatory framework, it has been considered necessary that voluntary guidelines on corporate governance which are relevant in the present context, are prepared and disseminated for consideration and adoption by the corporate sector.

India’s corporate sector is diverse in nature. On one hand it consists of multinational corporations, whereas on the other hand a large number of small and medium enterprises drive its growth and provide dynamism to the sector. This interesting mosaic of Corporate India has contributed immensely to the growth of India’s economy. It was in this context that the National Foundation
for Corporate Governance (NFCG) was set up by the Ministry of Corporate Affairs, Govt. of India to provide a wide platform to deliberate on issues relating to good corporate governance and sensitize corporate leaders on the importance of good corporate practices.  

Keeping in mind that the subject of corporate governance may go well beyond the Law and that there are inherent limitations in enforcing many aspects of corporate governance through legislative or regulatory means, it has been considered necessary that a set of voluntary guidelines called “Corporate Governance - Voluntary Guidelines 2009” which are relevant in the present context, are prepared and disseminated for consideration and adoption by corporates.

It is expected that more and more corporates should make sincere efforts to consider adoption of these guidelines, which are related to following general issues:

I. BOARD OF DIRECTORS

A. APPOINTMENT OF DIRECTORS
   A.1 Appointments to the Board
   A.2 Separation of Offices of Chairman & Chief Executive Officer
   A.3 Nomination Committee
   A.4 Number of Companies in which an Individual may become a Director

B. INDEPENDENT DIRECTORS
   B.1 Attributes for Independent Directors
   B.2 Tenure for Independent Director
   B.3 Independent Directors to have the Option and Freedom to meet Company Management periodically
C. REMUNERATION OF DIRECTORS

C.1 Remuneration

C.1.1 Guiding Principles - Linking Corporate and Individual Performance

C.1.2 Remuneration of Non-Executive Directors (NEDs)

C.1.3 Structure of Compensation to NEDs

C.1.4. Remuneration of Independent Directors (IDs)

C.2 Remuneration Committee

II. RESPONSIBILITIES OF THE BOARD

A. Training of Directors

B. Enabling Quality Decision making

C. Risk Management

D. Evaluation of Performance of Board of Directors, Committees thereof and of Individual Directors

E. Board to place Systems to ensure Compliance with Laws

III. AUDIT COMMITTEE OF BOARD

A. Audit Committee – Constitution

B. Audit Committee – Enabling Powers

C. Audit Committee - Role and Responsibilities

IV. AUDITORS

A. Appointment of Auditors

B. Certificate of Independence

C. Rotation of Audit Partners and Firms

D. Need for clarity on information to be sought by auditor and/or provided by the company to him/her
E. Appointment of Internal Auditor

V. SECRETARIAL AUDIT

VI. INSTITUTION OF MECHANISM FOR WHISTLE BLOWING

2.2 Literature Review

Ethics constitutes the value and social system for individuals and organizations. It promotes an orderly corporate life and a disciplined society. Ethics and values are deep rooted in our traditional heritage of culture and beliefs. Our old educational system brings strong background of ethical values and businesses, therefore looked after the interests of all the stakeholders. However, the contemporary business and society seems to be deviating from the ethical precepts in their lust for maximizing their personal gains. Corruptions, scandals, black-marketing, hoarding, tax evasion, cutthroat competition have become rampant and are easily observed in the modern business societies. There is need to reshape the business culture to mould it towards as ethical base where ethics becomes the basis of all business activities. Study of ethics goes a long way in shaping the culture of the individual, firm, industry, nation and the world at the macro level.55

The term 'business ethics' is used in a lot of different ways, and the history of business ethics will vary depending on how one conceives of the object under discussion. The history will also vary somewhat on the historian—how he or she sees the subject, what facts he or she seeks to discover or has at hand, and the relative importance the historian gives to those facts.
The term business ethics is used in at least three different, although related, senses. Which sense one chooses therefore gives priority to nature of the history of the topic. The primary sense of the term refers to recent developments and to the period, since roughly the early 1970s, when the term 'business ethics' came into common use in the United States. Its origin in this sense is found in the academy, in academic writings and meetings, and in the development of a field of academic teaching, research and publication. As the term entered more general usage in the media and public discourse, it often became equated with either business scandals or more broadly with what can be called as "ethics in business." In this broader sense the history of business ethics goes back to the origin of business, again taken in a broad sense, meaning commercial exchanges and later meaning economic systems as well. That is second strand of the history. The third stand corresponds to a third sense of business ethics which refers to a movement within business or the movement to explicitly build ethics into the structures of corporations in the form of ethics codes, ethics officers, ethics committees and ethics training.

In the broad sense “ethics in business” is simply the application of everyday moral or ethical norms to business. Perhaps the example from the Bible that comes to mind most readily is the Ten Commandments, a guide that is still used by many today. In particular, the injunctions to truthfulness and honesty or the prohibition against theft and envy are directly applicable. Other traditions and religions have comparable sacred or ancient texts that have guided people's actions in all realms, including business, for centuries, and still do.

If we move from religion to philosophy we have a similar long tradition. Plato is known for his discussions of justice in the Republic, and Aristotle explicitly discusses economic relations, commerce and trade under the heading of the
household in his *Politics*. His discussion of trade, exchange, property, acquisition, money and wealth have an almost modern ring, and he makes moral judgments about greed, or the unnatural use of one's capacities in pursuit of wealth for its own sake, and similarly condemns usury because it involves a profit from currency itself rather than from the process of exchange in which money is simply a means.\textsuperscript{56} He also gives the classic definition of justice as giving each his due, treating equals equally, and trading equals for equals or "having an equal amount both before and after the transaction."\textsuperscript{57}

Luther, Calvin, and John Wesley, among other Reformation figures also discussed trade and business and led the way in the development of the Protestant work ethic.\textsuperscript{58} R. H. Tawney's *Religion and the Rise of Capitalism* argues persuasively that religion was an essential part in the rise of individualism and of commerce as it developed in the modern period.\textsuperscript{59}

John Locke developed the classic defense of property as a natural right. For him, one acquires property by mixing his labor with what he finds in nature.\textsuperscript{60} Adam Smith is often thought of as the father of modern economics with his *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith develops Locke's notion of labor into a labor theory of value. In modern times commentators have interpreted him as a defender of laissez-faire economics, and put great emphasis on his notion of the invisible hand. Yet the commentators often forget that Smith was also a moral philosopher and the author of *The Theory of Moral Sentiments*. For him the two realms were not separate. John Stuart Mill, Immanuel Kant, G. W. F. Hegel all wrote on economic matters and just distribution. Karl Marx, however, stands out as the most trenchant critic of capitalism as it had developed up through the
Nineteenth Century, and Marx's critique in one form or another continues up to today, even when not attributed to Marx.

Marx appealed to the workers of his time and helped start the labor movement, which improved the situation of the workingman. Marx's collaborator, Frederich Engels, saw the world as divided between those who follow Marx and those who follow religion, and the Marxists sought the hearts and minds of the workers. Refusing to yield the moral high ground, Pope Leo XIII in 1891 issued the first of the papal encyclicals on social justice, *Rerum Novarum*. As opposed to Marx, it justified private property, while seeking the answer to exploitation in the notion of a just wage, which was one sufficient "to support a frugal and well-behaved wage-earner," his wife and his children. Later popes followed Leo's example. Pope Pius XI in 1931 wrote *Quadragesimo Anno*, which morally attacked both Soviet socialism and *laissez-faire* capitalism, a theme continued by Pope John Paul II in *Laborem Exercens* (1981) and *Centesimus Annus* (1991).


This strand of the story is perhaps the most prominent in the thinking of the ordinary person when they hear the term *business ethics*. The media carries stories about Enron officials acting unethically and about the unethical activities of Arthur Andersen or WorldCom, and so on, and the general public takes this
as representative of business ethics or of the need for it. What they mean is the need for ethics in business.

“**Business ethics as an academic field**” just as business ethics as a corporate movement, has a more recent history.

By the 1960s Corporations, finding themselves under public attack and criticism, responded by developing the notion of social responsibility, they started social responsibility programs and spent a good deal of money advertising their programs for betterment of society. Exactly what "social responsibility" meant varied according to the industry and company. But whether it was reforestation or cutting down on pollution or increasing diversity in the workforce, social responsibility was the term used to capture those activities of a corporation that were beneficial to society and usually, by implication, that made up for some unethical or anti-social activity with which the company had been charged. The business schools responded by developing courses in social responsibility or social issues in management—courses which continue to thrive today. For the most part, in the 1960s such courses put an emphasis on law, and the point of view of managers prevailed, although soon those of employees, consumers and the general public were added. The textbooks paid no systematic attention to ethical theory, and tended to be more concerned with empirical studies than with the development or defense of norms against which to measure corporate activity. The history of the social responsibility movement is a story in itself and one that different people are writing somewhat differently. One version, by Archie Carroll, describes social responsibility as a pyramid that encompasses the four types of responsibility that businesses have: At the bottom is economic, then legal, then ethical and then philanthropic.
**Business ethics as an academic field** emerged in the 1970s. Prior to this time there had been a handful of courses called by that name; and a few figures, such as Raymond Baumhart, who dealt with ethics and business. For the most part ethical issues, if they were discussed, were handled in social issues courses. Theologians and religious thinkers, as well as media pundits continued writing and teaching on ethics in business; professors of management continued to write and do research on corporate social responsibility. The new ingredient and the catalyst that led to the field of business ethics as such was the entry of a significant number of philosophers, who brought ethical theory and philosophical analysis to bear on a variety of issues in business. Business ethics emerged as a result of the intersection of ethical theory with empirical studies and the analysis of cases and issues.

Norman Bowie dates the birth of business ethics as November 1974, with the first conference in business ethics, which was held at the University of Kansas, and which resulted in the first anthology used in the new courses that started popping up thereafter in business ethics. Whether one chooses that date or some other event, it is difficult to identify any previous period with the sort of concerted activity that developed in a short period thereafter. In 1979 three anthologies in business ethics appeared: Tom Beauchamp and Norman Bowie, *Ethical Theory and Business*; Thomas Donaldson and Patricia Werhane, *Ethical Issues in Business: A Philosophical Approach*; and Vincent Barry, *Moral Issues in Business*. In 1982 the first single-authored books in the field appeared: Richard De George, *Business Ethics*; and Manuel G. Velasquez, *Business Ethics: Concepts and Cases*. The books found a ready market, and courses in business ethics both in philosophy departments and in schools of business developed rapidly. As they did, the number of textbooks increased exponentially.
The field developed very similarly to the field of medical ethics, which had emerged ten years earlier in the 1960s, and the name paralleled that of the earlier field—although even whether the term "business ethics" should be adopted was discussed among the relatively small group that was engaged in starting what has become a field. The seminal work of John Rawls in 1971, *A Theory of Justice*, had helped make the application of ethics to economic and business issues more acceptable to academic philosophers than had previously been the case. Whereas most of those who wrote on social issues were professors of business, most of those who wrote initially on business ethics were professors of philosophy, some of whom taught in business schools. What differentiated business ethics as a field from social issues in management were:

1) the fact that business ethics sought to provide an explicit ethical framework within which to evaluate business, and especially corporate activities. Business ethics as an academic discipline had ethics as its basis. While social responsibility could be and was defined by corporations to cover whatever they did that they could present in a positive light as helping society, ethics had implicit in it standards that were independent of the wishes of corporations, to that extent,

2) the field was at least potentially critical of business practices—much more so than the social responsibility approach had been. If we take Archie Carroll's pyramid, those in business ethics did not see ethics as coming after economics and law but as restraints on economic activity and as a source for justifying law and for proposing additional legal restraints on business when appropriate. As a result business ethics and business ethicists were not warmly received by the business community, who often perceived them as a threat—something they could not manage, preaching by the uninformed who
never had to face a payroll. As a field, business ethics covered the ethical foundations of business, of private property, and of various economic systems.

3) although the field was concerned with managers and workers as moral persons with responsibilities as well as rights, most attention was focused on the corporation—its structure and activities, including all the functional areas of business, including marketing, finance, management, and production. Related issues, such as the environmental impact of business actions, were included in most courses and texts, as were, with increasing attention, the activities of multinational corporations. As a field, business ethics included a good deal, but not all, of what was covered in social issues courses and texts, as well as giving structure to discussions of ethics in business. As it emerged by the middle of the 1980s it was clearly interdisciplinary, with the lines between philosophy and business research often blurred.

The development of the field, moreover, was not restricted to textbooks and courses. What differentiates earlier sporadic and isolated writings and conferences on ethics in business from the development of business ethics after the mid-70s is, that only in the latter period did business ethics become institutionalized on many levels.

The Society for Business Ethics was started in 1980. The first meeting of the Society for Business Ethics was held in conjunction with the meeting of the American Philosophical Association in December in Boston. Other societies emerged, such as the International Association for Business and Society. Still other societies, some specialized, and some general were formed as well. A number of European scholars became interested in the American developments.
and organized the European Business Ethics Network (EBEN), which held its first meeting in 1987. Many individual European nations in turn established their own ethics network or business ethics society. In general, the European approach to business ethics has placed more emphasis on economics and on social structures, with less emphasis on the activities of corporations as such, than the U. S. approach does. Both approaches were captured in the International Society for Business, Economics and Ethics, which was founded in 1989.

Simultaneous with these developments were the founding of centers for business ethics at a variety of academic institutions, and the establishment of a number of journals dedicated to business ethics, in addition to those journals that carry articles in business ethics among others. The Bentley College Center for Business Ethics was founded in 1976 and continues as one of the leading business ethics centers. Over a dozen more appeared within the next ten years, and many others have been established since then around the United States and in countries around the world. The Markkula Center includes business ethics as one of its areas, as we well know. The first issue of the *Journal of Business Ethics* appeared in February 1982; the first issue of the *Business Ethics Quarterly* in January 1991; and the first issue of *Business Ethics: A European Review* in January 1992. A number of other journals in the field have appeared since then.

The field has continued to develop as business since then. By the mid 1980s business had clearly become international in scope, and the topics covered by business ethics expanded accordingly. Thomas Donaldson's *The Ethics of Business Ethics* (New York: Oxford University Press, 1989) was the first systematic treatment of international business ethics, followed by Richard De
George's *Competing with Integrity in Internal Business* (New York: Oxford University Press, 1993).67,68 The focus on multinational corporations has been broadened in the light of the globalization of business to include ethical issues relating to international organizations, such as the World Trade Organization. Similarly, just as business has moved more and more into the Information Age, business ethics has turned its attention to emerging issues that come from the shift.

By 1990 business ethics was well established as an academic field. Although the academicians from the start had sought to develop contacts with the business community, the history of the development of business ethics as a movement in business, though related to the academic developments, can be seen to have a history of its own.

“Business ethics as a movement” refers to the development of structures internal to the corporation that help it and its employees act ethically, as opposed to structures that provide incentives to act unethically. The structures may include clear lines of responsibility, a corporate ethics code, an ethics training program, an ombudsman or a corporate ethics officer, a hot or help line, a means of transmitting values within the firm and maintaining a certain corporate culture, and so on. Some companies have always been ethical and have structured themselves and their culture to reinforce ethical behavior. Johnson & Johnson's well-known *Credo* was written and published by General Robert Wood Johnson in 1943. But most companies in the 1960s had paid little attention to developing such structures.

The U. S. Civil Rights Act of 1964 was the first piece of legislation to help jump start the business ethics movement. The Act prohibited discrimination of
the basis of race, color, religion or national origin in public establishments connected to interstate commerce, as well as places of public accommodation and entertainment.

Prof. S. S. Khanna of Tezpur University in 2006 wrote: Business and society have been coeval since time immemorial and also have been inter-dependant. This relationship between business and society is appreciated in Rigveda also: “Corporates should work like a honeybee, which takes the nectar of a flower without the flower being losing its shape and fragrance and provides honey for the wellbeing of the society.” It means that both have to work on a symbiotic manner for each one’s survival and success. The business history is replete with evidences to believe that business flourishes only where society thrives. On the contrary, business dies when society condemns and rejects it. No business can survive without societal approval and sanction.

The inter-dependant nature of relationship between the business and the society is best illustrated by the management guru Peter Drucker (1954) by the example of a ship and sea. He states that the relationship between business and society is “like the relationship between a ship and the sea which engirds it and carries it, which threatens it with storm and shipwreck, which has to be crossed but which is yet alien and distant.” No doubt, business has been conducted primarily to earn profit and / or create wealth. However, there are reasons and evidences to believe that the mindless obsession with profit maximization at any cost carried to any extreme has led to spurt in sordid activities in business causing harm to both the business and society and ultimately leading business to flounder and fizzle out (Khandwalla 2004). Enrons Parmalats, Union Carbide, and World.com are to name a few representing examples of such business collapses. Business history is also replete with examples that only the
businesses that are conducted through good or right practices enjoy societal sanction and survive and last for long. Johnson & Johnson, Maruti Limited, Reliance Industries Limited, and Tata Iron and Steel Company are such examples that indicate that being good in conducting business activities proves good for businesses also. Hence, there has been increasing concern for conducting business in a good or ethical manner. Though there has been a spurt in research activities on business ethics or ethics in business, not much research has so far been conducted on what actually makes business ethics and how being ethical or good is good for business also. The present chapter, therefore, makes a modest attempt to address these two issues in seriatim.

Ethics is rules and principles that define human conduct as right or wrong. Then, what is business ethics? ‘Business ethics’, like ethics being a philosophical subject, is defined differently by different philosophers and thinkers as it is evident from the following definitions. According to Peter Pratley (1997), “Business ethics adapts the methods and purpose of normative ethics to the specific requirements of moral issues in business.” It studies the specific moral demands that apply to this particular sphere of modern civilization.” Manuel G. Velasquez (2002) has defined business ethics as “a specialized study of moral right or wrong. It concentrates on moral standards as they apply to business policies, institutions, and behaviour.” For Elizebeth Vallance (1995), “Business ethics attempts to apply general moral principles to business activities in order to resolve, or at least clarify, the moral issues which typically arise in business.”

What follows from the above definitions can be summed up as that business ethics is the form of applied ethics which applies moral judgements in the
business spheres. It is the application of our understanding of what is good and right to that assortment of transactions, activities, and pursuits that we call business. Thus, business ethics means application of moral judgements to decide business matters as right or wrong and fair or unfair.

Ethics, for that matter business ethics, being a philosophic endeavour, there is no unanimity on what makes business ethics. Some people hold the view that business ethics is essentially obeying the laws and regulations.\textsuperscript{74} According to them, merely to obey the law is enough for business people to be ethical. For example, when an accountant was asked to prepare a business ethics report for the Board of Directors of 7-Eleven Stores, his report excluded allegations that a store manager was trying to bribe New York tax officials. When asked why the alleged bribery attempt was excluded from the report, he replied that he did not feel the incident was unethical because it was not illegal, implying that unethical and illegal are the same (Anonymous 1983).\textsuperscript{75} Bowie (1988) phrases this view as “If it’s legal, it’s morally okay”.\textsuperscript{76}

Even the classical economists like Adam Smith (1776) and Milton Friedman (1962), the two votaries of the modern capitalism and market approach in decision making, opine that the only goal of business is profit maximization and that ethics and morality play no role in business conduct.\textsuperscript{77,78} According to them, business should not have any concern beyond obeying legal codes in achieving their goals, i.e., profit maximization. Milton Friedman (1962) boldly proclaimed: “The business of business is business.”\textsuperscript{79} He, of course, later relented to some extent and accepted that profit maximization should be attempted within a legal framework and subject to broad social ethical norms (Friedman 1970).\textsuperscript{80} Adam Smith, the “father” of modern economics, in his
seminal work “The Wealth of Nations”, justified the pursuit of self-interest, i.e., profit of business in exchange on the grounds that by making trades for own advantage, the business promotes the interest of others. The justification for a free market capitalist system is, in part at least, that by pursuing profit, business firms promote the welfare of the whole society. But the commentators on Adam Smith’s above view observe that in his defense of free market in The Wealth of Nations, Smith was speaking about exchange, whereas economics also includes production and distribution which also play their roles in creating social welfare (Sen 1993).

There is one school of thought that holds the view that law and ethics govern two different realms. How? They view that law prevails in the public life, whereas ethics is a personal matter. The law is a clearly defined set of enforceable rules that applies to everyone, but ethics being a personal matter reflects how one chooses to lead one’s life. Therefore, it would be a mistake to apply ethical rules in business, just as it would be a mistake to apply the rules of poker to tennis (Boatright 2003: 16). The law represents a minimal level of expected conduct that everyone should observe. On the other hand, ethics is a higher but optional level of conduct. The view held is: ‘it’s nice to be ethical, but our conduct has to be ‘legal’.

Ethics is essentially a matter of concern of the inner intents of individual. Therefore, ethics in all cases is not simply obeying the law. Law, of course, can draw Lakshman Rekha for business ethics. In fact, law is the minimum of ethics. That is why one cannot necessarily claim to be ethical even when one is on the right side of the law. In fact, it is not a question of an act being legal or illegal but whether the act is good or evil. A legal act may not necessarily be a morally
good act. For example, at the Nuremberg trials all the accused had committed acts that were legal but not morally good, or say, ethical (Mendona and Kanungo 1998). Ethics is higher and more than law. For example, insider trading, as in the recent Reliance case is still not treated as a serious legal offence in India calling stern legal action, but is extensively considered unethical (Sekhar 2002). Similarly, being a victim of AIDS is no crime by law, but would be considered as travesty in ethics, because these impinge on personal well being.

It is seen that people extremely religious in their private life, while in their business, hardly take account of the human suffering caused by their wrong actions in business. The research and evidences indicate that it is only the ethics, i.e., the inner intents of intensions as good or noble along with rules and laws can make people act in a fair and right manner. Thus, nothing but moral or ethical conduct of people alone can resolve the problems in the society and add good to it. Then, obvious question arises is what makes one’s (like businessman’s) inner intents as good or ethical. One can list several ingredients that make one’s inner intents of intensions as ethical or good or noble. For example, Sheth (2005) holds the view that one’s truthfulness, honesty, recognition of the other’s identity and dignity, concern for the other’s wellbeing, commitment to work, professional integrity, conformity with standards of law and order and resolution of disputes in a peaceful and cooperative spirit make and shape his/her inner intents as good and/or noble. Nonetheless, the three ingredients are the major ones: values, morality, and, integrity. People in business with these three attributes or ingredients are more likely to make ethical decisions.
Business being a social sub-system is social by nature. As such, business growth and fulfillment take place with, in, and through others (Steidlmeier 1992). Therefore, the raison d’etre of business organization, like other human organizations, is to support to some “good” and be in accord with the ‘highest excellence’. Creating and supporting good for others is called, in Sanskrit, ‘Propkaram’ and ‘Propkaram’ is considered as the ‘Param Dharam’, i.e., the super duty. The social psychologists call it ‘altruism’ and define it in two ways. First, it is defined as an attributed dispositional intent to help others, i.e., willingness to sacrifice one’s welfare for the sake of another (Krebs 1982). Second, it is defined in terms of the manifest behaviour and its consequences without any reference to one’s dispositional intensions. The first definition can be said to refer to altruism as an internal state, the second refers to it as external, i.e., behaviour with consequences. Because it is difficult to identify the help provider’s dispositional intensions, researchers have preferred to define altruism as a form of overt behaviour with consequences. In simple words, altruism means to place the interest of others before that of one’s self.

Altruism is highly regarded in all cultures as the epitome of sound moral principles because morally good acts are based on moral laws that incorporate fundamental values such as truth, goodness, beauty, courage, and justice. Though the principle of moral altruism benefits business in several forms, the two predominate. One, the recipients of the benefits out of business act have good feelings and wishes for business. Good feelings and wishes fructify. Two, others’ good feelings and wishes create clients and/or customers for the business. Customer is the life of the business. A business can exist only by creating and keeping customers (Leavitt 1986).
In the Indian society like others, developing a keen social conscience, performing selfless acts, placing the interest of others before that of one’s self are behaviours / conducts viewed as admirable and noble moral conducts which reflect mankind’s highest moral ideals. So to say, one’s altruistic behaviour is a moral norm that responds to his / her deeply felt need that, at the same time, also contributes to the social wellbeing. The researchers report that the altruistic behaviour is founded on the practice of the four cardinal virtues, namely, prudence, fortitude, justice, and temperance (Mendona and Kanungo 1998). Prudence means appropriate and sound judgement made in the light of a given environment. In other words, prudence means avoiding undesired consequences of circumspect. Fortitude implies courage required to act positively and surmount the odds and obstacles to do what is right and just. Justice is to give others what is due to them. Temperance means one’s abstinence from self-indulgence to what is genuine and justified. In other words, temperance involves distinguishing what is reasonable and necessary from what is self-indulgent.

The regular and habitual practice of these virtues of prudence, fortitude, justice, and temperance results in moral strength. The practice of prudence, for example, enables the businessmen to consider in his or her decision all related and relevant aspects of a given problem or situation. Such an assessment of situation facilitates proactive behaviour. Fortitude enables businessmen to acquire the courage required to take great risks for the cause that is noble and worthwhile. Added to this is that fortitude enables the businessmen to preserve against great odds. Here, Leavitt’s view seems worth citing: “Determined people try to make it happen because they believe in it, not because the odds are on their side.” The practice of temperance checks the businessmen from swinging in their behaviour. In other words, temperance facilitates the
entrepreneurs to maintain the emotional balance which helps regulate one’s feelings and emotions tempted by changing situations.

Now, how a business gets benefited in a lockstep manner from its ethical conduct is illustrated diagrammatically in the following Figure.

![Figure 2.2.1 Ethical conduct and its benefit to business](source: HOW BEING GOOD IS GOOD FOR BUSINESS?, S. S. Khanka* Vidyasagar University Journal of Commerce, Vol. 11, March 2006)

Prof. S. K. Chakraborty suggests teachers of the educational institutions to communicate to their students that ethics has fundamental existential payoffs. He says the foundation of ethics in practice lies in value within. Values are the causes and ethics is effect. Distorted values or disvalues jostle with positive human values and our actions depend on which of the two is on the ascendant. Thus it is important to build ethical stamina or moral character.  

Prosperity appears indeed to have a sort of antithesis of ethics and morals. Our economic organisations, order to achieve long-term resilience and honour, must
consider pouring as much as energy into ‘tilling the heart’ as it is doing today into ‘skilling the brain’.94

The philosophy of India is recorded principally in the sacred books of the Veda, for it has always been closely united with religion. Its numerous poetic and religious productions carry within themselves a chronology which enables us to assign them to three periods.

(1) The Period of the Hymns of the Rig Veda (1500-1000 B.C.)

This is the most ancient monument of Indo-Germanic civilization; in it may be seen the progressive appearance of the fundamental theory that a single Being exists under a thousand forms in the multiplied phenomena of the universe (Monism).

(2) The Period of the Brahmans (1000-500 B.C.)

This is the age of Brahminical civilization. The theory of the one Being remains, but little by little the concrete and anthropomorphic ideas of the one Being are replaced by the doctrine that the basis of all things is in oneself (âtman). Psychological Monism appears in its entirety in the Upanishads: the absolute and adequate identity of the Ego -- which is the constitutive basis of our individuality (âtman) -- and of all things, with Brahman, the eternal being exalted above time, space, number, and change, the generating principle of all things in which all things are finally reabsorbed -- such the fundamental theme to be found in the Upanishad under a thousand variations of form. To arrive at the âtman, we must not stop at empirical reality which is multiple and
cognizable; we must pierce this husk, penetrate to the unknowable and ineffable superessence, and identify ourselves with it in an unconscious unity.

(3) The Post-Vedic or Sanskrit, Period (since 500 B.C.)

From the germs of theories contained in the Upanishad a series of systems spring up, orthodox or heterodox. Of the orthodox systems, Vedanta is the most interesting; in it we find the principles of the Upanishads developed in an integral philosophy which comprise metaphysics, cosmology, psychology, and ethics (transmigration, metempsychosis). Among the systems not in harmony with the Vedic dogmas, the most celebrated is Buddhism, a kind of Pessimism which teaches liberation from pain in a state of unconscious repose, or an extinction of personality (Nirvâna). Buddhism spread in China, where it lives side by side with the doctrines of Lao Tse and that of Confucius. It is evident that even the systems which are not in harmony with the Veda are permeated with religious ideas.95

2.3 Literatures related to Ethics in Marketing

In a survey of Fortune 1000 industrial and service corporations, the Center for Business Ethics reveals that corporations are beginning to take steps to institutionalize ethics.96 However, they recognize that in most cases additional mechanisms and strategies are needed to make their ethics efforts more effective, including ethics committees, judiciary boards, ethics training, and even changes in corporate structure.
Hite (1988) performed a content analysis of ethical policy statements regarding marketing activities. Their results show that the topics covered most often are: misuse of funds/improper accounting, conflicts of interest, political contributions, and confidential information.97

Gossett (1975) suggests that corporate legal counsel is uniquely situated and prepared to act as an arbitrer to social conflict between the corporation and society and also to lend "a deep sense of personal morality to this task."98 Similarly, Erteszek (1975) states that: the chief executive could use a man with knowledge in this area as a sounding board and as a spiritual counselor.99 The advisor should be a compassionate man who understands the problems and trials and tribulations of a chief executive who is often very lonely.

Steiner (1976) is also in favor of using some kind of ethical advisor or, as he calls them, "moral iconoclasts in the corporate inner sanctum."100 Steiner argues that the very presence of ethical advisors would bolster public confidence in the business system. Conversely, Steiner saw that this injection of ethical values into market decisions might lead businessmen to confuse their economic mission with altruistic concerns so that they fail to fulfill the basic business function of producing goods and services efficiently.

Boling (1978) agrees with Petit (1967), who declared that there was a "moral crisis in management", defined as a conflict between classical business ideology - an operational ethic which calls for profit through economic action - and managerial ideology, an ethic which stresses social responsibility.101,102 Boling argues that ethical codes are necessary to serve as the leading edge of law, because laws cannot prescribe that ethical conduct should be for everyone in all
situations. These codes of ethics should be developed through the cooperation of both supervisors and subordinates. As a result, this cooperation will hopefully develop "group ethics," as opposed to "personal ethics."

Fritzsche and Becker (1982) argue that a set of response rules or codes which can be used by managers as a guide to action when faced with specific types of ethical problems should be developed. These rules should reflect the general values and expectations of society. The response rules should result in raising the ethical behavior of organizations over the long run via the expectations and practices of future managers as they enter the work force. 103

Laczniac and Udell (1979) view the future trends in marketing as presented in Figure below. 104 They argue that the attempts of marketers to meet the challenge of being more ethically responsible will take the following forms: (1) enhanced professionalism, (2) ethical codes, (3) ethical consultants, and (4) ethics seminars.
Robin (1980) introduces the theory of ethical relativism in the field of marketing ethics. He argues that all of the parties involved in business and society interface and look upon their value systems as absolutes. Business people in particular are acting in a way that they might consider ethical according to their own values. Society, on the other hand, has different values and views the same act as not so ethical. A solution to this problem is for business people to adapt the relativist's philosophy and recognize the right of others to have different value systems.
Based on the theory of ethical relativism, Robin proposes certain guidelines for formulating codes of behavior in marketing. First, he proposes certain guidelines for establishing boundaries for ethical codes because ethical codes "over which the concerned parties have little or no control are meaningless." Second, he discusses the primary methods for settling value differences when they occur.

Finally, on the subject of corporate ethical codes' effectiveness, Weller (1988) proposed several hypotheses that need to be addressed in future research.106

Murphy and Laczniaik (1981) conclude that corporate codes of ethics are somewhat controversial as to their effectiveness in resolving ethical conflict.107 Brenner and Molander (1977) in their follow-up to Baumhart's (1961) classic study on business ethics report that respondents believed that ethical codes are limited in their ability to change human conduct.108,109 Nevertheless, "the mere existence of a code, specific or general, can raise the ethical level of business behavior because it clarifies what is meant by ethical conduct."

Dixon (1982) argues that "conventionally, marketing activity is seen to occur in a market-directed economic system which is self-regulating; the market mechanism transforms private interests into public interest".110 This point of view is the center of Adam Smith's "invisible hand" hypothesis. In an analysis of Smith's and his contemporaries' work, Dixon found that their conceptual models did not rely solely upon the completely free reign of self interest, but required a coexistent ethical system. Dixon saw the existence of ethics and justice as crucial for the survival of the economic system. If an ethical system is present, then there is no need for intervention by a central authority. According
to Vitell (1986), Dixon's article "is useful in giving a historical perspective to marketing and business ethics in our society, and in anchoring the need for an ethical component to marketing within this historical perspective".111

Clasen (1967) suggests a more concrete marketing ethics theory.112 Employing the T-group technique to develop sensitivity to ethical issues in marketing decision making, Clasen concludes by means of group consensus, that no one traditional "wellspring" of ethics is sufficient in itself to determine the ethics of a complex marketing situation. That is, personal conscience, law, corporate policy, technical knowledge, and market expertise contribute in varying degrees to the final decision, but none of them touch the nerve of a marketing decision.

Through analysis of his own marketing decisions, Clasen observed two sources of ethical standards that were always present: professional expertise and consumer acceptance. The first "allows one to know what is good for someone else even when the other is unaware of the factors and the ethics involved". The second assumes that the company marketing executives' decisions "must in fact constitute what the consumer would do or choose: (a) if she had the best technical education, or (b) if she had the most modern tools for testing and evaluating".

Jurgen (1976) argues that ethical behavior must consider the value systems of society as a whole.113 He argues: if good and meaningful change is to take place, two vital ingredients become mandatory: an understanding of the concerns of others so that value emphasis will serve the greatest good, and an awareness of, and dedication to, the values underlying ethical behavior, by both individuals and institutions.
Pruden (1971) presents three ethical frames of reference for marketers (see Figure below). These ethical frames are: an individual ethic, an organizational ethic, and a professional ethic. An individual is influenced by each of these three ethical frames. The model in Figure 3 rests upon the notion of power: the power of organizational rewards and punishments supporting authority, the power of an individual to withdraw his essential services, and finally the power of a profession to exercise sanctions through the collective action of a professional group. A marketer's behavior would probably be guided by an ideology which was the synthesis of these three ethics. This synthesis, however, would likely be a dynamic balance since there are likely to be fundamental points of conflict among the three ethics. Pruden argued that the professional ethic is the most appropriate for marketers in view of mounting social demands and radically changing technology, and that its development is the responsibility of the American Marketing Association.

Figure 2.3.2 Three ethical frames of reference for the marketer

Fisk (1982) develops five general principles of ethical marketing conduct, hoping to progress toward a general theory of marketing ethics. The five ethical principles, which are based on the premise that human behavior is selfish and that people are motivated to seek personal gain, are:

1. Principle of Trade - "ethical behavior is trading behavior. The exchange of value for value".

2. Principle of Non-coercion - "ethical behavior requires rejection of coercive behavior. Coercion is the suppression of someone's rights and freedoms."

3. Principle of Fairness - "the ethical individual treats others as independent equals."

4. Principle of Independent Judgement - "the ethical individual exercises independent judgement and expects the same of trading partners."

5. Principle of Marketing - "satisfying consumer needs is the key to satisfying the needs of the marketer. Profits are maximized in the long-run by satisfying consumer needs".

These ethical principles are consistent with the ideas of exchange relationships and the marketing concept.

Bogart's (1962) ground breaking article on "The Researcher's Dilemma" introduces ethical issues in the area of marketing research. Bogart argues that
marketing researchers face a dilemma on how to resolve his dual orientation as a professional and as a businessman. As a professional, he thinks of himself as a scientist concerned with the pursuit of truth for its own sake; as a businessman, on the other hand, he has to be concerned with means and ends and corporate goals. The ethical problems which confront the marketing researcher are intensified by the absence of accepted codes of ethics, and by the pressures of the company to be productive in ways which have nothing to do with research at all.

A study by Chonko and Hunt (1985) surveys the ethical beliefs of marketing managers. Their results show that: (a) bribery is the most often mentioned problem faced by marketing managers followed by fairness, honesty, and pricing strategy; (b) ethical conflict is mainly felt when they tried to balance the demands of the corporation against customer needs; (c) marketing managers perceive plenty of opportunities in their companies to engage in unethical behavior, but, in general, such behavior does not lead to success; and (d) the existence of ethical codes is not related to the extent of unethical behavior by marketing managers.

Cummings (1979) contends that the only person who can have a more significant influence on the firm's bottom line than the salesman is the purchaser. A survey for the National Association of Purchasing Management reveals that accepting small items like tickets for sporting events or theater, advertising souvenirs, free lunches or dinners was not considered unethical; whereas accepting larger gifts like loans, clothing, and appliances was deemed unethical. Cummings also found that most large companies have formal written policies on purchasing ethics. In a similar study, Rudelious and Buchhofz
(1979) argue that although written policies cannot cover every ethical situation, these policies can help the purchasing agent make a more consistent decision.\textsuperscript{119}

Dempsey, Bushman and Plank (1980) surveyed industrial buyers in order to determine the influence of gifts and other personal inducements on making industrial sales.\textsuperscript{120} Their results show that buyers generally agree that business lunches and advertising specialties are appropriate or "ethical" forms of inducements. On the other side, "an-evening-on the- town" or a gift worth more than $10 were considered inappropriate or "unethical".

Ethical issues regarding product decisions have also occupied marketing researchers. Practices such as the proliferation of nonfunctional packaging (Hartley, 1976), planned obsolescence (Gwinner, 1977), and arbitrary product elimination (Hise and McGinnis, 1975), were deemed as at least ethically suspect, if not outright unethical.\textsuperscript{121,122,123} Hise and McGinnis argue that most companies deciding to eliminate a product evaluate only the profit potential of the product and ignore any effects such an act might have on consumers. An example of that behavior is the lack of replacement parts of a discontinued product line or the termination of a necessary but unprofitable pharmaceutical product.

The way a product is priced can be ethically suspected, if not outright unethical. For example, Sturdivant (1968) discovered that ghetto consumers pay more for the same product than the more affluent suburban consumers.\textsuperscript{124} An article in the \textit{Wall Street Journal} ("Consumer Find . . . 1977) discussed the practice of altering the quality and/or size of a product in order to keep the price at the same level (e.g., chocolate bars).\textsuperscript{125} Sonnefeld and Lawrence (1978) found that
ethical codes on pricing and specifically on price discrimination circulates only at the top levels and the word seemed m have trouble getting down the line. Even those documents that circulated among all the employees seemed to be "broadly written, toothless versions of the golden rule." Sonnefeld and Lawrence propose a specific code of ethics for dealing with price fixing and price discrimination problems.

Ethical problems in the channel of distribution can range from unresponsiveness by retailers in dealing with customer complaints (Andreason and Best, 1977), coercion of channel members by the channel leader and to franchisors charging high prices to products they sold to their captive customers (Weigand, 1980). Dubinsky, (1980) argue that salespeople are key links between an organization and its customers, who often face ethical dilemmas when forced to choose between short-run pressures from management to meet a sales quota and long-run goals of achieving customer confidence and satisfaction. The inability to handle such dilemmas - due partly to a lack of management guidelines - may lead to job stress, poor sales performance, and dissatisfied customers.

In order to address this potentially problematic situation, Dubinsky identify what kind of situations are viewed by salespeople as problematic, whether stated company policy existed that apply to these situations, and whether sales personnel want such stated policies. Situations or practices considered as presenting an ethical problem were: (1) allowing personalities - liking for one purchaser and disliking for another - to affect price, delivery, and other decisions regarding terms of sale; (2) having less competitive prices or other
terms for buyers who use a firm as the sole source of supply; and (3) making statements to an existing purchaser that exaggerate the seriousness of his problem in order to obtain a bigger order or other concessions. Finally, sales personnel seem to want more guidelines to help them resolve ethical questions.

Given that salespeople are likely to experience ethical conflict in their jobs, it is incumbent for sales managers to design work environments that mitigate ethical conflict. Walker, (1977) argue that ethically troubled salespeople will experience increased levels of job-related tension, frustration, and anxiety; these dysfunctional consequences could further lead to lower job performance and increased turnover. A later article by Walker, (1979) reports that the inability of salespeople to resolve ethical problems can result in conflict between salespeople and their managers; again resulting in reduced job satisfaction and low productivity. In addition, they found that performing the sales job in an unethical fashion may lead to customer dissatisfaction, unfavorable word-of-mouth, as well as reduced sales and profits for the firm.

Sales management writers such as Dalrymple (1982), Futrell (1981), Russell (1978), and Stanton and Buskirk (1978) agree that ethical issues confronting sales personnel can be categorized in two groups: (1) ethics in dealing with customers and (2) ethics in dealing with employers. Customer-related concerns include bribes, gifts, entertainment, reciprocity, and conflict of interest. Employer-related concerns include moonlighting, relationships with fellow salespeople, the use of company assets, expense accounts, and sales contests.
Snyder (1976) studied the practice of bribing in order to make a sale. He admits that bribery is not only a problem with dealings abroad but also inside the USA. Snyder found that 22% of his respondents have been asked to make an illegal payment abroad, while 49% were asked to make such a payment in the USA. Snyder argues, however, that post-Watergate morality has forced most companies to develop codes of international sales ethics.

Bellizzi and Nurdock (1981) focus on industrial sales management in the 1980's, and recommend the development of an ethical code for industrial sales. This code should outline the proper sales techniques, as well as gift giving and entertainment issues.

Ebejer and Morden (1988) proposed a "realistic" professional ethic for sales people - "limited paternalism." According to the authors: Limited paternalism implies that a salesman should 'be his buyer's keeper' in the sense that he should serve the interests of his customers by identifying their needs, while disclosing all relevant information about products or services in order to facilitate mutual exchange to mutual advantage.

Norris and Gifford (1988) collected both comparative and longitudinal data between 1976 and 1986 from retail store managers and retail students concerning their perceptions of ethical practices in retailing. Contrary to the popular belief that ethics have eroded over time, their results indicate a significant increase in the ethics of retail store managers. However, a significant decrease was evident in the ethics of retail students.
The ethics of advertising, like sales, has come under question almost continuously (Packard, 1957; Galbraith, 1958). Because advertising is such a visible element of marketing, this situation is not surprising. Furthermore, ethical issues come up with respect to the role of advertising agencies' dealing with their clients as well as the advertiser-consumer linkage.

A thorough discussion of advertising ethics is contained in Wright and Mertes's (1974) readings book. In this work, selections about advertising ethics were written by Alderson, who discussed the reconciliation of Christian ethics with the U.S. economy; Levitt (1970); and a variety of scholars from outside the field of marketing who used their fields of religion, philosophy, and history to comment on advertising ethics.

Despite the appearance of an advertising code of ethics in the 1920s, the various authors chronicle many continuing abuses, including puffery and exaggerated claims. Several prescriptions for raising the level of ethics in advertising were presented by these writers, including Levitt's (1970) classic defense of advertising ethics. In that article, Levitt admits that advertisers typically try to persuade and manipulate consumers but that these efforts are not fundamentally different or as controversial as the efforts of artists, politicians, and editorial writers to manipulate ideas in the minds of citizens. Levitt states that "embellishment and distortion are among advertising's legitimate and socially desirable purposes." To reject these techniques of advertising would be to deny man's honest needs and values.
At the 1971 AMA Educators' Conference, Boulding (1971) gave a speech on the ethics of persuasion. He listed four major ethical criticisms of the persuasion industry:

1. The contention that persuasion of an individual violates the person's inherent right.

2. The fact that the persuasion industry leads to certain human addictions.

3. Simple dishonesty - that is, persuaders are only trying to make money but not propagate the truth.

4. The idea that persuasion frequently degenerates into vulgarization.

Boulding's thoughtful analysis concludes with the call for a continuing search by marketers for answers to tough ethical questions in advertising.

Several new topics have surfaced in the area of advertising ethics. Consoli (1976) advocates that advertisers display a high standard of ethics in using comparative advertising. Mso, the stereotyping of women in advertising is mentioned as another ethical issue in this article. Turk (1979) examines what he labeled as the "ethical morass" of advertising to children. He feels both government and industry are caught in this trap. He argues that marketers and broadcasters feign concern for children's health but also want to perpetuate highly profitable television programs aimed at children. At the same time, Turk likened the FTC staff to moral crusaders of another era and states that their proposals are too severe for acceptance.
Krugman and Ferrell (1981) investigated the ethical perceptions held by advertising practitioners, ad agency account managers, and corporate ad managers regarding their peers in the organization and others with whom they interact. It is not surprising that they found that respondents believe that they possess higher ethical standards than their peers.\textsuperscript{147} The authors conclude that favorable ethical performance will be rewarded and widely disseminated and that top management should use their perceived higher ethical standards to influence the members of the firm.

Bronson (1980) examined several campaigns and discussed the role of the network censor in deciding which ads are not in good taste.\textsuperscript{148} The use of sex appeal is especially prevalent in promoting designer jeans (Bronson and Birnbaum, 1980; Frons, 1980).\textsuperscript{149,150} The use of models clad provocatively in jeans and the use of suggestive language in television commercials are commonplace in this type of advertising. One writer captured the flavor of these campaigns: "Almost all TV ads for designer jeans exploit fantasy in campaigns that seem to stretch the tenets of truth in advertising" (Frons, 1980).\textsuperscript{151}

One thing seems certain: The overt nature of advertising lays it open to questions of an ethical nature. This point was noted by Greyser and Reece (1971) when introducing their classic survey of business people's attitudes toward advertising.\textsuperscript{152}

Perhaps because it touches the public in so many ways and throughout the day, advertising seems to be receiving a constant barrage of criticisms from both activists and the public.
After concentrating on the business perspective toward advertising, Greyser and Reece concluded that subscribers to a leading business publication were increasingly uneasy about the truthfulness and ultimate social impact of advertising.

Ferrell (1985) argues that the Maiden form ethical dilemma is a good example of ethical relativism. Ethical relativism recognizes that while there may be different value systems, analysis of moral consequences and the establishment of limited moral principles are extremely important (Robin, 1980). In the Maidenform example, one party sees the use of live models in advertisements as the logical way to promote lingerie, while another group perceives such provocative photos as exploitative and unethical.

Marketing activities have also been central to international trade and thus have attracted their share of criticisms concerning unethical behavior. Marketing has been criticized for offering harmful products to underdeveloped countries (e.g., DDT), and promoting its products through bribes and payoffs (Longenecker, 1988; Lane and Simpson, 1984; Johnson, 1985).

Post and Baer (1978) criticize severely the marketing of infant formula in foreign countries and propose an extensive "demarketing" strategy as a way to solve this ethical problem. Fritzsche and Becker (1984) argue that ethical practices of business tend to vary from country to country. In their study, marketers were asked to evaluate the ethical standards in various countries. Germany was perceived as the most ethical country followed by the United Kingdom and then the U.S. and France. Mexico was ranked lowest. The authors concluded that the level of ethical behavior tends to increase with the level of economic development of the country. Whether this increase is caused by
developments in the legal system of the country or by society's expectations and the needs of the participants is unknown.

Baumhart (1961) identifies the major ethical problems that business people want to eliminate: (1) gifts, gratuities, bribes, and "call girls," (2) price discrimination and unfair pricing, (3) dishonest advertising, (4) miscellaneous unfair competitive practices, (5) cheating customers, unfair credit practices, and overselling, (6) price collusion by competitors, (7) dishonesty in making or keeping a contract, and (8) unfairness to employees and prejudice in hiring. Note that five of the eight most important ethical problems have to do with marketing activities. Brenner and Molander (1977) conducted a follow-up study and found the same set of undesirable practices.

Hunt and Chonko (1986) designed a research project to explore the question of whether marketing is manipulative, unethical, or "Machiavellian" in nature. They conclude that marketing has its "share of Machiavellians - no more, no less." In addition, "marketers high in Machiavellianism are not disproportionately located in any particular marketing occupation (such as sales)." Finally, the authors show that one does not need to be a Machiavellian to succeed in marketing. Actually, the reverse seems to occur.

In discussing possible future directions for marketing education, Lazer (1970) states that attempts to teach business students how to cope with socially related issues have not been as successful as efforts directed at the development of marketing technicians. Murphy and Laczniaik (1981) argue that marketing educators and authors of marketing textbooks should take steps to increase the emphasis on ethical issues in marketing courses. These steps include: (1) ethical issues should be woven throughout marketing courses and texts instead
of being left to the end; and (2) create some marketing cases that deal with ethical issues.

### 2.4 Literatures related to Ethical Pharmaceutical Marketing in India

Pharmaceutical marketing is a specialised field where Pharmaceutical Marketing Professionals (popularly known as Medical Representatives) form the backbone of entire marketing effort. Pharmaceutical companies appoint medical representatives and assign them defined territories. Medical representatives meet doctors, chemists and stockiest as per company norms. Medical representatives try to influence prescription pattern of doctors in favour of their brands.

Since Indian Pharmaceutical Industry has free access to medicines discovered abroad, there is little incentive to undertake research to make new drugs. Consequently, nearly all companies are engaged in vicious competition to sell the same molecules under the different brand names. As companies resort to unconventional methods to sell their brands, ethics take a back seat. Expanding indications, exaggerating efficacy, ignoring contraindications, and underplaying adverse effects have become routine practice.

Some examples illustrate these questionable marketing methods. Nimesulide, a non-steroidal anti-inflammatory drug, is being recommended for use in neonates and infants for undiagnosed fever. The European Medicine Evaluation Agency has contraindicated its use in children below 12 years due to its hepatotoxic potential. Metoclopramide is marketed for nausea and vomiting in all age groups including low birth-weight neonates, though its use was restricted in the West in the mid-1990s to people aged over 18 years. The Nootropil brand of piracetam is indicated for cortical myoclonus in people older than 16 years.
India, it is recommended for social maladjustment, lack of alertness, loss of memory, and learning disabilities in children. Known side effects are conveniently side stepped.

Pharmaceutical Companies find it hard to generate prescriptions sales based solely on science and true information. Relying on published datasheets issued by the inventing companies reduces the scope of a drug because of the inconvenience of contraindications, precautions, drug interactions, and adverse effects. But sometimes, for purely promotional purposes local data are generated, as happened with letrozole, which was given to over 430 young women to test its efficacy in inducing ovulation.\textsuperscript{171}

Without discovering new molecules, companies just create “novel” products by mixing two or more medicines in a fixed dose combination. Such combinations are often irrational, and some pose danger. Short term use of combinations of quinolones with imidazoles for undiagnosed diarrhoea is encouraging \textit{Salmonella typhi} resistance to quinolones.\textsuperscript{172}

Like elsewhere, gifts and other incentives to medicine prescribers are used by marketers and manufacturers of pharmaceutical products to promote their products, and the methods are often ingenious. There is little consumer resistance to these practices for two reasons: faith in the perceived integrity of the medical profession, and lack of information. An examination of 1200 randomly selected formulations showed that only 316 had package inserts, and none had patient information leaflets.\textsuperscript{173}

Many poor, illiterate people in India ask pharmacists for medicines for common problems such as colds, cough, aches, and pains. In order to tap this lucrative market, companies produce “branded generics.” These are not promoted to the
medical profession, but to pharmacies, which are offered huge discounts. In the process it is conveniently forgotten that inducing pharmacies to sell prescription drugs without prescriptions is unethical and illegal. The commercial needs of countless, fiercely competing pharmaceutical companies have led them to depend on the tried and tested 3Cs: Convince if possible, Confuse if necessary, and Corrupt if nothing else works. It is easy to find fault with policies adopted decades ago, and the fault may lie in the regulatory system failing to keep pace with innovations in the pharmaceutical industry. Nevertheless, the government has failed in its duty of preventing unethical promotion that has already resulted in misery, illness, and death.\textsuperscript{174}

J P Orlowski and L Wateska (1992) examined the impact on physician prescribing patterns of pharmaceutical firms offering all-expenses-paid trips to popular sunbelt vacation sites to attend symposia sponsored by a pharmaceutical company. The impact was assessed by tracking the pharmacy inventory usage reports for two drugs before and after the symposia. Both drugs were available only as intravenous preparations and could be used only on hospitalized patients. The usage patterns were tracked for 22 months preceding each symposium and for 17 months after each symposium. Ten physicians invited to each symposium were interviewed about the likelihood that such an enticement would affect their prescribing patterns. A significant increase in the prescribing pattern of both drugs occurred following the symposia. The usage of drug A increased from a mean of 81 +/- 44 units before the symposium to a mean of 272 +/- 117 after the symposium (p less than 0.001). The usage of drug B changed from 34 +/- 30 units before the symposium to 87 +/- 24 units (p less than 0.001) after the symposium. These changed prescribing patterns were also significantly different from the national usage patterns of the two drugs by hospitals with more than 500 beds and major medical centers over the same
period of time. These alterations in prescribing patterns occurred even though the majority of physicians who attended the symposia believed that such enticements would not alter their prescribing patterns. 175

Studies show that 80-95% of doctors regularly see drug company representatives despite evidence that their information is overly positive and prescribing habits are less appropriate as a result. Many doctors receive multiple gifts from drug companies every year, and most doctors deny their influence despite considerable evidence to the contrary. Industry interactions correlate with doctors' preferences for new products that hold no demonstrated advantage over existing ones, a decrease in the prescribing of generics, and a rise in both prescription expenditures and irrational and incautious prescribing, according to a recent analysis of the ethics of gift giving. The number of gifts that doctors receive correlates with beliefs that drug representatives have no impact on prescribing behaviour. 176

The act of receiving gifts and other benefits from the pharmaceutical firm by physicians establish relationship with the giver and assume certain social duties such as: grateful conduct, grateful use, and reciprocation. It is bound to compromise the physician’s decision making. Further, it is also unrealistic to expect the pharmaceutical industry that contribute large sums of money in different manner to physicians, will not influence their attitude and behavior towards them. Since no profit minded company would distribute gifts and other freebies out of disinterested generosity. In the context of medicine, however, many feel that the act of accepting a gift has far reaching ethical consequences that put the "gift" at too great a price. 177
Vikram Patel, R Vaidya, D Naik, P Borker (2005) in Irrational drug use in India: A prescription survey from Goa, the study probably the first of its kind in India to be reported from the state of Goa has highlighted the presence of severe deficiencies in the layout of a significant proportion of prescriptions. Several prescriptions lack even the basic information such as the identity of the practitioner and patient. While the legibility of prescriptions was good (and this may partly reflect the experience of the pharmacist coding the prescriptions!), the clarity of instructions was inadequate for more than half of all prescriptions. These limitations mean that instructions are likely to be only verbal, which in our view is unsatisfactory. Pharmacists often do not know which medical practitioner has prescribed the medicines, and thus are unable to contact practitioners in case they wish to check any element of the medication. Since a number of prescriptions were not dated, there is a potential of the same prescription being re-used for an indefinite period of time.  

Polypharmacy was the norm, with 80% of prescriptions having more than one medicine, with a significant proportion of patients receiving 5 or more preparations. Since many preparations were multi-drug combinations, the actual number of specific pharmaceutical entities prescribed was likely to be even higher.  Vitamins and tonics, for which there are few specific medical indications, were used in almost half of all prescriptions. Antibiotics, analgesics and drugs for dyspepsia were prescribed in almost a quarter of prescriptions. These findings are similar to studies from other parts of India. For example, in one study of 2400 prescriptions, antibiotics were widely and inappropriately used, and food supplements and tonics of "dubious nutritional and pharmacological value" made up a high proportion of the total drugs bill. A study of 2953 prescriptions from public primary health centers in south India
revealed that patients received an average of 2.71 drugs and that vitamins, antibiotics, analgesics and antihistamines were the most commonly used, accounting for more than 80% of the drugs prescribed.

In a study from Andhra Pradesh, it was estimated, based on WHO criteria that most of the drugs (60%) prescribed in rural areas were non-essential, compared with 47% in urban areas. A study from North India also revealed the indiscriminate use of analgesics, antibiotics, and vitamins. It was noted in the study that branded medicines were more commonly prescribed than generic preparations. This finding runs counter to the recommendations of medical ethics bodies and the WHO; the fact that at least in one-third of prescriptions, the cheapest brand was not used also reflects the apparent lack of concern that practitioners have for the economic consequences of drug prescriptions.

Indian Medical Council Defines Do's and Don'ts for Doctors. Extensive media coverage of the unethical, "you-scratch-my-back-I-scratch yours" nexus between most doctors and drug companies has spurred the Medical Council of India (MCI) to take action. In a notification, MCI has banned all relationships that can potentially harm the patients and bring medical practice to ridicule. The new rules cover both individual doctors and professional associations. Some examples:

**Gifts:** A medical practitioner shall not receive any gift from any pharmaceutical or allied health care industry. Since there is no mention of any monetary ceiling, even small value items are not permitted.

**Travel:** Any travel facility inside or outside the country for self and/or family members even for attending conferences, seminars, workshops, CME programme etc is not permitted. In the past drug manufacturers and
doctors used to argue that such facilities were meant to advance the scientific knowledge and hence not improper. MCI has rejected this self-serving logic.

**Hospitality:** Any hospitality like hotel accommodation for self and family members under any pretext stands prohibited.

**Cash or monetary grants:** Receiving funds by doctors under any pretext has been banned. Funding for medical research, study etc. can only be received through approved institutions by modalities laid down by law / rules / guidelines adopted by such approved institutions. Such funding is to be publicly disclosed.

**Medical research:** Doctors are allowed to carry out research projects funded by pharmaceutical and allied healthcare industries under certain specific conditions such as after prior permission from the competent authorities including the Drugs Controller General, India (DCGI), relevant Hospital Ethics Committee, provision of proper facilities to human volunteers, public disclosure of the source and amount of funding at the beginning of the research itself. Above all the medical practitioner must have the freedom to publish the results of the research by inserting such a clause in the agreement or any other document before accepting such assignment.

Most drug companies routinely prohibit the publication of clinical trial results by individual investigators/hospitals under one pretext or the other. In such a scenario, there is an in-built risk of concealing unfavourable results of drug and medical devices trials to the detriment of patients.
Endorsement: of any commercial product by doctors was already banned in the year 2002. Two important additions have been made to his rule. Firstly, the professional associations of doctors are also barred from endorsements and secondly, any study conducted on the efficacy or otherwise of such products shall be presented to and/or through appropriate scientific bodies or published in appropriate scientific journals only. Thus doctors should not permit the use of results of such studies for any purpose by interested companies.

Violation of any of the MCI directives is considered "Misconduct" and therefore can invite penalties in the form of suspension or cancellation of registration to practice. While the new rules deserve appreciation and applause, the real test will be the level and extent of implementation. Stronger and sharper teeth can be added to MCI regulations by amending relevant sections of the Income Tax Rules. All facilities with monetary value received by medical professionals from healthcare industry should be deemed to be perquisites in the hands of recipients and hence taxable. Similarly all expenses incurred by drug, medical devices and other healthcare companies in violation of MCI rules should be disallowed by amending income tax rules.185

The Karmayog Corporate Social Responsibility Study and Ratings of Indian Companies was undertaken to explore and understand the role that corporates are playing and can play in finding meaningful solutions to the problems facing India today. The last report published included 49 pharmaceutical companies which are practicing somehow CSR (see appendix).186
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