

# AN EVALUATION OF ISSUES IN CORPORATE BUSINESS ETHICS

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In Philosophy

BY  
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## **DECLARATION**

This is Jayadev Sahoo, do hereby declare that the thesis entitled “**AN EVALUATION OF ISSUES IN CORPORATE BUSINESS ETHICS**”, submitted by me for the award of the degree of Doctor of Philosophy in Philosophy of Pondicherry University, is my original work and has not been submitted by me or by anyone else in part or full, for any other degree or diploma of this or any other University.

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# CHAPTER - I

## INTRODUCTION

Generally, ethics refers to rightness or wrongness of an action. In other words, it implies what ought to do or ought not to do. Applied ethics deals with difficult moral and ethical questions and controversial moral issues that people actually face in their lives. For example- the moral issues regarding abortion, euthanasia, giving to the poor, sex before marriage, the death penalty, gay/lesbian marriage, censorship, so called “white lies”, paying bribe, cheating to the customers, barren promise and so on. Further, applied ethics is a field of ethics that deals with ethical questions in many fields, such as medical, technical, legal, media, professional and business ethics.

Business ethics is one of the important aspects of applied ethics that examines ethical principles and moral or ethical problems that arise in business environment. In other words, business ethics means the application of ethical rules and regulations in the field of business. It is applied to all forms of business. It is related to the conduct of individuals and business organizations as a whole. It is one of the emerging branches of philosophy in general, applied ethics in particular. Business Ethics deals with most of the aspects of a man and his obligations towards the customers, society and environment. One should be ethical while conducting the business. It not only deals with the individual, but also with the society, environment, animals and plants, etc. It also affects every walks of people.

R.C. Solomon<sup>1</sup> (1992) points out in his article “Corporate Roles, Personal Virtues: An Aristotelean Approach to Business Ethics”, that the search for morality and social responsibility in business operations and interactions with the human society and the environment can be traced back to **Aristotle**, who can be termed as the **first business ethicist** in the world. Aristotle gave utmost emphasis on cultivation of good virtues. According to him, an individual is a part of the society and his decision is society’s decision. Therefore, it is paramount importance to cultivate good virtues and habits. One has to think of oneself as a member of the larger community and strive to excel, to bring out what was best in our shared enterprise. Further, he held that those who trade for profits, they are called “parasites”. All trade was a kind of

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<sup>1</sup> R. C. Solomon, “Corporate Roles, Personal Virtues: An Aristotelean Approach to Business Ethics”, *Business Ethics Quarterly*, Vol. 2, No. 3, July 1992, pp. 317-339.

exploitation, for him. Although not all business ventures can wholly be described as exploitative, yet he was right in believing that there was a need to reduce the gap between business and the rest of life in order to make sure that business organizations conform to the customary standards of moral conduct as desired by society.

### **I. 1 The Problem of the Study**

There are innumerable problems in business ethics. It will be difficult to practice business ethics or to ask others to follow them, unless one adheres one's personal code of ethics. In business, how do you have ethics, when you need to be cut-throat? This is a great dilemma for the businesspersons who want to make profit only. Nothing else, only profit and profit! The researcher has encountered a few issues and challenges that are crucial and very pertinent with regard to ethical issues in business. The prominent problems are

- Is there any place of ethics in business?
- What are the ethical challenges in business?
- What is the moral link between business and environment?
- Does business believe in socially responsible advertisements?
- What are the ethical issues behind CSR?
- Why should a customer patronage a particular brand?

### **I.2 Review of Literature**

Adam Smith (1776) mentioned that individuals are fully capable of setting and regulating prices for their own goods and services. He argued passionately in favor of free trade, yet stood up for the little person. This book provided the first and still the most eloquent-integrated description of the workings of a market economy. Smith viewed competition as economically efficient: "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society." (pp. 569-570) This unabridged edition offers the modern reader a fresh look at a timeless and seminal work that revolutionized the way governments and individuals view the



creation and dispersion of wealth-and that continues to influence our economy right up to the present day.

Milton Friedman (1983) (in T. Donaldson and P.H. Werhane (eds.) *Ethical Issues in Business: A Philosophical Approach*) expressed that there is one and only one social responsibility of business... to increase its profits...Further he argued that, What does it mean to say that “business” has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but “business” as a whole cannot be said to have responsibilities, even in this vague sense. Again, What does it mean to say that the corporate executive has a “social responsibility” in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he has to act in some way that is not in the interest of his employers. For example, he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or at the expense of corporate profits, he is to hire “hardcore” unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

Norman E. Bowie (2002) applied Kantian approach to business ethics. Kant’s ethical theory on business ethics is known as deontology. Kant held that we should respect to the persons and any business practice that puts money on par with people is immoral. He framed three formulations based on categorical imperative and applied it to business ethics. The three formulations are:

1. Act only on that maxims which would become a universal law.
2. Always treat the humanity in a person as an end, and never as a means merely.
3. So act as if you were a member of an ideal kingdom of ends in which you were both subject and sovereign at the same time.

C.K. Prahalad (2005) held that it is not only the duty of businesspersons to earn profit but also there is enough scope to eradicate poverty through profits. He asserts that there are around 7 billion people in the world, 4 to 5 billion people live at the bottom of the pyramid (BOP). Those 4 to 5 billion people who live on less than \$2 a day? It is the moral and ethical duty of the businesspersons to uplift their living

standards in the form of investments. Why cannot we mobilize the investment capacity of large firms with the knowledge and commitment of NGOs and the communities that need help? Why cannot we co-create unique solutions?

D. Harker<sup>2</sup> et al., (2005) expressed that in order to check unacceptable or irresponsible advertising, government must frame effective Advertising Standards Authority (ASA). Harker and co insisted that a self-regulatory approach is the need of the hour to deal with unfair, misleading, deceptive, offensive, false and socially irresponsible advertising. They discovered two frameworks to handle irresponsible advertising. The first one deals with Advertising Self-Regulation (ASR) process: complaint acceptance and processing. The NZ ASR body does not monitor advertising because of healthy economic reason. There should be a filter system that rectifies or modifies fake ads. However, rather than one person being responsible for this important filter task, a small committee should be formed to ensure that the process is fair. The second one highlights that practice is different from theory. Unless and until, a law is implemented in letter and spirit, the law becomes useless. The advertising industry in NZ spoke to the advertisers softly and gently regarding unacceptable ads. Thus, even before complaints are received, ASA regulators take the informal route and warn advertisers of possible problems with ads. In this way, numerous potentially unacceptable ads are amended and withdrawn from the marketplace before the damage is done.

S. K. Bhatia (2008) mentioned three approaches to protect the social interests of man, namely, Corporate Social Responsibility (CSR), Business Ethics and Corporate Governance. CSR has its origin in USA about seven decades ago. It is an obligation of decision-makers to take actions, which protect and improve the welfare of society as a whole along with their own interests. Such decisions may affect environment, consumers and community. The second approach deals with business ethics. It is concerned with social values that violate consumer and environmental protection. Business ethics are rules of business conduct, by which propriety of business activities may be judged. It is equally relates to the behavior and

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<sup>2</sup> Debra Harker, Glen Wiggs and Michael Harker. "Responsive Advertising Regulation: A Case Study from New Zealand", *Australian Journal of Political Science*, Vol. 40, No. 4, December 2005, pp. 541-554.

responsibilities of managers and ethical obligations of business professionals. The third approach is corporate governance that advocates enhancing the accountability of the board of directors to shareholders, more transparent auditing and more responsibilities of independent directors and a division of roles of chairperson and chief executive, etc. The importance of good corporate governance can hardly be over-emphasized, especially after witnessing the shocking corporate failures like that of Enron, Satyam and recently 2G Spectrum scam.

Biswanath Ghosh (2008) maintained that ethics has become a part of business because it has been realized that ethics and profit go together. In the long-run good ethics is good business. Business ethics is considered as a management discipline since the birth of social responsibility of business. Business has the responsibility to improve society and not simply to exploit it.

Surya Deva<sup>3</sup> (2012) critically elaborated two recent Indian initiatives, namely, the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business 2011 and the Companies Bill 2011. Both the two laws aim at promoting CSR in India. The Indian Companies Bill first came in 2009 and its refined version came in 2011 for sustainable development and CSR. The Companies Bill 2011 held that a company has to spend at least 2% of average net profits on CSR activities annually. The author held that the need of the hour is to humanize the corporate law to ensure that companies conduct business in a socially responsible manner. Again, the author doubted whether the Guidelines and the Bill in fact embody a distinctly Indian approach to CSR. Deva also asked the very pertinent question, Does Mahatma Gandhi's trusteeship theory could be practiced to develop an Indian approach to CSR? He concludes that Gandhi's trusteeship theory can be implemented to develop an Indian approach to CSR, but it might not be feasible to do so in near future. Further, he expressed that local approach in international business failed to work globally because the companies have to work as per the tunes of international business.

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<sup>3</sup> Surya Deva, "Socially Responsible Business in India: Has the Elephant Finally Woken Up to the Tunes of International Trends?", *Journal of Common Law World Review*, Vol. 41, Issue. 4, 2012, pp. 299-321.

L. C. Leonidou<sup>4</sup> et al., (2013), in their research paper mentioned that how unethical business practices of firms affect the customers in terms of trust, satisfaction, and loyalty. The study showed that high levels of perceived corporate unethicity decrease consumer trust. This in turn reduces consumer satisfaction, which ultimately has negative effects on customer loyalty. It was also revealed that, though both consumer gender and urbanity have a moderating effect on the link between perceived unethicity and trust, the age group and level of education of the consumer did not exhibit such an effect. With regard to consumer cultural characteristics, both high uncertainty avoidance and low individualism were found to increase the negative impact of business unethicity on trust, as opposed to power distance and masculinity that did not have any moderating effect on this relationship.

Jilla A. Brown and William R. Forster<sup>5</sup> (2013) argued that how companies should morally prioritize corporate social responsibility (CSR) initiatives and stakeholder claims from the body of Adam Smith's work, including two lesser-known manuscripts—the *Theory of Moral Sentiments* and *Lectures in Jurisprudence*. Smith makes philosophical distinctions between justice and beneficence and perfect and imperfect rights. We leverage those distinctions to speak to contemporary CSR and stakeholder management theories. We address the often-neglected question as to how far a company should be expected to go in pursuit of CSR initiatives and we offer a fresh perspective as to the role of business in relation to stakeholders and society as a whole. Smith's moral insights help us to propose a practical framework of legitimacy in stakeholder claims that can help managers select appropriate and responsible CSR activities.

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<sup>4</sup> Leonidas C. Leonidou, Olga Kvasova, Constantinos N. Leonidou and Simos Chari, "Business Unethically as an Impediment to Consumer Trust: The Moderating Role of Demographic and Cultural Characteristics", *Journal of Business Ethics*, Vol. 122, Issue 3, February 2013, pp. 397-415.

<sup>5</sup> Jilla A. Brown and William R. Forster, "CSR and Stakeholder Theory: A Tale of Adam Smith", *Journal of Business Ethics*, Vol. 112, Issue 2, January 2013, pp. 301-312.

Heather R. Dixon-Fowler<sup>6</sup> et al., (2013) tried to show the relationship between **Corporate Environmental Performance (CEP)** and **Corporate Financial Performance (CFP)**. Generally, CEP and CFP demonstrate a positive relationship. However, some arguments and empirical results have demonstrated otherwise. As a result, researchers have called for a contingency approach to this research stream that moves beyond the basic question “does it pay to be green?” and instead asks “when does it pay to be green?” In answering this call, they provide a meta-analytic review of CEP–CFP literature in which they identify potential moderators to the CEP–CFP relationship including environmental performance type (e.g., reactive vs. proactive performance), firm characteristics (e.g., large vs. small firms), and methodological issues (e.g., self-report measures). By analyzing these contingencies, this study attempts to provide a basis on which to draw conclusions regarding some inconsistencies and debates in the CEP–CFP research. Some of the results of the moderator analysis suggest that small firms are likely to benefit more than large firm as far as environmental performance is concerned. Further, US firms seem to benefit more than international counterparts do and environmental performance seems to have the strongest influence on market-measures of financial performance.

### **I.3 Methodology**

Basically there are two types of research, namely, empirical and conceptual. Empirical research deals with the empirical issues or phenomenal issues whereas conceptual research deals with the concept or philosophy of the concerned concept. An attempt is made to follow a logical, analytical and conceptual method that helps the researcher to have more clarity of thought and vision for future of the research.

### **I.4 Sources**

The present work heavily depends on the secondary sources that include books, journals, business magazines, daily newspapers and other electronic sources.

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<sup>6</sup> Heather R. Dixon-Fowler, Daniel J. Slater, Jonathan L. Johnson, Alan E. Ellstrand and Andrea M. Rome, “Beyond “Does it pay to be green?” A Meta-Analysis of Moderators of the CEP-CFP Relationship”, *Journal of Business Ethics*, Vol. 112, Issue 2, January 2013, pp. 353-366.

## **I.5 An overview of all Chapters**

The first chapter discusses about the importance of ethical values in business. Ethics plays a vital role in the field of business. Ethics deals with the rightness or wrongness of actions. It helps the businessperson to know where he/she committed mistakes, and provides the scope to bounce back on the basis of ethical reasoning. Gandhiji maintains, “Where else, do you think, ethics are more relevant, than in business?”<sup>7</sup> This shows that ethics is an indispensable part of business. Ethics and business has to go simultaneously in any field of business.

It is said that, “to reach the top is easy, but to retain the position is difficult.” In order to retain the top position in business, one has to adopt the core ethical values. An attempt is made to show the importance of ethical values in business. How do the ethical values help for the growth of business? If someone fails in a business, he/she will look back at the core ethical values to guide him. The ethical values that can be practiced in business are honesty, integrity, responsibility, quality, trust, respect, teamwork, leadership, corporate citizenship and shareholder value. Unfortunately, life is not that easy and there is always disagreement about what values should reign supreme. Edward Spranger defines the values, “as the constellation of likes, dislikes, viewpoints, inner inclinations, rational and irrational judgments, prejudices, and association patterns that determine a person’s view of the world.”<sup>8</sup>

In the second chapter, the researcher intends to through light on ethical challenges in business. As the twenty-first century approaches the beginning of its second decade, all kinds of organizations encounter variety of changes and challenges that will have a profound impact on their well being, their dynamics, their performance and the form of their survival. The fall of many Corporations in the West as well as in the East has given one clear message to the fore: ethics matters in business. You can fool some people all the time or all people for some time, but ultimately you cannot fool all the people at all times. If you are not running an ethical enterprise, it will cost you dearly at some point or the other. Business leaders, thus, need to bring ethical conduct to the core of their agenda, if they have not already done

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<sup>7</sup> M.B. Athreya, “Are Ethics Irrelevant in Business?” in M.R. Gera (ed.), *Corporate Governance & Business Ethics*, All India Management Association, New Delhi, 1997, p. 104.

<sup>8</sup> S.K. Bhatia, *Business Ethics & Corporate Governance*, Deep & Deep Publications, New Delhi, 2005, p. 145.

so. In order to achieve success at the international level in business seems to be a daunting challenge. The researcher has tried his best to discuss the challenges that are crucial in business. Some of them are:

1. The challenge of ethical behavior
2. The challenge of managing a diverse workforce
3. The challenge of new technologies
4. The challenge of increased quality
5. The challenge of employee motivation and commitment

This (3rd) chapter presents a critical analysis of the relationship between business and environment. Business fulfils the growing day-to-day demands of the people, and environment provides a safe workplace to work as well as live. In order to fulfill the demands of the people, business has caused so much environmental problems, such as., global warming, ozone depletion, acid rain, tropical deforestation or top soil erosion and remains to be seen. An attempt is made to discuss precisely, clearly and elaborately the moral issues related to business and environment, from all the perspectives like what are the main sources of threats to the environment? What are ethical issues raised by pollution from commercial and industrial enterprises? The scholar also discussed about the significance of business and environment in the society. And he has reached a conclusion that business should not be done at the cost of environment and too much environmentalist approach is also not good for the mankind. There should be a proper balance between the two (business and environment). One should not grow at one's cost. Government and the society have to play a crucial role in bringing the harmony between business and environment.

The need of the hour is green business. Green business is otherwise known as sustainable business. Basically, green business refers to environmentally sustainable business; which has no negative impact on the global or local environment, community and economy. Again, green business is a business that strives to meet the triple bottom line of sustainability- economic, social and environmental. Sustainable business has been defined in many ways: "Meetings our needs while not compromising the ability of future generations to meet theirs" (Bruntland Commission), "Living well within the limits of nature" (Mathis Wackernagel, author of *Sharing Nature's Interest*) or simply "Not cheating on our children" (former UK

Environment Minister John Gummer). Whatever may be the definition, those who are working in the field of sustainability, they have to take up the three realms/triple bottom line of sustainability (economic, social and environmental). Instead of trading these realms off against one another (jobs or the environment; economic growth or environmental health; development or habitat), sustainability aims to optimize all three.<sup>9</sup>

The fourth chapter states one of the most important and inevitable aspects of business, that is, **Socially Responsible Advertising (SRA)**. Business is marketing and marketing is a lot about advertising. The purpose of advertising is to communicate with people with regard to the products and at the same time compel them to buy the products. Advertising has a huge impact on the social, political and economic aspects of a country. Since advertising is so visible, it gets criticized frequently, for both what is and what is not. By influencing people to try their products, companies risk public criticism and attack if their advertising displeases or offends the audience or if their products do not measure up to the advertised promised. Although there are false, bogus, pufferies and tall-claim advertisements are frequently shown on Televisions, the scholar intends to through light on SRA. Does SRA pay? Is there anything called SRA? Do the businesspersons take responsibility with regard to advertisements? If at all there is SRA, what kind of ad that is? Do they compromise their business mind-set? At the end, the researcher concluded that advertising should be responsible. After all, it pays to be responsible. The researcher has taken the examples of Aircel (save the tigers), The Body Shop (beauty comes from within), Amul (the taste of India), Tata Tea (jaago re campaign), and Idea's keep cricket clean. An attempt also made to critically highlight **Socially Irresponsible Advertising (SIA)** like Fair & Lovely and Complian. After going through the pros and cons of advertising, it seems that SRA pays in the long-run.

The fifth chapter presents ethics behind Corporate Social Responsibility (CSR) or the ethical issues involved in Corporate Social Responsibility. CSR plays a pivotal role in the corporate sector. CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on

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<sup>9</sup> Darcy Hitchcock and Marsha Willard, *The Business Guide to Sustainability*, published by Earthscan, London, 2008, pp. 8-9.



customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. In other words, it can be defined as, “Corporate Social Responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.”<sup>10</sup>

In the early 20<sup>th</sup> century, the first and foremost aim of business firms was maximization of profits. The social activities questioned to the business firms with regard to their singular objective of profit maximization. They insisted that since business derives their existence from society, they have some obligations towards it. Business has the responsibility to give back something to the community. The concept of social responsibility became popular after the publication of Howard R. Bowen’s *Social Responsibilities of Business*.<sup>11</sup> Bowen argued that business enterprises should consider the impact of their decisions on society.

The concept of CSR has come from USA about seven decades ago. It is an obligation of decision-makers to take actions that protect and improve the welfare of society as a whole along with their own interests. Such decisions may affect environment, consumers and community. It was Peter Drucker who later emphatically argued that management should assume social responsibility. Management has to consider the impact of every business policy and action upon society. Again, it has to consider the actions that are likely to promote the public good and to advance the basic beliefs of society, and to contribute to its stability, strength and harmony. He laid emphasis on “quality of product and customer service.”<sup>12</sup> Now-a-days, companies spend a considerable amount of money in the CSR activities. Several marketing studies have found that social responsibility programs have a significant influence on several customer related outcomes.<sup>13</sup>

Business has to be done for eradicating poverty through profits by targeting at the bottom of the pyramid (BOP). BOP as a term and concept has seen a recent renaissance through the work of an eminent Professor, C.K. Prahalad of the University of Michigan. Out of 6.5 billion people in the world today, according to

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<sup>10</sup> P. Kotler and N. Lee, *CSR: Doing the most good for your company & your cause*, Wiley India Pvt. Ltd., New Delhi, 2008, p. 3.

<sup>11</sup> S. K. Bhatia, *Business Ethics & Global Values*, Deep & Deep Publications Pvt. Ltd., New Delhi, 2008, pp. 227-28.

<sup>12</sup> Ibid.

<sup>13</sup> C. B. Bhattacharya and S. Sen, *Doing better at doing good*, California Management Review, 47(1), pp. 9-24.

Prahalad, more than 4 billion live at the bottom, or, by some of the their varying definitions, at below \$2 a day or below a purchasing power parity of \$1,500 a year.<sup>14</sup> Due to their inherent lack of money, businesses around the world have largely ignored this vast collection of poor people. According to Prahalad, such neglect constitutes a missed opportunity of vast proportions, for the multitudes at the bottom represent an almost-limitless and promising pool of future consumers. In his words, “as multinational firms search for avenues for profitable growth and radical innovation in the new millennium, they may find a unique, counter intuitive opportunity-the 4 billion poor that are at the bottom of the economic pyramid. Converting the very poor into active consumers will foster innovations in technologies and business models.”<sup>15</sup> In recent statements, Prahalad further elaborated that since two or three or four billion additional consumers and producers will inevitably put a tremendous strain on the environment, and particularly water and energy resources, the issue of what he calls “inclusive growth of poor people” and the issue of corporate sustainability are inextricably linked.<sup>16</sup>

From the above discussion and analysis, it shows that ethics plays a key role in business. In other words, it pays to be ethical. As far as the historical background and the current scenario are concerned, it infers that the future of business ethics is bright and prosperous. At the concluding part, the scholar intends to prove that whether it is a deontological ethics, teleological ethics or situational ethics. The scholar advocates the whole thesis is all about teleological ethics.

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<sup>14</sup> C. K. Prahalad, *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, New Jersey, 2005, pp. 3-30.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

## CHAPTER-1I

### THE IMPORTANCE OF ETHICAL VALUES IN BUSINESS

In this chapter, the scholar is going to highlight the significance of ethical values in the field of business. Ethical values play a significant role, not only for the growth of business, but also for the upliftment of the living conditions of the workers. Ethics plays a pivotal role in the field of business. Ethics deals with the rightness or wrongness of actions. It helps the businessman to know where he/she committed a mistake and provides the scope to bounce back on the basis of ethical reasoning. Gandhiji maintains, “Where else, do you think, ethics are more relevant, than in business?”<sup>1</sup> This shows that ethics is an indispensable part of business. Ethics and its values have to go simultaneously in any field of business.

It is said that, “to reach the top is easy, but to retain the position is difficult.” In order to retain the top position in business, one has to adopt the core ethical values. An attempt is made to show the importance of ethical values in business. How do the ethical values help for the growth of business? If someone fails in a business, he/she will look back at the core ethical values to guide him. The ethical values in business are honesty, integrity, responsibility, quality, trust, respect, teamwork, leadership, corporate citizenship and shareholder value. Unfortunately, life is not that easy and there is always disagreement about what values should reign supreme.

Edward Spranger defines the values, “as the constellation of likes, dislikes, viewpoints, inner inclinations, rational and irrational judgments, prejudices and association patterns that determine a person’s view of the world.”<sup>2</sup>

#### II.1 Honesty

It is said that, “honesty is the best policy.” This is true today more than ever. This is just not a lip service, but most of the corporations showed their commitment to honesty. Claiming to be honest in an employee manual is passe. One can be honest or not. Even if one has not been caught yet, most people know who is and who is not.

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<sup>1</sup> M.B. Athreya, “Are Ethics Irrelevant in Business?”, in M.R. Gera (ed.), *Corporate Governance & Business Ethics*, All India Management Association, New Delhi, 1997, p.104.

<sup>2</sup> S.K. Bhatia, *Business Ethics & Corporate Governance*, Deep & Deep Publications, New Delhi, 2005, p.145.

The dramatic collapse of some of the Fortune 500 companies such as Satyam, Enron and World.com or the well-known auditing firm Anderson showed that even successful companies could ultimately meet with disaster, if their managers did not practice the basic principles of honesty. For every profession “we would think of a code of conduct or a set of values, which has a moral content and that would be the essence of ethics for that profession.”<sup>3</sup> There should be transparency in operations leading to accountability, which should ensure safety and protect the interest of all stakeholders.

In order to maintain the ethical climate within the organization, the first step is to be a model of ethical behavior. Since we are living in a monkey-see and monkey-do world, the manager is the big monkey as everyone is looking at him. Every single action of his is judged/watched closely by the sub-ordinates. If the employees look at him cutting corners and consistently working on grey areas, then they are probably going to do the same thing regardless of what your code of ethics says. If he is ethical, then ethical people will come and do the business with him and vice-versa. A saying goes like, “ethical business attract ethical people.” In India, one prominent ethical house is Tata. Once J.R.D. Tata asked to define the House of Tatas and what links that forge the Tata companies together: “I would call it a group of individually managed companies united by two factors: First, a feeling that they are part of a larger group which carries the name and prestige of Tatas, and public recognition of honesty and reliability-trustworthiness. The other reason is more metaphysical. There is an innate loyalty, a sharing of certain beliefs. We all feel a certain pride that we are somewhat different from others.”<sup>4</sup> These several values that J.R.D. Tata refers to have been derived from the ideals of the founder of the group, Jamsedji Tata.

Honesty does not come from outside. It has to come from inside the organization. Business operates as a system of values relating to business goals and techniques to meet specific human ends. This would mean viewing the needs and aspirations of individuals as part of society. It also means realization of the personal dignity of human beings. The prime role of leadership is to inculcate personal values

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<sup>3</sup> P. Suresh Chandra Pal, Chairman’s message, IEEE Madras Section Newsletter, September 2004. <<http://www.ewhi.ieee.org>>

<sup>4</sup> Robert F. Drinan, “*Globalisation and Corporate Ethics*”, 10<sup>th</sup> J.R.D. Tata oration on Ethics in Business, Jamshedpur: XLRI, 21<sup>st</sup> December 2000.

and impart a sense of business ethics to the organizational members. An organization should walk the talk on honesty. This is confirmed by the Stern Stewart analysis of Market Value Added (MVA), the Fortune magazine analysis of the most admired companies and by the ranking put out by Business Week in the US Research on 500 of the largest American corporations show that the top 14 per cent distinguished themselves by making an explicit public commitment to ethics.<sup>5</sup>

## II.2 Integrity

Honesty and integrity are the two sides of the same coin. One cannot have honesty, without having integrity. These two (honesty and integrity) are inter-dependent with each other. Integrity connotes strength and stability. It means taking the high road by practicing the highest ethical standards. Demonstrating integrity shows completeness and soundness in one's character and in his organization. Again, integrity means soundness, firm adherence to a code, principles and values and openness and honesty (i.e., transparency, accountability, and responsibility).<sup>6</sup> Without integrity at the individual, organizational, or system level, there is no trust and there can be no social, competitive, community or ecological sustainability nor effective business transactions. The market system itself cannot survive without a foundation of participant trust in the integrity of the transactions that are taking place and reporting that is being done by companies and their auditors. Without trust, the system tends toward chaos. Mr. A.R. Ansari, Chairman-cum-Managing Director of NLC (Neyveli Lignite Corporation) said that honesty and integrity will spur growth. Mr.A.R. Ansari held that:<sup>7</sup>

“The employees of Neyveli Lignite Corporation should work with single-minded devotion for the company's growth.... honesty and integrity were two qualities that ought to be inborn and could not be taught. If employees were pursuing any part-time commercial ventures, it would certainly affect their performance in the NLC because none could serve two masters at the

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<sup>5</sup> Dipankar Gupta, *Ethics Incorporated*, Response Books, New Delhi, 2006, p. 159.

<sup>6</sup> R.A. Peterson & O.C. Ferrell, *Business Ethics: New Challenges for Business Schools and Corporate Leaders*, Prentice-Hall of India Private Limited, New Delhi, 2007, p.105.

<sup>7</sup> “Honesty, integrity will spur growth: NLC Chairman”, The Hindu, 10<sup>th</sup> November, 2009. <<http://www.thehindu.com>>

same time and remain loyal to both. In course of time, such diversionary pursuits would harm both the company and the employee's personal life....”

### **II.3 Responsibility**

Blaming others, claiming victimhood or passing the buck may solve short-term crises but refusal to take responsibility erodes respect and cohesion in an organization. People who practice ethics take responsibility for their actions. Likewise, actions show the ability to be responsible both in the little and big things.<sup>8</sup> According to the “BSR (Business for Social Responsibility) /Globe Scan State of Sustainable Business poll 2009” of 274 business leaders from 15 countries at the BSR Conference 2009, climate change and human rights are the most significant priorities for business' sustainability efforts in the year ahead. The survey also revealed that companies should take two key actions to rebuild the public's trust in business that dropped after the financial crisis: Demonstrate positive social and environmental impacts and innovate for sustainability. Mr. Ratan Tata has taken the social responsibility to provide clean (Swach) drinking water to the rural people where power cut occurs frequently. The news published in the Times of India, on 7<sup>th</sup> December, 2009:<sup>9</sup>

“ A few years ago, the sight of four members of a family precariously balanced on a two-wheeler on Indian roads, moved Ratan Tata enough to come up with Nano, a “people's car”. This time around the chairman of Tata group is all set to launch a water purifier. Tata is responding to the hardship faced by thousands of people in India who are deprived of clean drinking water (swach pani).... This feature mostly appeals to the vast rural population that faces power shortages. The water purifier makes brackish water potable. Studies estimate that by 2020, more people will die because of water-borne diseases than AIDS.”

Corporate Social Responsibility (CSR), also known as corporate responsibility, corporate citizenship, responsible business, sustainable responsible

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<sup>8</sup> D.R. Kiran, *Professional Ethics & Human Values*, Tata McGraw-Hill, New Delhi, 2007, p.36.

<sup>9</sup> “Tata's ‘Swach’ water plan”, The Times of India, 7<sup>th</sup> December, 2009.  
<<http://www.timesofindia.indiatimes.com>>

business (SRB), or corporate social performance, is a form of corporate self-regulation integrated into a business model. Ideally, CSR policy would function as a built-in, self-regulating mechanism whereby business would monitor and ensure its adherence to law, ethical standards and international norms. Business would embrace responsibility for the impact of their activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere. Furthermore, business would proactively promote the public interest by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. Essentially, CSR is the deliberate inclusion of public interest into corporate decision-making, and the honouring of a triple bottom line: people, planet, profit.

The practice of CSR is subject to much debate and criticism. Proponents argue that there is a strong business case for CSR, in that corporations benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic rule of business; others argue that it is nothing more than superficial window-dressing; others yet argue that it is an attempt to pre-empt the role of governments as a watch-dog over powerful multinational corporations.

## **II.4 Quality**

Quality plays a pivotal role in a company's reputation. Quality should be more than making the best product but should extend to every aspect of your work. A person who recognizes quality and strives for it daily has a profound sense of self-respect, pride in accomplishment and attentiveness that affects everything. From one's memos to one's presentations, everything one touches should communicate professionalism and quality.

Quality business manages to attract customers, enhance their experience, satisfy and delight them, and generate repurchase. Unethical conduct of service providers penalize customers, tarnish their experience, cause dissatisfaction that result in customer defection. Customers unfortunately, are increasingly being subject to unethical conduct by service providers. How do ethics help to maintain the quality of an organization? Ethics makes a link between the theory and practice. The sole aim of

an organization is to provide better quality service to the customer as far as possible. Without customer's satisfaction, a business organization cannot grow. Customers are the deciding factors of the fate of a company.

## **II.5 Trust**

Legendary entrepreneur Warren Buffett has rightly pointed out: "Trust is like the air we breathe. When it is present, nobody really notices. But when it is absent, everybody notices." There is no free ride. Trust is hard to earn and even harder to get back after one lost it. Trust is composed of three fundamental elements: predictability, dependability, and faith.<sup>10</sup> Predictability tends to eliminate surprises, which are not usually welcome in the business environment. Dependability provides assurance that one can be counted on to perform as expected. Faith is the belief that one will continue to be predictable and dependable. The need for trust arises when one faces some type of risk. Trust in a person or a firm is developed based on experience over time. As one gains positive experience and develops trust in another, the perceived risk of dealing with the party declines. Thus trust is a risk-reducing mechanism.

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<sup>10</sup> David J. Fritzsche, *Business Ethics: A Global & Managerial Perspective*, Tata McGraw-Hill, Singapore, 1997, p. 22.



### **II.5.1 Trust in Supplier Relations**

Suppliers, often called vendors, provide a firm with the products and services it needs to conduct business. These include, but are not limited to raw materials, products, communication services, consulting services, financial services, accounting services and computer services. Thus, suppliers are important stakeholders of an organization. A business often deals with some of its suppliers over an extended period of time, developing symbiotic relationships. Purchases move from a series of discrete transactions to an ongoing buyer-seller relationship which we will refer to as an exchange relationship. An exchange relationship is based on trust between both parties that each will honour her or his commitments and thus minimize surprise. This significantly reduces the risk involved in the buying process. A buyer earns a supplier's trust when good credit standing is maintained, and all commitments are honoured. A supplier's trust is lost when a buyer engages in "sharp" (questionable) practices such as playing off one supplier against another in an effort to gain a price advantage. Other attempts to chisel on price, including lying and cheating, also destroy trust.

### **II.5.2 Trust in Customer Relations**

The supplier's contact with a customer is through its sales force. A salesperson earns a customer's trust by being dependable, honest, competent, customer-oriented and likeable. Customers rely on suppliers to provide products and services of acceptable quality when promised. Honesty is expected and is required to maintain trust. Competence is also a prerequisite of trust.

### **II.5.3 Trust in Employee Relations**

There should be mutual co-operation and understanding among the employees in an organization. A climate of trust provides improved communications; greater predictability, dependability, and confidence among employees; a reduction in employee turnover; an openness and a willingness to listen and accept criticism nondefensively; a reduction of friction among employees. Jitendra Mishra and Molly Morrissey report factors that promote trust are:

- I. open communications

- II. giving workers a greater share in the decision making
- III. sharing of critical information
- IV. true sharing of perceptions and feeling

Employee empowerment is a pre-requisite for the development of quality circles and work teams designed to improve productive efficiency and competitiveness. By making work meaningful, employees develop an internal commitment to their job. They determine the best way to get the job done and take ownership in the quality of the results. They are able to see and develop a pride in their accomplishments. This is possible because an atmosphere of trust promotes a sense of self-efficacy and trust rests on a foundation of ethical behavior.

## **II.6 Respect**

Respect is more than a feeling, but a demonstration of honour, value and reverence for something or someone. We respect the laws, the people we work with, the company and its assets and ourselves. It is said that, “Courtesy pays nothing, but gains much.” Everyone in the organization has to pay respect towards each other. As a leader of the group, one has to improve attitudes, in order to get respect. A person’s attitude can have a powerful influence on the attitudes of others who may be around him/her. This is especially evident when people are involved in a team effort. You have probably experienced the feeling you get when someone causes a positive change in the attitudes of a group. Also, one may have experienced the negative effect produced when someone allows his or her negative attitude to infect others. Therefore, it is very crucial to respect all the employees in the organization from top to the bottom level.<sup>11</sup> There are seven principles of respectable business ethics.

**II.6.1 Be Trustful:** Recognized customers want to do business with a company they can trust; when trust is at the core of a company, it is easy to recognize. Trust defined, is assured reliance on the character, ability, strength and truth of a business.

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<sup>11</sup> H.R. Wallace and L.A. Masters, *Personality Development*, Cengage Learning, India, Pvt. Ltd. New Delhi, 2006, p. 38.

**II.6.2 Keep an Open Mind:** For continuous improvement of a company, the leader of an organization must be open to new ideas. Ask for opinions and feedback from both customers and team members and your company will continue to grow.

**II.6.3 Meet Obligations:** Regardless of the circumstances, do everything in one's power to gain the trust of past customers and clients, particularly if something have gone awry. Reclaim any lost business by honouring all commitments and obligations.

**II.6.4 Have Clear Documents:** Re-evaluate all print materials including small business advertising, brochures and other business documents making sure they are clear, precise and professional. Most important, make sure they do not misrepresent or misinterpret.

**II.6.5 Become Community Involved:** Remain involved in community-related issues and activities, thereby demonstrating that one's business is a responsible community contributor. In other words, stay involved.

**II.6.6 Maintain Accounting Control:** Take a hands-on approach to accounting and record keeping, not only as a means of gaining a better feel for the progress of one's company, but as a source for any "questionable" activities. Gaining control of accounting and record keeping allows one to end any dubious activities promptly.

**II.6.7 Be Respectful:** Treat others with the utmost of respect. Regardless of differences, positions, titles, ages or other types of distinctions, always treat others with professional respect and courtesy.

## II.7 Teamwork

It is not finance, strategy and technology. Teamwork remains the ultimate competitive advantage because it is so powerful and so rare. Can one think of oneself working on a project alone in the office and no one out there to support and assist you? Obviously not! We all love to be part of a team and accomplish things through teamwork. Teamwork can be defined as an activity or a set of inter-related activities done by more than one person in order to achieve a common objective. Teamwork is not followed only in the corporate world today; rather it is one of the oldest things known to man. Mankind has been working in teams and groups since the primitive days of civilization. Hunting and wandering together in groups is an apt example of teamwork during those days. It is only in recent times, that it has been developed as a “concept” in the management jargon.

T -Together

E-Everyone

A-Achieves

M-More

Most of the organizations fail to achieve genuine teamwork because they unknowingly fall prey to five natural but dangerous pitfalls, Patrick Lencioni<sup>12</sup> calls those five pitfalls as five dysfunctions of a team. The five dysfunctions are

1. absence of trust
2. fear of conflict
3. lack of commitment
4. avoidance of accountability
5. inattention to results

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<sup>12</sup> Patrick Lencioni, *The Five Dysfunctions of a Team*, Wiley India Pvt. Ltd., New Delhi, 2013, pp. 188-220.

### **II.7.1 Absence of trust**

The first dysfunction is an absence of trust among team members. It stems from their unwillingness to be vulnerable within the group. There are some members who are not genuinely open with one another about their mistakes and weaknesses make it impossible to build a foundation for trust. It requires team members to make themselves vulnerable to one another and be confident that their respective vulnerabilities will not be used against them. The vulnerabilities here refer to weaknesses, skill deficiencies, interpersonal shortcomings, mistakes and requests for help. Teams that lack trust waste inordinate amounts of time and energy managing their behaviors and interactions within the group. They tend to dread team meetings and are reluctant to take risks in asking for or offering assistance to others. As a result, morale on distrusting teams is usually quite low, and unwanted turnover is high.

#### **Members of teams with an absence of trust...**

- ✓ Conceal their weaknesses and mistakes from one another
- ✓ Hesitate to ask for help or provide constructive feedback
- ✓ Hesitate to offer help outside their own areas of responsibility
- ✓ Jump to conclusions about the intentions and aptitudes of others without attempting to clarify them
- ✓ Fail to recognize and tap into one another's skills and experiences
- ✓ Waste time and energy managing their behaviors for effect
- ✓ Hold grudges
- ✓ Dread meetings and find reasons to avoid spending time together

#### **Members of trusting teams...**

- ✓ Admit weaknesses and mistakes
- ✓ Ask for help

- ✓ Accept questions and input about their areas of responsibility
- ✓ Give one another the benefit of the doubt before arriving at a negative conclusion
- ✓ Take risks in offering feedback and assistance
- ✓ Appreciate and tap into one another's skills and experiences
- ✓ Focus time and energy on important issues, not politics
- ✓ Offer and accept apologies without hesitation
- ✓ Look forward to meeting and other opportunities to work as a group

### **How to overcome Dysfunction 1?**

How to build a trust in a team? This question is as difficult as building a trust in a team. Unfortunately, vulnerability-based trust cannot be achieved overnight. It requires shared experiences over time, multiple instances of follow-through and credibility, and an in-depth understanding of the unique attributes of team members. However, by taking a determined and focused approach, a team can dramatically accelerate the process and achieve trust in relatively short order. Here are a few tools that can bring this about.

#### **Personal Histories Exercise:**

In less than an hour, a team can take the first steps toward developing trust. This low risk exercise requires nothing more than going around the table during a meeting and having team members answer a short list of questions about themselves. Questions need not be overly sensitive in nature and might include the following: number of siblings, hometown, unique challenges of childhood, favorite hobbies, first job, and worst job. Simply by describing these relatively innocuous attributes or experiences, team members begin to relate to one another on a more personal basis and see one another as human beings with life stories and interesting backgrounds. This encourages greater empathy and understanding, and discourages unfair and inaccurate behavioral attributions. It is amazing how little some team members know about one another, and how just a small amount of information begins to break down barriers.

**Team Effectiveness Exercise:**

This exercise is more rigorous and relevant than the previous one, but may involve more risk. It requires team members to identify the single most important contribution that each of their peers makes to the team, as well as one area that they must either improve upon or eliminate for the good of the team. All members then report their responses, focusing on one person at a time, usually beginning with the team leader.

**360-Degree Feedback:**

These tools have become popular over the past twenty years and can produce powerful results for a team. They are riskier than any of the tools or exercises described so far because they call for peers to make specific judgments and provide one another with constructive criticism. The key to make a 360-degree program work, in scholar's opinion, is divorcing it entirely from compensation and formal performance evaluation. Rather, it should be used as a developmental tool and allows employees to identify strengths and weaknesses without any repercussions. By being even slightly connected to formal performance evaluation or compensation, 360-degree programs can take on dangerous political undertones.

**The Role of the Leader:**

The most important action that a leader must take to encourage the building of trust on a team is to demonstrate vulnerability first. This requires a leader's risk losing face in front of the team, so that subordinates will take the same risk themselves. The team leaders must create an environment that does not punish vulnerability. Even well intentioned teams can subtly discourage trust by chastising one another for admissions of weakness or failure. Finally, displays of vulnerability on the part of a team leader must be genuine; they cannot be staged. One of the best ways to lose the trust of a team is to feign vulnerability in order to manipulate the emotions of others.

## II.7.2 Fear of conflict

When there is absence of trust among team members, it leads to fear of conflict.<sup>13</sup> Teams that lack trust are incapable of engaging in unfiltered and passionate debate of ideas. All great relationships that last over time require productive conflict in order to grow. This is true in marriage, parenthood, friendship and certainly in business. Unfortunately, conflict is considered as taboo in many situations, especially at work. The higher one goes up the management chain, the more one finds people spending inordinate amounts of time and energy trying to avoid the kind of passionate debates that are essential to any great team.

It is important to distinguish productive ideological conflict from destructive fighting and interpersonal politics. Ideological conflict is limited to concepts and ideas, and avoids personality-focused, mean-spirited attacks. However, it can have many of the same external qualities of interpersonal conflict-passion, emotion and frustration-so much so that an outsider observer might easily mistake it for unproductive discord. But teams that engage in productive conflict know that their only purpose is to produce the best possible solution in the shortest period of time. They discuss and resolve issues more quickly and completely than others, and they emerge from heated debates with no residual feelings or collateral damage, but with an eagerness and readiness to take on the next important issue.

Ironically, teams that avoid ideological conflict often do so in order to avoid hurting team members' feelings, and then end up encouraging dangerous tension. When team members do not openly debate and disagree about important ideas, they often turn to back-channel personal attacks, which are far nastier and more harmful than any heated argument over issues.

### **Teams that fear conflict...**

- ✓ Have boring meetings
- ✓ Create environment where back-channel politics and personal attacks thrive
- ✓ Ignore controversial topics that are critical to team success

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<sup>13</sup> Ibid.



- ✓ Fail to tap into all the opinions and perspectives of team members
- ✓ Waste time and energy with posturing and inter-personal risk management

### **Teams that engage in conflict...**

- ✓ Have lively, interesting meetings
- ✓ Extract and exploit the ideas of all team members
- ✓ Solve real problems quickly
- ✓ Minimize politics
- ✓ Put critical topics on the table for discussion

### **How to overcome Dysfunction 2?**

How does a team go about developing the ability and willingness to engage in healthy conflict? The first step is acknowledging that conflict is productive and many teams have a tendency to avoid it. As long as some team members believe that conflict is unnecessary, there is little chance that it will occur. But beyond mere recognition, there are a few simple methods for making conflict more common and productive.

### **Mining:**

Members of teams that tend to avoid conflict must occasionally assume the role of a “miner of conflict”; someone who extracts buried disagreements within the team and sheds the light of day on them. They must have the courage and confidence to call out sensitive issues and force team members to work through them. This requires a degree of objectivity during meetings and a commitment to staying with the conflict until it is resolved. Some teams may want to assign a member of the team to take on this responsibility during a given meetings or discussion.

### **Real-Time Permission:**

In the process of mining for conflict, team members need to coach one another not to retreat from healthy debate. One simple but effective way to do this is to recognize when the people engaged in conflict are becoming uncomfortable with the level of discord and then interrupt to remind them that what they are doing is necessary. As simple and paternal as this may sound, it is a remarkably effective tool for draining tension from a productive but difficult interchange, giving the participants the confidence to continue. And once the discussion or meeting has ended, it is helpful to remind participants that the conflict they just engaged in is good for the team and not something to avoid in the future.

### **The Role of the Leader:**

One of the most difficult challenges that a leader faces in promoting healthy conflict is the desire to protect members from harm. This leads to premature interruption of disagreements and prevents team members from developing coping skills for dealing with conflict themselves. This is not unlike parents who overprotect their children from quarrels or altercations with siblings. In many cases, it serves only to strain the relationships by depriving the participants of an opportunity to develop conflict management skills. It also leaves them hungry for resolution that never occurs. Therefore, it is key that leaders demonstrate restraint when their people engage conflict, and allow resolution to occur naturally, as messy as it can sometimes be. This can be a challenge because many leaders feel that they are somehow failing in their jobs by losing control of their teams during conflict.

### **II.7.3 Lack of commitment**

A lack of healthy conflict is a problem because it ensures the third dysfunction of a team: lack of commitment.<sup>14</sup> Without having aired their opinions in the course of a passionate and open debate, team members rarely, if ever, buy in and commit to decisions, though they may feign agreement during meetings. In the context of a team, commitment is a function of two things: clarity and buy in. Great teams make clear and timely decisions and move forward with complete buy-in from every

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<sup>14</sup> Ibid.

member of the team, even those who voted against the decision. They leave meetings confident that no one on the team is quietly harboring doubts about whether to support the actions agreed on.

The two greatest causes of the lack of commitment are the desire for consensus and the need for certainty:

**Consensus:** Great teams understand the danger of seeking consensus and find ways to achieve buy-in even when complete agreement is impossible. They understand that reasonable human beings do not need to get their way in order to support a decision, but only need to know that their opinions have been heard and considered. Great teams ensure that everyone's ideas are genuinely considered, which then creates a willingness to rally around whatever decision is ultimately made by the group. And when that is not possible due to an impasse, the leader of the team is allowed to make the call.

**Certainty:** Great teams also pride themselves on being able to unite behind decisions and commit to clear courses of action even when there is little assurance about whether the decision is correct. That is because they understand the old military axiom that a decision is better than no decision. They also realize that it is better to make a decision boldly and be wrong-and then change direction with equal boldness, than it is to waffle.

#### **A team that fails to commit...**

- ✓ Creates ambiguity among the team about direction and priorities
- ✓ Watches windows of opportunity close due to excessive analysis and unnecessary delay
- ✓ Breeds lack of confidence and fear of failure
- ✓ Revisits discussions and decisions again and again
- ✓ Encourages second-guessing among team members

### **A team that commits...**

- ✓ Creates clarity around direction and priorities
- ✓ Aligns the entire team around common objectives
- ✓ Develops an ability to learn from mistakes
- ✓ Takes advantage of opportunities before competitors do
- ✓ Moves forward without hesitation
- ✓ Changes direction without hesitation or guilt

### **How to overcome Dysfunction 3?**

How does a team go about ensuring commitment? By taking specific steps to maximize clarity and achieve buy-in, and resisting the lure of consensus or certainty. Here are a few simple but effective tools and principles.

#### **Cascading Messaging:**

One of the most valuable disciplines that any team can adopt takes just a few minutes and is absolutely free. At the end of a staff meeting or off-site, a team should explicitly review the key decisions made during the meeting, and agree on what needs to be communicated to employees or other constituencies about those decisions. What often happens during this exercise is that members of the team learn that they are not all on the same page about what has been agreed upon and that they need to clarify specific outcomes before putting them into action. Moreover, they become clear on which of the decisions should remain confidential and which must be communicated quickly and comprehensively. Finally, by leaving meetings clearly aligned with one another, leaders send a powerful and welcomed message to employees who have grown accustomed to receiving inconsistent and even contradictory statements from managers who attended the same meetings.

**Deadlines:**

As simple as it seems, one of the best tools for ensuring commitment is the use of clear deadlines for when decisions will be made, and honouring those dates with discipline and rigidity. The worst enemy of a team that is susceptible to this dysfunction is ambiguity and timing is one of the most critical factors that must be made clear. What is more, committing to deadlines for intermediate decisions and milestones is just as important as final deadlines, because it ensures that misalignment among team members is identified and addressed before the costs are too great.

**Contingency and Worst-Case Scenario Analysis:**

A team that struggles with commitment can begin overcoming this tendency by briefly discussing contingency plans up front or better yet, clarifying the worst-case scenario for a decision they are struggling to make. This usually allows them to reduce their fears by helping them realize that the costs of an incorrect decision are survivable and far less damaging than they had imagined.

**The Role of the Leader:**

More than any other member of the team, the leader must be comfortable with the prospect of making a decision that ultimately turns out to be wrong. And the leader must be constantly pushing the group for closure around issues, as well as adherence to schedules that the team has set. What the leader cannot do is place too high a premium on certainty or consensus.

**II.7.4 Avoidance of accountability**

When there is a lack of real commitment and buy-in, team members develop an avoidance of accountability, the fourth dysfunction.<sup>15</sup> Without committing to a clear plan of action even the most focused and driven people often hesitate to call their peers on actions and behaviors that seem counterproductive to the good of the team. Accountability is a buzzword that has lost much of its meaning as it has become as overused as terms like empowerment and quality. In the context of teamwork, however, it refers specifically to the willingness of team members to call their peers

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<sup>15</sup> Ibid.

on performance or behaviors that might hurt the team. The essence of this dysfunction is the unwillingness of team members to tolerate the interpersonal discomfort that accompanies calling a peer on his or her behavior and the more general tendency to avoid difficult conversations. Members of great teams overcome these natural inclinations, opting instead to “enter the danger” with one another.

Of course, this is easier said than done, even among cohesive teams with strong personal relationships. In fact, team members who are particularly close to one another sometimes hesitate to hold one another accountable precisely because they fear jeopardizing a valuable personal relationship. Ironically, this only causes the relationship to deteriorate as team members begin to resent one another for not living up to expectations and for allowing the standards of the group to erode. Members of great teams improve their relationships by holding one another accountable, thus demonstrating that they respect each other and have high expectations for one another’s performance.

#### **A team that avoids accountability...**

- ✓ Creates resentment among team members who have different standards of performance
- ✓ Encourages mediocrity
- ✓ Misses deadlines and key deliverables
- ✓ Places an undue burden on the team leader as the sole source of discipline

#### **A team that holds one another accountable...**

- ✓ Ensures that poor performers feel pressure to improve
- ✓ Identifies potential problems quickly by questioning one another’s approaches without hesitation
- ✓ Establishes respect among team members who are held to the same high standards
- ✓ Avoids excessive bureaucracy around performance management and corrective action

## **How to overcome Dysfunction 4?**

How does a team go about ensuring accountability? The key to overcome this dysfunction is adhering to a few classic management tools that are as effective as they are simple.

### **Publication of Goals and Standards:**

A good way to make it easier for team members to hold one another accountable is to clarify publicly exactly what the team needs to achieve, who needs to deliver what and how everyone must behave in order to succeed. The enemy of accountability is ambiguity and even when a team has initially committed to a plan or a set of behavioral standards, it is important to keep those agreements in the open so that no one can easily ignore them.

### **Team Rewards:**

By shifting rewards away from individual performance to team achievement, the team can create a culture of accountability. This occurs because a team is unlikely to stand by quietly and fail because a peer is not pulling his or her weight.

### **The Role of the Leader:**

One of the most difficult challenges for a leader who wants to instill accountability on a team is to encourage and allow the team to serve as the first and primary accountability mechanism. Sometimes strong leaders naturally create an accountability vacuum within the team, leaving themselves as the only source of discipline. This creates an environment where team members assume that the leader is holding others accountable, and so they hold back even when they see something that is not right. Once a leader has created a culture of accountability on a team, however, he or she must be willing to serve as the ultimate arbiter of discipline when the team itself fails. This should be a rare occurrence. Nevertheless, it must be clear to all team members that accountability has not been relegated to a consensus approach, but merely to a shared team responsibility, and that the leader of the team will not hesitate to step in when it is necessary.

### **II.7.5 Inattention to results**

Failure to hold one another accountable creates an environment where the fifth dysfunction can thrive.<sup>16</sup> Inattention to results occurs when team members put their individual needs (such as ego, career development, or recognition) or even the needs of their divisions above the collective goals of the team. The ultimate dysfunction of a team is the tendency of members to care about something other than the collective goals of the group. An unrelenting focus on specific objectives and clearly defined outcomes is a requirement for any team that judges itself on performance.

#### **A team that is not focused on results...**

- ✓ Stagnates/fails to grow
- ✓ Rarely defeats competitors
- ✓ Loses achievement-oriented employees
- ✓ Encourages team members to focus on their own careers and individual goals
- ✓ Is easily distracted

#### **A team that focuses on collective results...**

- ✓ Retains achievement-oriented employees
- ✓ Minimizes individualistic behavior
- ✓ Enjoys success and suffers failure acutely
- ✓ Benefits from individuals who subjugate their own goals/interests for the good of the team
- ✓ Avoids distractions

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<sup>16</sup> Ibid.



## **How to overcome Dysfunction 5?**

How does a team go about ensuring that its attention is focused on results? By making results clear, and rewarding only those behaviors and actions that contribute to those results.

### **Public Declaration of Results:**

In the mind of a football or basketball coach, one of the worst things a team member can do is publicly guarantee that his or her team will win an upcoming game. In the case of an athletic team, this is a problem because it can unnecessarily provoke an opponent. However, for most of the teams, it can be helpful to make public proclamations about intended success. Teams that are willing to commit publicly to specific results are more likely to work with a passionate, even desperate desire to achieve those results. Teams that say, “We will do our best”, are subtly, if not purposefully, preparing themselves for failure.

### **Results-Based Rewards:**

An effective way to ensure that team members focus their attention on results is to tie their rewards, especially compensation, to the achievement of specific outcomes. Relying on this alone can be problematic because it assumes that financial motivation is the sole driver of behavior. Still letting someone take home a bonus merely for “trying hard”, even in the absence of results, sends a message that achieving the outcome may not be terribly important after all.

### **The Role of the Leader:**

Perhaps along with other dysfunction, the leader must set the tone for a focus on results. If team members sense that the leader values anything other than results, they will take that as permission to do the same for themselves. Team leaders must be selfless, objective and reserve rewards and recognition for those who make real contributions to the achievement of group goals.

## II.8 Leadership

A leader is one who commands respect from the subordinates. A leader is called an ethical leader not because of taking only rational and useful decisions for the benefit of the company, but also takes time to extend human touch to his/her staff when they are in need. A person does not become a leader within a fortnight. Leadership is a process, not a position.<sup>17</sup> One cannot be called a leader, because of his position or title. Leadership involves something happening as a result of the interaction between a leader and followers. Thus, it seems that leadership as the process of influencing others towards achieving a common/group goal. Leadership should not be confused with the manager. A manager is one who deals with management activities. The word management suggests words like efficiency, planning, paperwork, procedures, regulations, control and consistency. Leadership is often more associated with words like risk taking, dynamic, creativity, change, and vision. Some expressed that leadership is fundamentally a value-choosing, and thus a value-laden activity, whereas management is not. There are some distinctions between managers and leaders.<sup>18</sup>

- ✓ Managers administer; leaders innovate.
- ✓ Managers maintain; leaders develop.
- ✓ Managers control; leaders inspire.
- ✓ Managers have a short-term view; leaders have a long-term view.
- ✓ Managers ask how and when; leaders ask what and why.
- ✓ Managers imitate; leaders originate.
- ✓ Managers accept the status quo; leaders challenge it.

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<sup>17</sup> R.L. Hughes, R.C. Ginnett, and G.J. Curphy, *Leadership: Enhancing the Lessons of Experience* (6<sup>th</sup> edition), Tata McGraw-Hill Publishing Company Limited, New Delhi, 2008, pp. 1-7.

<sup>18</sup> Ibid.

In order to become a popular and dominant leader, a person should have the following qualities:

### **II.8.1 Planning**

A leader has to plan certain things effectively in order to realize the common goals of the organization. He has to seek all available information, define the task of the group and make a workable plan towards the right direction.<sup>19</sup>

### **II.8.2 Initiating**

The first and foremost duty of a leader is to initiate the plan, discussion, proposal and project of an organization. The leader has to share and explain the aims or a plan that is necessary to the subordinates. A person will become an aimless wanderer if he does not have any aim or ambition. To survive in the market, an organization should have certain aims, goals and objectives.

### **II.8.3 Controlling**

A leader has the capacity to control the groups, influencing the team spirit towards attaining organizational objectives. Every discussion that is going on in the group, that (discussion) should be focused, relevant and useful to make a decision or arrive at a conclusion. If a leader fails to control the group, then it leads to chaos.

### **II.8.4 Supporting**

A leader has to support the employees and their ideas, plans and innovative thoughts. It is the prime duty of the leader to have a pleasing and amiable personality. So that, the subordinates would be easily convinced, the ideas and suggestions given by the leaders.<sup>20</sup>

### **II.8.5 Informing**

A leader should inform the subordinates regarding the new ideas, plans, innovative thinking, meetings and task of the organization. He has to pass the information to the employees and reciprocate the same.

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<sup>19</sup> John Adair, *Leadership and Motivation*, Kogan Page, New Delhi, 2008, pp. 13-16.

<sup>20</sup> Ibid.

### **II.8.6 Evaluating**

A leader has to evaluate the performance of the employees and checking the feasibility of an idea. Again, he has to help the group to evaluate its own performance against standards.

### **II.8.7 Sharing decisions**

A wise leader will involve the team in decision-making as far as possible. The more people share decisions that affect their working life, the more they are motivated to carry them out. After all, there is nothing wrong to share with subordinates. If there is anything wrong, that will be rectified.<sup>21</sup>

### **II.8.8 Integrity**

Integrity has been defined as the quality that makes people trust. It has central importance in all personal relationships. Integrity means literally personal wholeness. It also conveys the sense of adherence to standards or values outside oneself- especially the truth. Trust and truth are first cousins.

### **II.8.9 Enthusiasm**

O.P. Sharma has rightly pointed out: “Enthusiasm is a state of mind that determines our attitude towards life. It breeds optimism and an enthusiastic approach to life provides a man with powerful driving force.”<sup>22</sup> The moment one discovers the secret of enthusiasm, success cannot elude him. Enthusiasm is contagious.<sup>23</sup> An enthusiastic person changes the atmosphere of the place where he is present. His zeal points out brood over his past mistakes, insults and disappointments. He knows very well that this cripples enthusiasm. A leader cannot be called a leader unless having enthusiasm. It seems to be a general characteristic of leaders.<sup>24</sup>

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<sup>21</sup> Ibid.

<sup>22</sup> O.P. Sharma, *Be a Winner*, Pustak Mahal Publishers, New Delhi, 2003, pp. 48-50.

<sup>23</sup> Ibid.

<sup>24</sup> John Adair, *Not Bosses but Leaders (3<sup>rd</sup> edition)*, Kogan Page, New Delhi, 2009, p. 10.

### **II.8.10 Warmth**

A “cold fish” does not usually make a good leader. A warm personality is infectious.

### **II.8.11 Calmness**

An important characteristic, recognized long ago by the Roman historian Tacitus when he wrote: “Reason and calm judgement, the qualities especially belonging to a leader.”<sup>25</sup>

### **II.8.12 Tough but fair**

The combination of toughness or demandingness and fairness has emerged in industry during the past 10 years as a desirable quality.

## **II.9 Corporate Citizenship**

Corporate Citizenship (CC) is a term that describes company’s role and responsibilities towards the society. That is why; sometimes it is called as Corporate Social Responsibility (CSR), Corporate Responsibility, Corporate Citizenship, Corporate Ethics, Responsible Business and Sustainable Development. Corporate Citizenship can be defined as the extent to which businesses are socially responsible for meeting legal, ethical and economic responsibilities placed on them by shareholders. The aim of the business is to create higher standards for living and quality of life in the communities in which they operate, while still preserving profitability for stakeholders. Nike defines CC as “Our vision is to be an innovative and inspirational global citizen in a world where our company participates. Every day we drive responsible business practices that contribute to profitable and sustainable growth.”

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<sup>25</sup> Ibid.

## II.10 Shareholder Value

A company cannot run without having profit. Profit is an indispensable part of any business. Every employee should understand how he or she fits into the profitability picture. Everyone's common goal should be to build a strong, profitable company that will last long. The real test of these values comes from the resulting action. It takes concerted, company-wide efforts, beyond manual to make it happen. Shareholder Value can be defined as the value delivered to shareholders because of management's ability to grow earnings, dividends and share price. In other words, shareholder value is the sum of all strategic decisions that affect the firm's ability to efficiently increase the amount of free cash flow over time. In other words, it can be defined as making wise investments and generating a healthy return on invested capital are the two main drivers of shareholder value. It is no wonder why there is a fine line between responsibly growing shareholder value and doing whatever is needed to generate a profit. Reckless decisions and aggressively chasing profit at the expense of the environment or others can easily cause shareholder value to decline.

### Conclusion

The above discussion infers that despite failings of some, there is plenty of room at the table for good ethics and profitable business to reside. Together they can lay the cornerstone in securing a prosperous society. These ten values can be put in the employee manual and mean it. Remember, champions do not compromise on key values they hold dear because compromise is a good umbrella, but a poor road.<sup>26</sup> History revealed that those who have applied ethical values in their business, have come out with flying colors. Without ethical values, one cannot be as successful as like J.R.D. Tata, Ratan Tata, Bill Gates and Warren Buffett, Steve Jobs, Carlos Slim, etc.

The scholar has discussed a lot regarding ethical values in business. Ethics played a central role for the growth of business. After a lengthy discussion regarding ethical values in business, it seems that, why do we attach so much importance on ethical values in business? There is no other alternative to ethics or there is only

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<sup>26</sup> Arun K. Jain, "Relevance of Business Ethics", in M.R. Gera (ed.), *Corporate Governance & Business Ethics*, All India Management Association, New Delhi, 1997, p.90.

ethics, ethics and ethics... why should people ethical if ethics does not pay? Is there any reward for ethical people in the organization? Does the corporate business pay for ethical people in the organization? It has been noticed that ethical people suffer most. They (ethical people) have to face the music of being honest. They have to pay the price. There is hardly any organization that gives extra incentives to the ethical people. Again, here a pertinent question can be raised, "Why be honest if honesty does not pay?" It has been noted that there often are no economic or other incentives to encourage ethical behavior and discourage unethical behavior. They contend that it is most often the dishonest individual who gets ahead and that cases where unethical behavior was punished are far outweighed by those in which either there were no consequences or unethical behavior was rewarded. This gives plenty of thoughts to ponder, does unethical behavior really pay? What are the ethical challenges in business? Let us proceed to the third chapter to know all these things.

## **CHAPTER-III**

### **THE ETHICAL CHALLENGES IN BUSINESS**

The world of globalization, commercialization and liberalization has opened a flood of ethical and unprecedented challenges in business. The ethical challenges have a profound impact on their well being, dynamics, performance and the form of their survival. In order to achieve success at the national and international level in business seems to be a daunting challenge. The researcher has tried his best to discuss the challenges that are crucial in business. Some of the challenges are:

1. The challenge of ethical behavior
2. The challenge of managing a diverse workforce
3. The challenge of new technologies
4. The challenge of increased quality
5. The challenge of employee motivation and commitment

Let us discuss the challenges one by one.

#### **III.1 The Challenge of Ethical Behavior**

Ethics plays a pivotal role in business. The significance of ethics in business should not be neglected or overlooked. It seems to be quite surprising that ethical behavior occurs in organizations. An effective ethical atmosphere can promote ethical business. Even though ethical behavior may cost initially, but in the long-run it pays. In this section, the scholar is going to highlight three things:

1. Reasons behind unethical behavior in organization
2. Highlight the importance of organizational culture/behavior in establishing an ethical climate within the organization
3. Some suggestions for creating and maintaining an ethically-oriented culture

##### **III.1.1 Reasons behind unethical behavior in organization**

The capacity of a man to behave unethically is limitless. Unfortunately, unethical behavior occurs frequently in a business. The reason is: when greed overtakes concern about human welfare. Warren Buffett held that the characteristics



he seeks in a manager are intelligence, hardwork and integrity. “If you do not have the third, the first two will kill you.”<sup>1</sup> For example- Ramalinga Raju at Satyam, Jeff Skilling at Enron, and 2G spectrum scam. Let us discuss the three examples one by one:

### **Satyam fraud:**

Satyam fraud took place in January, 2009. Satyam Chairman Ramalinga Raju confessed the offence before the public. He has resigned from the board admitting that he cooked the balanced sheet to show cash balance of Rs. 5,361 crore instead of Rs. 321 crore.<sup>2</sup> No board members had any knowledge of the real situation. Accrued interest of Rs. 736 crore in books is non-existent. Rs. 1,230 crore was arranged to Satyam, but was not reflected in the books. Even the auditors’ did not catch such a blatant cooking of books.<sup>3</sup> Satyam has turned into ‘Asatyam’ (falsehood). All these things happened on account of greed only.

### **Enron scandal:**

The Enron scandal came into limelight in October 2001. It is one of the biggest frauds in the world, led to the bankruptcy of the Enron Corporation, an American energy company based in Houston, Texas. In addition to being the largest bankruptcy organization in American history at that time, Enron was attributed as the biggest audit failure. Kenneth Lay formed Enron in 1985 after merging Houston Natural Gas and Inter-North. Several years later, when Jeffrey Skilling was hired, he developed a staff of executives that, through the use of accounting loopholes, special purpose entities and poor financial reporting were able to hide billions in debt from failed deals and projects. Chief Financial Officer Andrew Fastow and other executives not only misled Enron’s board of directors and audit committee on high-risk accounting practices, but also pressured Arthur Anderson to ignore the issues. Shareholders lost nearly \$11 billion when Enron’s stock price, which hit a high of US\$90 per share in mid-2000, diminished to less than \$1 by the end of November 2001. The US Securities and Exchange Commission (SEC) began an investigation

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<sup>1</sup> The Hindu Business Line, dated on 08.11.2010. <<http://www.thehindubusinessline.com>>

<sup>2</sup> India Today, 12<sup>th</sup> September, 2011, pp. 48-49. <<http://www.indiatoday.in/2gscam.in>>

<sup>3</sup> India Today, 8<sup>th</sup> August, 2011, pp. 18-20.

and rival Houston competitor Dynegy offered to purchase the company at a fire sale price. The deal fell through and on 2<sup>nd</sup> December, 2001, Enron filed for bankruptcy under Chapter 11 in United States Bankruptcy Code. Enron's \$63.4 billion in assets made it the largest corporate bankruptcy in US history.

### **2G Spectrum Scam:**

This scam came into limelight in 2008 and cost the government Rs. 1.76 lakh crore.<sup>4</sup> The then telecom minister A. Raja issued 2G licenses to private telecom players at throwaway prices. He flouted the rules, regulations and procedures while issuing licenses, according to the Comptroller and Auditor General (CAG). He sent to Tihar Jail on 2<sup>nd</sup> February, 2011. The scam revealed the names of corporate, bureaucrats and politicians.

The above three examples, viz., Satyam, Enron and 2G scam vividly illustrates the human greed over national/organizational interest. The unethical behavior occurs in the organizations by the individuals knowingly. One question can be raised why individuals consciously commit unethical actions based on the idea that organizations often reward behaviors that violate ethical standards? For example, how many business executives are expected to deal in bribes and payoffs, despite the negative publicity and ambiguity of some laws and how good corporate citizens who blow the whistle on organizational wrongdoing may fear being punished for their actions. Jansen and Von Glinow (1985) explain that organizations tend to develop counternorms, accepted organizational practices that are contrary to prevailing ethical standards.

Indeed, governmental regulations requiring full disclosure and freedom of information reinforce society's values toward openness and honesty. However, within organizations, it is often considered not only acceptable, but desirable, to be much more secretive and deceitful. The practice of stonewalling, willingly hiding relevant information, is quite common. One reason for this is that organizations may actually punish those who are too open and honest. Look at the negative treatment experienced by many employees who are willing to blow the whistle on unethical behavior in their

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<sup>4</sup> India Today, 19<sup>th</sup> January, 2009.

organizations. Also, consider for example, the disclosure that B. F. Goodrich rewarded employees who falsified data on quality aircraft brakes in order to win certification (Vandevier, 1978).<sup>5</sup> Similarly, it has been reported that executives at Metropolitan Edison encouraged employees to withhold information from the press about the Three Mile Island nuclear accident (Gray and Rosen, 1982). Both incidents represent cases in which the counter norms of secrecy and deceitfulness were accepted and supported by the organization.

It has been noticed that there are many other organizational counter norms that promote morally and ethically questionable practices. These practices are commonly rewarded and accepted suggests that organizations may be operating within a world that dictates its own set of accepted rules. This reasoning suggests a second answer to the question of why organizations knowingly act unethically, because managerial values exist that undermine integrity. In a recent analysis of executive integrity, Wolfe explains that managers have developed some ways of thinking (of which they may be quite unaware) that foster unethical behavior (Wolfe, 1988).<sup>6</sup>

Research shows that there are two kinds of mentality developed by the individuals, one is “bottom-line-mentality” and the other one is “political-bottom-line-mentality”.

### **Bottom-Line-Mentality (BLM)**

BLM refers that financial success as the only value to be considered. It helps to get short-term financial success, although it causes the problem for the whole organization. It promotes an unrealistic belief that everything boils down to a monetary game. An individual is ready to come down at any standard or any level to earn money. There is no ethics, conscience or morality for them. Let us take the

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<sup>5</sup> K. Vandevier, “The Aircraft Brake Scandal: A Cautionary Tale in Which the Moral is Unpleasant”, in A. G. Athos and J. J. Babarro, (eds.), *Interpersonal Behaviour: Communication and Understanding Relationships*, Prentice-Hall, Englewood Cliffs, NJ, 1978, pp. 529-540.

<sup>6</sup> D. Wolfe, “Is There Integrity in the Bottomline: Managing Obstacles to Executive Integrity”, in S. Srivastva, (ed.), *Executive integrity: The Search For High Human Values in Organization Life*, Jossey-Bass, San Francisco, 1988, pp. 140-171.

example of 2G scam. In order to earn money, the CEOs and directors crossed all limits. Unitech Wireless (Tamil Nadu) managing director Sanjay Chandra, Swan Telecom director Vinod Goenka and three senior executives of Reliance ADA Group- Gautam Doshi (group MD), Surendra Pipara (senior vice-president) and Hari Nair (senior vice-president), who have been arrested by the Central Bureau of Investigation (CBI).<sup>7</sup> They had a lot to lose.

### **Political-Bottom-Line-Mentality (PBLM)**

PBLM occurs in public sector. This type of mentality maintains that in order to gain political advantage of one party over another party, the ruling party spends a hefty amount of money in their own-ruled states. For example- UPA (United Progressive Alliance) government is at the center right now. When the budget was presented in the parliament, the lion's share went to the UPA-ruled states only. Railway minister, Mamata Banerjee presented Railway budget in parliament, 2009-10. She allotted nineteen out of sixty-nine trains to Bengal.<sup>8</sup> Out of nineteen, fifteen are normal trains and four non-stop trains. She introduced "Macher Jhol" in Railway menu and allocated some big projects such as expansion of the Kolkata Metro network, a coach factory in Singur and a rail industrial park in Nandigram.<sup>9</sup> When Lalu Prasad Yadav was the Railway minister during 2004-09, he also did the same thing. Lalu introduced "Litti Chokha" and "Kulhars" in Railway menu. He allotted thirty nine new trains to Bihar during his five years tenure. But the neighboring state Orissa hardly had any new trains. This PBLM compels the politicians to overlook the welfare of all and concentrate only on their own states and constituencies.

The moment the parliamentarians attach importance to their own constituencies, they have to spend a hefty amount of money for the upliftment of the local people irrespective of the significance of the project or schemes. They have to allocate special projects or schemes to create jobs and gain political support. This practice is called pork-barreling. This practice is common among the politicians because many MPs believe that it will help them get votes in the forthcoming

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<sup>7</sup> Business World, 02.05.2011, p. 17. <<http://www.businessworld.in>>

<sup>8</sup> Railway Budget, 2009-10.

<sup>9</sup> Railway Budget, 2011-12.

elections. For example- Suresh Kalmadi, the big boss in CWG scam in Delhi, January 2011, was proposing projects from Tihar Jail at Rs. 2.3 crore for Pune constituency. The person who claimed himself to be suffering from dementia, how could propose a project. This kind of gimmick is to catch the attention of people and bank on votes in the next elections. The image and reputation of Suresh Kalmadi has tarnished badly in CWG scam. A senior BJP leader Yogesh Gogawale said that Kalmadi had fooled the Indian citizens beyond the tolerance level. "If he has been diagnosed with dementia, then how can he lead the city and work for the citizens. It was funny to read the news about his sending proposals from Tihar Jail to the Pune District Collector office about spending money from his MP funds", he said.

The newly elected Chief Minister of Paschim Banga (then West Bengal) opposed the Tata Nano project at Singur in Hoogly district, Paschima Banga, November 2006, in order to gain mass support. The small car was scheduled to roll out of the factory by 2008.<sup>10</sup> She blamed the ruling Communist Party for forcible grabbing the fertile lands of farmers. The moment she came to power on 20<sup>th</sup> May 2011, she announced to return 400 acres of land to unwilling farmers in Singuar. If Tatababu is keen, he can set up his factory on the remaining 600 acres, otherwise we will see how to go about it", she mentioned.<sup>11</sup> She also brought a Railway Coach Factory in Singuar. Similarly, when Sonia Gandhi brought a new Rail Coach Factory in her Lok Sabha Constituency, Rae Bareli in 2008, Mayawati, Chief Minister of UP, opposed the project. Mayawati cancelled the project and returned the land to Railways.<sup>12</sup>

Wolfe also holds that managers have developed two kinds of mentality. The first one is called exploitative mentality and the other one is called Madison Avenue mentality. Exploitative mentality<sup>13</sup> is a view that encourages "using" people in a way that promotes stereotypes and undermines empathy and compassion. This is a selfish perspective that sacrifices concern for the sake of others in favour of benefits to one's own immediate interests. In other words, this mentality gives importance on self-

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<sup>10</sup> The Hindu Business Line, dated on 26.11.2006.

<sup>11</sup> The Times of India, dated on 21.05.2011.

<sup>12</sup> The Economic Times, dated on 26.10.2008. <<http://www.economictimes.indiatimes.com>>

<sup>13</sup> Ronald R. Sims, "The Challenge of Ethical Behaviour in Organizations", *Journal of Business Ethics*, Vol.11, Issue. 7, 1992, pp. 60-74.

interest rather than organizational interest. The next one is Madison Avenue mentality<sup>14</sup>, a perspective suggesting that anything is right if the public can be convinced that it is right. This reveals that in order to convince the audience, the managers could go to any extent. It provides them a scope to hide their unethical practices. The best way to catch the minds of audience is through advertisement. Advertising is a highly attractive and visible business activity and any lapse in ethical standards can often be risky for the company in order to be consumer-oriented, an advertisement will have to be truthful and ethical. Now-a-days, most of the companies believe in “jo dikhata hai bo bikhata hai” (whatever is to be shown, to be sold). This is a wrong notion of most of the companies. To sell their products, they can go to any extent. They portrait false advertisements on Televisions through models, actors or actresses to appeal the emotions and sentiments of the people. This is called the fallacy of Argumentum ad populum.<sup>15</sup> However, this should not be done in business. Notwithstanding, the ads of the celebrities or cricketers can turn the tide in company’s favour, but in the long-run, it would not help at all. Let us consider the top most watched ads on Television till March 2011.<sup>16</sup> The following table presents the rankings, brands and taglines of the ten most watched ads.

<b>Rank</b>	<b>Brand</b>	<b>Tagline<sup>17</sup></b>
1.	Complan	Drink Complan and see the difference
2.	Sprite	First drink, then think, Sprite-University of Freshology
3.	Tata Indigo Manza	Indulge in Style
4.	Thums Up	Grow Up to Thums up
5.	Cadbury’s Dairy Milk Chocolate	Glass and a half of full cream dairy milk
6.	Fair and lovely Multivitamin	Gorepan sa kahi zyaada, saaf gorapan
7.	Fanta	Fanta ka signal loud, Bunking is allowed
8.	Mountain Dew	Darr ke aagey jeet hai
9.	Colgate Max Fresh Gel	Not just fresh Max fresh
10.	Maaza	Maaza Lao, Aam Ki Pyaas Bujhao (Quench your thirst for Mangoes by Maaza)

<sup>14</sup> Ibid.

<sup>15</sup> K. OM. Narayana Rao, +2*Logic: Deductive and Inductive*, Kalayani Publishers, Ludhiana, India, 2007, pp. 133-34. This is a fallacy where corporate sector, instead of arguing on rational ground, there is appeal to emotion and passions of the people to purchase their products.

<sup>16</sup> Business Today, 15.05.2011, p. 30. <<http://www.businesstoday.intoday.in>>

<sup>17</sup> The taglines were collected from the respective websites and the current taglines have been mentioned.

The above table clearly shows that there are as many as five soft drink brands in the top ten. However, the number one spot has been taken not by any of the soft drink brands, but by a health food drink, Complan. It is far ahead of its rival brands, Bournvita and Horlicks, which is not presented in the list. Although Complan occupied the first position, there are many allegations against Complan by the Advertising Standards Council of India (ASCI). ASCI sent a notice to Heinz India to either modify or withdraw an advertisement which claims that its health drink, Complan, increases a child's height by as much as two times. ASCI mentioned the Complan ad, which has the tagline "Drink Complan and see the difference", depicts exaggerated growth in children on consuming Complan, in terms of height, amounting to gross exaggeration in absence of any scientific validation. Hence, in order to fool the people, they go to any extent. It is not difficult to recognize the people, who knowingly engage in unethical practices. The over emphasis on short-term monetary gain and getting votes in the next election may lead to decisions and rationalizations that not only hurt individuals in the long-run, but threaten the very existence of organizations themselves.

According to a model developed by Baucus and Near's research, illegal behavior occurs under certain specific conditions. The results from their research depicted that (1) large firms are more likely to commit illegal acts than smaller firms; (2) although the probability of such wrong doing increases when resources are scarce, it is abundant when resources are plentiful; (3) illegal behavior is prevalent in fairly stable environments but is more probable in dynamic environments; (4) membership in certain industries and a history of repeated wrong doing are also associated with illegal acts; and, (5) the type of illegal activity chosen may vary according to the particular combination of environmental and internal conditions under which a firm is operating (Baucus and Near, 1991).<sup>18</sup>

### **III.1.2 Organizational culture and ethical behavior**

In this section, the scholar would like to highlight the significance of organizational culture and ethical behaviour in the corporate sector. How do

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<sup>18</sup> S. M. Baucus and J. P. Near, "Can Illegal Corporate Behaviour be Predicted? An Event History Analysis", *Academy of Management Journal* 34(1), Near1991, pp. 9-36.

organizational culture and ethical behaviour affect the overall performance of the organizations? Do organizations vary in the “ethical climate” they establish for their members? The answer of this question depends upon the organization. There are some organizations that set some standards for themselves and the lower level employees follow it. What has been set at the top, is to be followed by the bottom level. However, this is not true in most of the organizations. In order to click at the international as well as national levels, organizations have to take care of the customers. As it is said: “A customer is the king in the market.” It is the corporates, which depend upon the customers and not vice-versa. For example- when a few Nano cars caught fire in the market in November 2011, Chairman of Tata Motors, Ratan Tata has retrieved all the 70,000 plus Nano cars for free repairing and services.<sup>19</sup> Only a few Nano cars caught fire on account of electric short-circuits in the manufacturing design. The company has decided to install a fuse which is expected to mitigate the risk of short-circuit. The company did the social responsibility regardless of the cost.

Social responsibility has become the paramount in corporation, the same thing has done by Johnson & Johnson Company. There was a lot of confusion when the infamous Tylenol poisoning took place.<sup>20</sup> Johnson & Johnson Chairman and CEO James E. Burke decided to call back all the 93,000 bottles produced in the firm. All the advertising for Tylenol was suspended. In addition to this, it maintained open communication with the public via an eight hundred telephone numbers, thousands of mailgrams, numerous press conferences and media interviews. Finally, the capsules that were recalled were replaced without question or charge. The open manner in which Johnson & Johnson saved the public lives cost the company \$100 million.<sup>21</sup> The ethical climate that the company set at the top helped the bottom line managers and executives to take the action quickly. Here is an example of the company, which crossed all the ethical limits to earn money and finally collapsed at the end. Beech-Nut Corporation is a baby-food company in the United States. The company had a good reputation on products known for their purity, high quality and natural ingredients. Unfortunately, the company did not make any profit and subsequently, it

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<sup>19</sup> The Times of India, dated on 11.11.2011.

<sup>20</sup> David J. Fritzsche, *Business Ethics: A Global and Managerial Perspective*, Tata McGraw-Hill, Singapore, 1997, pp. 25-38.

<sup>21</sup> Ibid.



merged with Interjuice Trading Corporation. Hence, Beech-Nut started to sell apple juice. Again, there were heavy losses. In order to make profit, they started to sell adulterated and misbranded juice. Though the warnings came from Food and Drug Administration (FDA), they continued it. The FDA fined Beech-Nut \$2 million in February, 1988. The image and reputation of the corporation tarnished. As a consequence, the firm lost the trust and confidence of its customers and their support. In order to recover from losses; they started to cheat the customers. They believed that it is persistent in every business. There is no harm in selling adulterated juice.<sup>22</sup> Pressure, opportunity and predisposition can all lead to unethical activities; however, organizations must still take a proactive stance to promote an ethical climate. In the final section, the scholar would like to provide some useful suggestions for promoting an ethical climate in the organization.

### **III.1.3 Some suggestions to maintain an ethically oriented culture**

Organizations should provide ethics training to the employees to strengthen the ethical values. “Ethics is everyone’s business, from top-level managers to employees at the lowest levels of the organization. One of the management’s most important challenges is to conduct business ethically while achieving high levels of economic performance.”<sup>23</sup> Values are relatively permanent and deeply held preferences of individuals or groups. The attitudes and personal choices form the basis of foundation of values. The most stable and enduring characteristics of individuals are governed by the values they lived. Values serve the process of ‘becoming’, in the sense of transformation of the level of consciousness to purer and higher levels. They help us to distinguish between the ‘desired’ and the ‘desirable’, between the ‘delectable’ and the ‘electable’, between the ‘short-term’ and the ‘long-term’, between the ‘preya’ (the pleasant) and the ‘shreya’ (the good).<sup>24</sup>

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<sup>22</sup> Ibid.

<sup>23</sup> S. Pamela Lewis, H. Stephen Goodman, M. Patricia Fandt, *Management Challenges in the 21<sup>st</sup> Century*, South-Western College Publishing, Thomson Learning, Third Ed. p. 89.

<sup>24</sup> Swami Gambhirananda, *Katha Upanisad*, Advaita Ashrama, 1980, Verse 1-2, pp. 34-36.

In whatever form ethical awareness training programmes have taken up, their precise nature will vary from company to company. It is important that the following objectives are borne in mind:<sup>25</sup>

- Promotion and support of the organizations' values and standards
- Making managers more aware of the ethical dimensions of their business decisions and conduct
- Refreshing of the staff in the organization's ethical policies
- Strengthening of the ability of the staff to apply the organization's ethics
- Providing a forum for managers to identify ethical issues and areas of vulnerability

In order to maintain a high ethical profile the following might be considered; that managers:

- Behave ethically themselves
- Screen potential employees
- Implement ethics awareness training
- Reinforce ethical behaviour
- Create a structure to deal with ethical issues

An effective organizational culture should encourage ethical behavior and discourage unethical behaviour. In order to foster ethical behavior, the company has to directly engage in ethically approved activities and/or products; or avoid such involvement. One of the difficulties here is the ambiguity about what constitutes ethical behaviour. For some it may be avoiding specific products (such as alcohol, or birth control measures); for others it may be environmental (such as the use of child

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<sup>25</sup> Ronald D. Francis and Mukti Mishra, *Business Ethics: An Indian Perspective*, Tata McGraw Hill Education Private Limited, New Delhi, 2010, pp. 131-32.

labour or military suppression of democracy). Among the issues one of them might consider as serious issues are:<sup>26</sup>

- Environmental
- Sustainable land use
- Forestry control and woodchipping
- Energy availability
- Efficient use of resources
- Weapons and militarism
- Political tyranny
- Employment conditions
- Racist discrimination

The moment one discourages unethical practices, any organization is bound to lose some amount of business. In order to secure business in any countries, one has to pay bribe to the agents, otherwise one cannot do business.

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<sup>26</sup> Ibid.

Notwithstanding unethical behavior pays in the short-run, but in the long-run it does not pay. Even though one loses business, by adhering ethical behavior, one's image and reputation is not at stake. An organization cannot survive unless it produces goods and services that society wants and needs. Thus an organizational culture that promotes ethical behaviour is not only harmonious with prevailing cultural values, but also, it makes good sense.

Nielsen (1989) has stressed the significance of a manager in contributing to ethical or unethical behaviour. If the manager is ethical, there is ethical behaviour in the organization and vice-versa. A manager should be a leader. He has to lead from the front. An organization needs an ethical manager. He is the role model to the subordinates/employees. A manager has to inculcate good virtues and habits among the subordinates because each and every action of the manager will be keenly noticed by the followers. A Persian saying goes: "If the king plucks one apple from the public garden, the public will take away even the roots."

In order to prevent unethical practices, the manager has to retain the best people.<sup>27</sup>

- ❖ Employing innovative reward plans
- ❖ Promotion of continuous training for improvement of quality of performance
- ❖ Utilizing the people with distinctive capabilities
- ❖ Decentralizing operations and rely on self-management teams

According to the philosopher, Henry David Thoreau, every man has the unquestionable ability to elevate his life by conscious efforts.<sup>28</sup> Many managers by experience learn leadership qualities and elevate themselves to the status of a good ethical leader. Most of these ethical leaders exhibit the following characteristics:

- a. Ethical leaders are people-oriented in the sense they care about people and treat people with respect. This humanistic approach builds confidence from the staff,

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<sup>27</sup> S Prabhakaran, *Business Ethics and Corporate Governance*, Excel Books, New Delhi, 2010, pp. 138-44.

<sup>28</sup> Ibid.

customers and suppliers. It also gives a new dimension to leadership namely leadership from the heart.

- b. The ethical leaders should provide visible ethical actions by serving as a role model of ethical conduct and behaviour.
- c. Ethical awareness taking the interests of multiple stakeholders.
- d. Neutral and impartial using fairness in management.

The Institute for Business, Technology and Ethics<sup>29</sup> suggests that an ethical leader should be able to promote the following traits in a healthy organization:

1. Openness and humility from top to bottom.
2. An environment of accountability and personal responsibility.
3. Risk-taking within limits.
4. A commitment to do only the right things.
5. A willingness to tolerate and learn from mistakes of ours and others.
6. Courage and persistence in difficult and challenging times.

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<sup>29</sup> Ibid.

Although much remains to be learned about why ethical behavior occurs in organizations and creating and maintaining organizational cultures that encourage ethical behavior, organizations can benefit from the following suggestions:<sup>30</sup>

- ❖ A clear code of business ethics printed and widely disseminated.
- ❖ An ethics committee set up to consider issues and have their debates conducted in a collegial spirit.
- ❖ Before any complaint of ethical breach is heard a complaint should be specific and accompanied by evidence.
- ❖ No financial disadvantage should accrue to a complainant unless the complaint was motivated by malice.
- ❖ Protection in the form of career preservation, except where clearly unjustified, should be provided.
- ❖ An 'ethical informers' (whistleblowers) support group.
- ❖ The use of an independent mediator, with relevant expertise.
- ❖ An appeals procedure.
- ❖ Do not promise what the organization cannot deliver.
- ❖ Provide ethics training programs for all employees.
- ❖ Provide scope to sub-ordinates to participate in the decision-making process.

The above analysis clearly shows that though it is difficult to apply ethical principles in business and there is hardly any chance of success initially, still ethical behavior pays in the long-run. It is rightly pointed out: "When the going is tough, the tough gets going." The challenge of ethical behavior must be met by organizations if they are truly concerned about survival and competitiveness. The need of the hour is to step forward and operate with strong, positive and ethical cultures. In order to realize the dream, the application of love in organization is a prerequisite one. Love

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<sup>30</sup> Ronald D. Francis and Mukti Mishra, *Business Ethics: An Indian Perspective*, Tata McGraw Hill Education Private Limited, New Delhi, 2010, p. 130.

and concern along with rules and regulations can work in most of the organizations because it is a combination of heart and love.

### **III.2 The Challenge of Managing a Diverse Workforce**

The challenge of managing a diverse workforce is the second ethical challenge in business. This is one of the very prominent challenges in business. The concept of globalization has opened doors for various people from diverse cultures, beliefs, and backgrounds than ever before across the world to work at one place. People no longer live and work in an insular marketplace; they are now part of a worldwide economy with competition coming from nearly every continent. That is why; profit and non-profit organizations need diversity to become more creative and open to change. Maximizing and capitalizing on workplace diversity has become an important issue for management today.

Diversity can be defined as acknowledging, understanding, accepting, valuing, and celebrating differences among people with respect to age, class, ethnicity, caste, creed, race, gender, physical and mental ability, sexual orientation, spiritual practice, and public assistance status.<sup>31</sup> Since India is a secular state, Indian companies are focusing on diversity more than ever. They have to focus on diversity and look for ways to become totally inclusive organizations because diversity has the potential of yielding greater productivity and competitive advantages. India in particular and the world in general simply cannot ignore diversity.

A question can be raised, what is the role of ethics in diverse workforce? Ethics plays a key role in it. An ethical leader will look all religious workers alike. He should not discriminate the employees because of his/her community/religious background. For example, in certain workplaces, the scholar does not wish to name, they attached prime importance to their community/religious people. This should not happen in the workplace; rather, they should try to take advantage out of diversity. They need to inculcate the feeling of oneness among the workers. Who will do this except an ethical and unbiased leader?

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<sup>31</sup> K.H. Ansari and June Jackson, *Managing Cultural Diversity at Work*, Kogan Page India Pvt. Ltd., New Delhi, 1997, pp. 10-15.

## **Benefits of diversity**

**Increased Productivity:** Diversity has an uncanny ability to increase productivity. Diversity and Inclusion bring in diverse different talents together working towards a common goal using different sets of skills that ignite their loyalty and increases their retention and productivity.<sup>32</sup>

- **Increased creativity and Problem solving:** In order to solve a problem, an organization needs different minds to work together and diversity has given perfect platform to solve any problem. Having many different and diverse minds coming together many more solutions will arise as every individual brings in their way of thinking, operating and solving problems and decision making.
- **Attract and Retain talent:** Diversity attracts and retains new talent that adds a competitive edge to any organization. Feeling and appreciation increases loyalty and belongingness at the workplace. Language skills pool is increased and propels organization forward either to compete in the International global world or to increase its diverse customer base.
- **Help to build synergy in teams and enhances communication skills:** Diversity helps to bring a vibrant atmosphere within the team that helps to enhance communication skills that brings in new attitudes and processes that profit the whole team.
- **Litigation expenses:** Organizations cannot afford litigation expenses unnecessarily. Applying the proper diversity and inclusion management strategies does not only save money on litigation expenses generated by discrimination lawsuits but is the right thing to do for the business.
- **Increased market share:** Diversity helps to swell market share and create a satisfied diverse customer base by relating to people from different backgrounds. It does propel India, China and the United States and its status to claim its place and success in the global business world of the 21<sup>st</sup> century.

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<sup>32</sup> Ibid., pp. 60-72.



## **Ways to manage a diverse workforce**

- We have to believe in the philosophy that our workers are the most important element of business.
- Take the time to learn the special needs of each unique group of workers.
- Supervisors should invest the time to get to know each employee and their personal needs.
- Treat everyone with the highest respect and expect others to do the same.
  
- Formulate rules and procedures and publish them in a company manual in all languages necessary.
- Conduct regular sessions to communicate, educate, and listen.
- Make the adjustments necessary to balance the needs of your diverse workforce.
- Have a zero tolerance policy toward workplace violence.
- Have a well-organized, ongoing training program for your new employees.
- Promote fellowship among the diverse with several social events during the year.

The fast changing and secular world has propelled the organization to go for diversity without any compromise because diversity brings high value and great insights to organizations. Respecting individual differences will benefit the workplace by creating a competitive edge and increasing work productivity. Diversity management benefits associates by creating a fair and safe environment where everyone has access to opportunities and challenges. Management tools in a diverse workforce should be used to educate everyone about diversity and its issues, including laws and regulations. Most of the workplaces are made up of diverse cultures, so organizations need to learn how to be successful.

### **III.3 The Challenge of New Technologies**

This is the third ethical challenge in business. Business is no more confined to a particular area, customer and face-to-face business. In the 21<sup>st</sup> century, business could be done through innovative technologies; computer, internet and e-business have gained a lot of importance these days. Technological innovations have brought in immense changes to manufacturing, transport and communications, information

and knowledge management, pharmaceuticals and biotechnology, banking and financial management and to a host of other spheres. The impact of these innovations on business and industry, as in other walks of life, is immeasurable. Methods and processes of productions have been shortened, distances reduced and time taken lessened in every human endeavour. Business and trade have become global. The world itself has become as small as to be called the global village. In this fast-changing environment- social, political, economic and governmental- corporations have to adapt themselves faster, reckon competition and work out successful survival strategies. Even while they have to swim against the rising costs of technology that included processes and changes, they have to acclimatize themselves to newly evolving corporate cultures and governance practices. Values keep changing and corporations have to be in the vanguard of these changes to succeed in their business. If challenges arising out of technological innovations are many, opportunities too are plentiful. An ever-increasing global market, large-scale manufacturing with its attendant economies of scale and lowered costs, escalating profits and a chance of becoming transnational corporate players are too significant a gain for corporations to ignore.<sup>33</sup>

The challenge before the managers is to produce the innovative and effective technologies that will be capable of fighting against cyber theft and virus attack. They have to frame a mechanism that will check unethical practices like cyber crime and virus attack. Again, they have to attach prime importance to the environmental sustainable technologies that will produce the goods, which are environmental friendly. The primary motto of a company should be to produce the goods that can be used and recycled. So that, our environment gets less pollution.

#### **III.4 The Challenge of Increased Quality**

Quality plays a key role in a company's reputation. Quality should be more than making the best product but should extend to every aspect of your work. A person who recognizes quality and strives for it daily has a profound sense of self-respect, pride in accomplishment and attentiveness that affects everything. From one's memos to presentations, everything one touches should communicate professionalism

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<sup>33</sup> A.C. Fernando, *Business Ethics: An Indian Perspective*, Dorling Kindersely (India) Pvt, Ltd., New Delhi, p.106.

and quality. Quality business manages to attract customers, enhance their experience, satisfy and delight them, and generate repurchase. Therefore, most companies are interested to improve quality of their products and services through “Total Quality Management” (TQM).<sup>34</sup> TQM approach focuses on trying to meet customer expectations or delighting the customer. All quality improvement initiatives must begin with an understanding of customer perceptions and needs. TQM is an organizational strategy with techniques that deliver quality products and services to customers and achieves total customer satisfaction. It should be a customer, which comes back and not the product.<sup>35</sup>

The approach is called ‘total’ because it involves everything the company does-all its processes and all of its employees at every level in the company all the time.<sup>36</sup> It is a restless approach since it aims at continuous improvement, the elimination of waste and costs and the strengthening of loyal relationships with suppliers and customers. Although statistical quality control techniques are used, the approach is more concerned with management than with specific techniques. Quality is a way of managing, not a technical activity. The cost of quality is a shorthand formula for all the business costs incurred in achieving a quality product or service. These include prevention costs, appraisal costs, internal failure costs, external failure costs and finally the cost of lost opportunities. Taken together these costs can drain a company include material, capital and time, of which time is perhaps the biggest cost.

Comparing one company’s performance with that of another is a reflex of TQM.<sup>37</sup> Competitive benchmarking is a continuous management process that helps firms assess their competition and themselves and to use that knowledge in designing a practical plan to achieve superiority in the market place. To strive to be better than the best competitor is the target. The measurement takes place along the three components of a total quality programme-products and services, business processes and procedures and people.<sup>38</sup>

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<sup>34</sup> Ibid., p.258.

<sup>35</sup> Ibid.

<sup>36</sup> B. Ghosh, *Ethics in Management & Indian Ethos (2<sup>nd</sup> edition)*, Vikas Publishing House Pvt. Ltd., New Delhi, 2008, pp.249-55.

<sup>37</sup> Ibid.

<sup>38</sup> Ibid.

Competitive benchmarking can be defined as the continuous systematic process for evaluating companies recognized as industry leaders to develop business and working processes that incorporate best practices and establish national performance measures.

Some core values of everyone involved in TQM are like:

- ✓ Make it right for the customer at any cost.
- ✓ Customer is always right.
- ✓ Internal customers are as important as external customers.
- ✓ Respond to customer inquiry or complaint by the end of the day.
- ✓ Answer the phone bell within two rings.
- ✓ Not only meet customer expectations but delight customers in the process.
- ✓ Team work and cooperation are important.
- ✓ Everyone is involved in quality effort.
- ✓ Respond to every employee's suggestion for quality improvement.
- ✓ Always strive for continuous improvement. Never be satisfied with level of quality.

### **Key requisite for implementation of TQM**

These are as under:

- ✓ Maintain integrity with customers.
- ✓ Trust fosters' participation.
- ✓ Training of employees for effective job performance.
- ✓ Team working for problem-solving and share responsibilities.
- ✓ Communication process to act as an important link with all involved and to get feedback.
- ✓ Recognition for achievements.
- ✓ Employees to adhere ethical values.

### **III.5 The Challenge of Employee Motivation and Commitment**

This is the fifth ethical challenge in business. This challenge is considered to be the backbone of any kind of business. In order to succeed, as a manager or supervisor of a company, one has to motivate the employees. It is possible to make their day or break their day. The word “motivation” has come from the Latin word “movere”, which means “to move”. Hence a motive, quite simply, is something that moves one to act. Characteristically these words “motive” or “motivation”, however, suggest that something within oneself is at work, impelling or driving him forward. It may be a need, desire or emotion, but it leads one to act and to act in a certain way.

Abraham Maslow<sup>39</sup> has identified five sets of need, which are very important to motivate the employees of an organization. According to Maslow, a key principle is that a satisfied need ceases to motivate. If a person’s physiological needs are met, for example, other needs emerge and supersede them in becoming the dominating ones in the organism. When these in turn are satisfied, yet higher needs emerge, and so on. This is what Maslow meant by asserting that the basic human needs are organized into a hierarchy of relative prepotency. The five needs are the following:

1. Physiological Needs
2. Safety Needs
3. Social Needs
4. Esteem Needs
5. Self-Actualization Needs

#### **III.5.1 Physiological Needs**

The concept of physiological drives has usually been taken as the starting point for motivational theory. Here Maslow advocated the use of the word need as an alternative to drive, basing his case on the notion of physical homeostasis- the body’s natural effort to maintain a constant normal state of the bloodstream-coupled with the finding that appetites in the sense of preferential choices of food are a fairly efficient indicator of actual deficiencies in the body.

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<sup>39</sup> John Adair, *Effective Motivation*, published by Pan Books, London, 2009, pp. 22-32.

Not all physiological needs are homeostatic, for the list could be extended to include sexual desire, sleepiness, sheer activity and maternal behavior in animals. Indeed, Maslow held that if a growing loss of specificity in description was acceptable, it would be possible to extend the list of physiological needs very considerably.

Maslow considered the physiological needs to be unique rather than typical of basic human needs for two reasons:

- ✓ They could be regarded as relatively independent of one another and of other orders of need.
- ✓ In the classic cases of hunger, thirst and sex, there was a localized physical base for the need.

Yet this relative uniqueness could not be equated with isolation: the physiological needs might serve as channels for all sorts of other needs as well. A person who thinks he or she is hungry, for example, may be looking for security rather than for carbohydrates or proteins.

If a person becomes chronically short of food and water he or she becomes dominated by the desire to eat and to drink and concern for other needs to be swept away. Thus the physiological needs are the most prepotent of all needs. This prepotency precisely implies that the human being who is missing everything in life in an extreme fashion will still tend to seek satisfaction for his or her physiological needs rather than any others. Under such temporary dominance a person's whole attitude to the future may undergo change. As Maslow concluded: "For our chronically and extremely hungry man, Utopia can be defined simply as a place where there is plenty of food.... Such a man may fairly be said to live by bread alone."<sup>40</sup>

### **III.5.2 Safety Needs**

When the physiological needs are relatively well satisfied, a new set of needs emerges, centred upon the safety of the organism. Owing to the inhibition of adults to showing any signs of reaction to threat or danger, this aspect of human behavior is more easily observed in children, who react spontaneously to any sudden disturbance,

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<sup>40</sup> Ibid.

such as being dropped, startled by loud noises or flashing lights, or to rough handling or inadequate support.

Maslow found other indications for the need of safety in a child's preference for routine or rhythm; for a predictable and orderly world. Injustice, unfairness or lack of consistency in the parents seem to make a child feel anxious and unsafe. "This attitude may be not so much because of the injustice as such or any particular pains involved; but rather because this treatment threatens to make the world look unreliable, or unsafe, or unpredictable." The consensus of informed opinion held that children thrived best under a limited permissiveness, they need an organized or structured world. The sight of strange, unfamiliar or uncontrollable objects, illness or death can elicit fear responses in children. "Particularly at such times, the child's frantic clinging to his parents is eloquent testimony to their role as protectors (quite apart from their roles as food givers and love givers)."<sup>41</sup>

In adults we may observe expressions of the safety needs in the common desire for employment with security of tenure and pension and insurance schemes, and the improvement of safety conditions at work. Another attempt to seek safety and stability in the world may be seen in the very common preference for familiar rather than unfamiliar things, or for the known rather than the unknown.

### **III.5.3 Social Needs**

If the physiological and safety needs are met, Maslow suggested, then the need for love, affection and belongingness will emerge as the dominant centre of motivation. The person concerned will feel keenly the absence of friends or family; he or she will strive for affectionate relations with people and for "a place in the group". We may best call this as the social needs. Social needs are intrinsic to our human nature. We are born into a small society, the family and we become individuals. But we never lose our need for each other. Work, as Maslow suggests, does provide one important means by which this need within us is met. For work is a matrix of friendship and camaraderie.

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<sup>41</sup> Ibid.

### **III.5.4 Esteem Needs**

These needs refer to self-esteem and self-respect. They include such needs which indicate self-confidence, achievement, competence, knowledge and independence. The fulfillment of esteem needs leads to self-confidence, strength and capability of being useful in the organization. However, inability to fulfill these needs results in feelings like inferiority, weakness and helplessness.

### **III.5.5 Self-Actualization Needs**

This level represents the culmination of all the lower, intermediate and higher needs of human beings. In other words, the final step under the need hierarchy model is the need for self-actualization. This refers to fulfillment. The term self-actualization was coined by Kurt Goldstein and means to become actualized in what one is potentially good at. In effect, self-actualization is the person's motivation to transform perception of self into reality.<sup>42</sup>



**Maslow's Need Hierarchy Theory**

The five sets of need are very crucial to motivate the employees in the organization. Although there are certain limitations of Maslow's theory of motivation, it still serves as a most useful and convenient tool to motivate the employees.

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<sup>42</sup> Ibid.



## **Conclusion**

The scholar has discussed five ethical challenges in business, namely, the challenge of ethical behavior, the challenge of managing a diverse workforce, the challenge of new technologies, the challenge of increased quality and the challenge of employee motivation and commitment. Though there are numerous challenges in business, these five challenges are very prominent in any kind of business. As a manager or supervisor of a company, one has to deal with these challenges very cautiously. In order to overcome these challenges, one has to follow certain rules and regulations and try to abide by it under any circumstances. These challenges are pertinent within the organization, but beyond the organization, there are other challenges (environmental challenges). A businessperson has certain obligations towards environment. The greatest challenge of a businessperson is to protect the environment while doing business in an environment. Besides that, other important issues are the moral links between business and environment. Let us proceed to the fourth chapter, in order to know the moral relationship between business and environment.

## CHAPTER-IV

### BUSINESS AND ENVIRONMENT: MORAL LINKS

This chapter presents a critical analysis of the relationship between business and environment. Business fulfils the growing day-to-day demands of the people and environment provides a safe workplace to work as well as live. In order to fulfill the demands of the people, business leads to many hazards such as., global warming, ozone depletion, acid rain, tropical deforestation or top soil erosion and remains to be seen. The scholar discusses precisely, clearly and elaborately the moral issues related to business and environment from all the perspectives like what are the main sources of threats to the environment? What ethical issues are raised by pollution from commercial and industrial enterprises? An attempt is made to show the significance of business and environment in the society. The scholar has concluded that business should not be done at the cost of environment and too much environmental approach is also not good for humankind. There should be a proper balance between the two (business and environment). One should not grow at one's cost. The government and also the society have to play a crucial role in bringing the harmony between business and environment.

#### IV.1 The Primacy of Business

This position holds that, it is not the fault of business that there are environmental problems; business has always striven simply to give consumers what they want. The ethical responsibility of business begins and ends with business dealings and it cannot be held responsible for the problems that occur in nature and society. This view also holds that the interference of “nature-loving do gooders” and government will destroy business, our economy and finally society itself. If they are not interfered with, science and business will find a way to solve the environmental problems.<sup>1</sup>

Business always has operated on a basis of good faith and those bad results suffered by employees, the public and the environment were not intended or foreseen. Moreover, business should not have to bear the total responsibility for these health

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<sup>1</sup> Jacques Thiroux, *Ethics: Theory and Practice*, Prentice Hall, 1999, p. 397.

and environmental problems. The solutions to environmental problems that have been proposed by nature loving groups and the government are extremely expensive ones and businesses should not have to pay for them out of their profits; furthermore, they need long time as they need to make necessary changes, if needed changes must be made at all.

Business produces the goods and services that meet our needs, wants and desires. During this process there may be too much of the destruction of the environment that has taken place. This damage continues on a regular basis. However, business is not solely to be blamed for this; governments and also the consumers must take the responsibility in this regard. It is the government, which regulates the business community both legally and economically and allowed this environmental destruction to take place. Consumers must accept their share of the blame as it is they who have consented to consume goods and services produced in an environmentally damaging way. Thus, it shows that it is the unique and close relationship between the production process and the environment that places the burden of environmental protection squarely on the shoulders of business.

The manufacture of products and delivery of services for consumption involve necessarily the usage and conversion of raw materials. This process unavoidably produces waste. Indeed the processed product itself is destined to become waste as well. That is the nature of consumer goods; they are to be purchased, used and replaced. The production of the product will consume most of the resources, but even its utilization and eventual disposal consumes more. There is no way to escape the fact that what goes in, must (inevitably) come out as waste. The fact is that resource scarcity and pollution are the two sides of the same coin.

It is clear that our current methods of production are having a seriously adverse effect on the environment. If these processes remain un-checked, the ecosystem, which we all rely on, will eventually be seriously damaged. The message is clear; we must seek out more environmentally sustainable methods of production. Stephen Schmidhering, a swiss businessman, the chairman of a Business Council for Sustainable Development [BCSD], with his 50 members, had put together guidelines

for environmental friendly behavior for companies, in Rio Earth Summit, 1992.<sup>2</sup> Since the Rio Earth Summit in 1992, it has been internationally accepted that the ultimate goal of the UN environmental policy is sustainable production, which is production in harmony with the maintaining of global life support systems. In other words, sustainable production is the process where the consumption of materials and energy are reduced to a level where the ability of the environment to regenerate and assimilate the waste is maintained. This will have to be achieved in accordance with global demand for goods and services by a population, which is likely to double in size before it stabilizes. Achieving sustainable production in the light of this demand is an enormous challenge.

A businessperson has to take the social responsibility. They should not be single-minded towards the pursuit of profit. They should not think about earning quick money with utter disregard for the responsibility of business towards society. In this context, James Burke, the chairman of the well-known consumer product and pharmaceutical company, Johnson & Johnson, put it this way: “I have long harboured the belief that the most successful corporations in this country, the one’s that have delivered outstanding results over a long period of time, were driven by simple moral imperative, namely serving the public in the broadest possible sense better than their competitors.”<sup>3</sup>

#### **IV.2 The Primacy of Environment**

According to the primacy of the environment view, we have been on such a rampage of rape, gluttony and waste where the natural resources and the environment are concerned, the only solution is to stop immediately any business practices, and activities those are adversely affecting health and the environment. Business, according to the environmentalists, must take the major blame for environmental waste and destruction; therefore, it must use its profits to reverse the damage it has wrought. Furthermore, business through advertising has helped to foster the consume-at-all-costs mentality that has been a major factor in creating these problems in the environment. Therefore, it attempts to re-educate the public in any possible manner,

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<sup>2</sup> A.C. Fernando, *Business Ethics: An Indian Perspective*, Dorlingkindersley (India) Pvt. Ltd., 2009, p. 217.

<sup>3</sup> *Ibid.*, pp. 294-304.

even if it has some loss of profit. Because business has ignored its responsibilities, government should immediately step into the breach, using fines, imprisonment, the withholding of government contracts and even business shutdowns to force business to repair the damage it has done. The government must conduct a massive re-education of business people and the public in order to save our environment. Even if businesses are destroyed and the economy is hurt, these actions must be forced upon business in order to alter our present situation before it becomes irreversible.

Now, let us discuss about the environment and its pressing issues. Environment is a place where a group of people lives. Environment does not mean only the natural environment, but also the built environment. These days men are busy in creating decorated environment. This is called “social environment.” The term ‘environmentalism’ was coined in 1923, to refer not to the activities of John Muir and the Sierra Club, but to the the idea that human behavior is largely a product of the social and physical conditions in which a person lives and develops.<sup>4</sup> This view arose in opposition to the idea that a person’s behavior is primarily determined by his or her biological endowment. These environmentalists championed the ‘nurture’ side in the “nature versus nurture” debate that raged in the social sciences for much of the twentieth century. They advocated changing people by changing society, rather than changing society by changing people.

While the scope of the environment is very broad, contemporary environmentalists are especially concerned to protect nature. Often the ideas of nature and the environment are treated as if they were equivalent, but they have quite different origins and histories. The Oxford English Dictionary defines ‘environment’ as “the objects or the region surrounding anything”, and traces its origin to an old French term ‘environer’, meaning “to encircle”.<sup>5</sup> The word ‘nature’ has much deeper roots, coming to us from the Latin *natura*. While disputes about the environment have occurred mostly in the twentieth century and after, arguments about the meaning and significance of nature are as ancient as philosophy. The rationalist philosopher Spinoza maintains that God is nature and nature is God. God is in the world and the

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<sup>4</sup>John Muir (1838-1914) founded the Sierra Club in 1892 and is one of America’s great environmental heroes.

<sup>5</sup> Dale Jamieson, *Ethics and the Environment: An Introduction*, Cambridge University Press, New York, 2008, p. 2.

world in him, He is the source of everything that is called Pantheism. God and the world are one.<sup>6</sup>

That these terms, 'environment' and 'nature', are not identical in reference and meaning can be seen from the following examples. The market complex of the Pondicherry University next to DDE (Directorate of Distance Education) is a part of the environment, but it would be strange to say that it is part of nature. The neurons firing in my brain are part of nature, but it would be weird to say that they are part of the environment. Finally, had the contemporary environmentalist, Bill McKibben, written a book called *The End of the Environment* instead of the book he actually wrote, *The End of Nature*, it would have had to be a quite different book.

The Directive Principles of State Policy of the Indian Constitution commands that the state to ensure protection and improvement of environment and to safeguard forest and wild life. The Directive Principle of State Policy on Environment has been eloquently articulated in Article 48A of the Constitution, introduced by the 42<sup>nd</sup> Amendment in 1977. It reads this: "The State shall endeavour to protect and improve the environment and to safeguard the forests and wildlife of the country."<sup>7</sup> Likewise, Article 51(A) (g) lays down protection and improvement of environment as one of the fundamental duties of every citizen. The duty of the citizen would mean that every citizen is duty-bound to protect and improve the natural environment including forests, lakes and wildlife and have compassion for all living creatures. The Environment Protection Act, 1986 provides for the protection and improvement of environment and for matters connected therein. The act was the result of the participation by India in the United Nations' Conference on Human Environment held at Stockholm in 1972. There were also other acts enacted in India relating to environmental issues such as (i) Water Prevention and Control of Pollution Act, 1974, (ii) Air Prevention and Control of Pollution Act, 1981 and (iii) the Factories' Amendment Act, 1987.

Now the industry has severely polluted environment. It has also created unparalleled environmental threats to us and to future generations. The very technology that has enabled us to manipulate and control nature has also polluted our

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<sup>6</sup> Frank Thilly, *A History of Philosophy*, SBW Publishers, New Delhi, 2000, p. 296.

<sup>7</sup> A.C. Fernando, *Business Ethics: An Indian Perspective*.

environment and rapidly depleted our natural resources. Each year more than 150 million tons of pollutants are pumped into the air we breathe, more than 41 million tons of toxic wastes are produced and 15 million gallons of pollutants are dumped into the nation's waterways. The total energy consumption of the United States each year is equivalent to about 16.35 billion barrels of oil. Each U.S. citizen annually accounts for the consumption of more than 1,300 pounds of metal and 18,500 pounds of other minerals, and each produces over 7 pounds of garbage everyday of the year.<sup>8</sup>

Water pollution is a result of industrial waste dumping, sewage drainage and runoff of the agricultural chemicals. The combined effects of global water pollution are causing a noticeable scarcity. Water reserves in major aquifers are decreasing by an estimated 200 trillion cubic meters each year. The problems stem from the depletion and pollution of the world's groundwater. "In Bangladesh, for instance, perhaps half the country's population is drinking groundwater containing unsafe levels of arsenic. By inadvertently poisoning groundwater, we may turn what is essentially a renewable resource into one that cannot be recharged or purified within human scales, rendering it unusable."<sup>9</sup> It is estimated that the United States will have to spend \$1 trillion over the next 30 years to begin to purify thousands of sites of polluted groundwater.

We have to protect the environment in any circumstances, otherwise one day the whole world will be vanished. British Scientist James Lovelock, in "Gaia-hypothesis", 1970, has rightly pointed this out. According to the Gaia-hypothesis, "the entire biosphere can be seen as living, self-regulating and self-preserving organism, of value in itself."<sup>10</sup> Nature possesses intrinsic value in itself. The scholar also believes that natural environment, such as rainforests, woods near mountain tops, or ecosystems, ought to be preserved because they possess value in themselves. The scholar is also thinking of the arguments that existing species should be preserved, because they are considered to have value in themselves. Once the existing species will be vanished or wiped out, human beings cannot play the role of God in creating such species.

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<sup>8</sup> M.G. Valesquez, *Business Ethics (sixth edition): Concepts and Cases*, Pearson Education, New Delhi, India, 2007, p. 218.

<sup>9</sup> P. Sampat, "The hidden threat of groundwater pollution", *USA Today*, July 2001, pp. 28-31.

<sup>10</sup> Torbjorn Tannsjo, *Understanding Ethics: An Introduction to Moral Theory*, Edinburgh University Press, Edinburgh, 2002, p. 125.

### **IV.3 The Moderate Position on Business and Environment**

This position maintains that business is not totally to blame for the destruction of the environment; rather both the government and society have to share the blame for waste and destruction. However, it is not possible to ignore the situation; we must work hard to conserve the environment. Business must change those advertising techniques that serve merely to foster a consumer society, stop all sorts of pollution and alter its industrial methods so that it begins to work in harmony with the environment. This must be accomplished within a period of time considered reasonable by both business and the environmentalists. Business must pay its fair share of the financial burden out of its own profits. Consumers also have to pay a fair share of the costs through both taxes and higher prices, as businesses pass some of the share of the cost of environmental protection on to the public. Of these sides should try neither to get profit financially from the situation nor to escape from paying its fair share. Constant vigilance with regard to environmental protection should be maintained by businesses themselves, by the government and also by the consumer groups. All of us and the business people included must recognize that we have an ethical obligation to protect human beings and the environment, both of which are more important in the long- run than power or affluence.

As far as this position is concerned, there is a great dilemma between the business and the environment. Both are eager to perform their ethical duties. But when the time comes to deliver, they are in great dilemma. What ought to do or what ought not to do. Let us take three examples for the better understanding, whose fault is this?

#### **Example-1**

##### **The Auto Companies in China**

China's car market began to expand dramatically due to the increasing wealth of the country, the encouragement of the government and a growing middle class that wanted the comfort, convenience and pride of car ownership in 2000. Car sales in China grew 80 percent to more than 4 million cars in 2003. With a population of 1.2 billion people and double-digit growth rates, China estimated that by 2035 as many as 300 million cars would be traveling on its highways. Foreign car companies eagerly



flocked to help China expand its car industry, including Volkswagen, General Motors, Honda, Toyota, Ford, Citroen and BMW, all together committed to invest \$1.8 billion to grow China's auto industry. However, critics suggested that the overzealous auto companies unwittingly might be inflicting serious harms on the global environment. To begin with, the pollution from abundant new cars promised to have extremely severe environmental impacts. Even clean cars will generate massive amounts of carbon dioxide as they burn fuel, thus significantly worsening the greenhouse effect. Cars also produce smog and other health hazards (tuberculosis cases will double; emphysema and lung cancers will rise) and China's form of gasoline contains lead a toxic metal. Expanding China's car production will also increase oil consumption, placing heavy pressures on the world's dwindling oil resources. By 2004, China's rising oil consumption already had led to record-high oil prices, over \$42 a barrel. If car ownership in China's continues to rise, by 2020 China's oil consumption will be two thirds of the United States' (the U.S. consumes one-fourth of the world's oil), a level the world's oil supplies perhaps cannot support. Some experts claim world oil production will peak around 2010, leaving declining oil supplies to meet the rising demands of China, the United States and the rest of the industrialized world, and creating economic havoc and political or military conflicts. A question can be raised, is it wrong for the car companies to help China expand its auto industry?<sup>11</sup>

## **Example-2**

### **The Franklin River**

“Should a dam be built across the Franklin River, in the southwest of Australia's Island State, Tasmania?”<sup>12</sup> The state hydro-electricity commission has decided to build a dam across the river. If a dam is built, then thousands of people will get employment for three years and longer-term employment for twenty or thirty years. The dam would store enough water to ensure that the state could economically meet its energy needs for the next decade. This would encourage the establishment of energy-intensive industry thus further contributing to employment and economic growth. But the environmentalists would like to say that a dam should not be built

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<sup>11</sup> Dale Jamieson, *Ethics and the Environment: An Introduction*, p. 234.

<sup>12</sup> Peter Singer, *Practical Ethics (second edition)*, Cambridge University Press, Cambridge, 2003, p. 264.

across the Franklin River. In order to build a dam, we have to cut-down the forest, which will have a long-term effect towards the future generation. In this process some useful trees for medicine, many birds and animals, are including an endangered species of marsupial mouse that has seldom been found outside the valley become extinct. There may be other rare plants and animals as well, but no one knows, for scientists are yet to investigate the region fully.

### **Example-3**

#### **Narmada Bachao Andolan (NBA)**

Should a dam be built across the Narmada River, Gujrat, India?<sup>13</sup> The Indian Government has decided to build the Sardar Sarovar Dam. If a dam is built, then thousands of people will get employment for many years. People will get drinking water, power generation and irrigation facilities. The dam will also provide agricultural benefits to millions of poor in India. But the project had been opposed by the active environmentalist Medha Patkar and other social activists. The NBA is a non-governmental organization (NGO) that mobilized tribal people, adivasis, farmers, environmentalists and human rights activists against the construction of the dam. Medha Patkar argued that it will harm the environment severely. And how could you build the dam without proper rehabilitation of the poor people? Where will they go? She insisted that the officials had overlooked the post-project issues and problems.

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<sup>13</sup> <<http://www.narmada.org>, retrieved on 01.09.2012>

# Countries blame China, not nature, for water shortage

Thomas Fuller

**Bangkok:** In southern China, the worst drought in 50 years has dried up farmers' fields and left tens of millions of people short of water.

But the drought has also created a major public relations problem for China in neighbouring countries, where in recent years China has tried to project an image of benevolence and brotherhood.

Farmers and fishermen in countries that share the Mekong River with China, have lashed out at China over four dams that span the Chinese portion of the 3,000-mile river, despite what appears to be firm scientific evidence that low rainfall is responsible for the plunging levels of the river, not China's hydroelectric power stations.

This weekend, a group of affected countries — Myanmar, Laos, Cambodia and Vietnam — are meet-



Eye of the storm

ing in Thailand to discuss the drought, among other issues.

Thailand will be requesting "more information, more cooperation and more coordination" from China, said Panitan Wattanayagorn, a government spokesman. China has begun a campaign to try to counter the perception that its dams are hijacking the Mekong's water as the river runs from the Tibetan Plateau to the South China Sea.

Chinese officials, normally me-

dia shy, recently held a news conference and have appeared at seminars, including one on Thursday, to make their case that the drought is purely a natural phenomenon. "More information will help reduce misinformation," said Yao Wen, the head of the political section at the Chinese Embassy in Bangkok.

Many in the room continued to focus on China's dams. Yao listened to impassioned pleas by residents of northern Thailand to stop further construction on the river. "It's where we fish, where we get food," said Pianporn Deetes, a Thai campaigner for the environmental group International Rivers. "It's where we feed our families."

She blamed Chinese dams and blasting of rapids to make the river more navigable for reduced fish catches, and criticised plans for more dams without transparent public consultations. NYT NEWS SERVICE

# Power plants to dry up Ganga in U'khand

Pradeep Thakur | TNN

**New Delhi:** There would be no water in large stretches of the famed Alaknanda and Bhagirathi riverbeds if the Uttarakhand government goes ahead with its plan to build 53 power projects on these two rivers which join at Dev Prayag to form the Ganga, the Comptroller and Auditor General has said.

A CAG inspection report submitted to the Uttarakhand governor says that already the riverbed is com-



RIVER NO MORE: Over-exploitation of Ganga will be catastrophic

pletely dry at Shrinagar (Garhwal) and what flows downstream is the water released by a power plant from

its tunnel and those diverted from tributaries. If all projects are allowed to go through, the aquatic life and

biodiversity of the river basin will be virtually erased. Sources said the report also expresses fear that all villages settled along the river basin will be uprooted once the rivers go dry, leading to mass migration and cultural erosion.

The CAG comes down hard on the state government whose power policy of 2006 allows a private player to divert up to 90% of the river water to power turbines, leaving only 10% to flow in the natural course of the river.

These two were collected from "The Times of India" dated on 03.04.2010.

The above three examples clearly revealed the great dilemma that, Is it wrong for the car companies to help China to expand its auto industry? And should a dam be built across the Franklin and the Narmada Rivers? To solve this dilemma, both businesspersons and environmentalists should sit together and try to find out a consensus. Business is not solely responsible for the destruction of the environment neither environmentalist solely responsible for the slow growth of economy and unemployment. The government, businesspersons and society in general have to share the blame.

#### **IV.4 Role of Corporations in Environmental Management**

Industry is the world's foremost creator of wealth, employment, trade, technology and controls. It deploys tremendous amount of human and financial resources for economic value addition. Industrial and business processes add value to natural resources as these transform the latter from raw gifts of nature into useful products. Industry today, carried on by giant corporations, is synonymous with the "big corporations". Big corporation is powerful enough to influence any situation, be it developmental or environmental. But the mantle of the big producer, creator of wealth and promoter of industry and commerce and worn by the big corporation since the 18<sup>th</sup> century- has been discarded in following the so called "green philosophy". Often blamed for producing massive amounts of waste in an endeavor to produce wealth, they are now expected to become protectors of the environment. The world, according to the Brundtland Commission was producing seven times more goods as compared to the 1950s. The Brundtland Commission was established by the UN General Assembly in 1983 and was formally known as the World Commission on Environment and Development (WCED).<sup>14</sup> The commission, under the chairmanship of Harlem Brundtland, was convened to address the growing global concern about the fast deterioration of the human environment and quick depletion of natural resources, both of which adversely impacted sustainable development. Today about 20 years after the Brundtland Report, we are producing several times more goods, but more importantly, we are producing several times more waste: solid, aqueous and aerial. In recent years, as awareness about environmental degradation occurring in air, water, soil and the biosphere has grown, most of the blame has been laid at the doorstep of

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<sup>14</sup> <[http://www.en.wikipedia.org/wiki/Brundtland\\_Commission](http://www.en.wikipedia.org/wiki/Brundtland_Commission), retrieved on 07.09.2012>

industry, with the big corporations roped in as the main culprits and enemies of the environment. Most of the environmental problems have been attributed to industry, through either locally or globally. Problems such as global warming, depletion of the ozone layer and increase of instances of health problems are claimed to be the results of rapid industrialization without bothering about environmental degradation. They are no longer defensive and reactive. They are becoming innovative and proactive.

In the modern world, the role of corporate business has extended from beyond just producing goods and services or creating jobs or even promoting industrial growth. Industry's role is fast changing from negative approach to positive in all areas of socio-economic endeavors. They are now expected to act positively towards the improvement of the quality of the environment. It has been realized by industrialists that it is imperative to perform their conventional tasks of production of material goods in such a way so as not to impair the quality of life.

The distinction made by Adam Smith<sup>15</sup> between justice and benevolence is more relevant today to corporate business than it ever was. Justice, according to him, is a negative principle that prohibits harm; benevolence, however, requires positive action for the realization of an intrinsically desirable goal-the well-being of others. Corporate business today has the responsibility towards the society, not only to render social justice, but also to promote the greatest good to the largest number of people. To the established duties of the corporate sector of diverting a portion of their profits to community purpose, production of goods and services, creation and protection of jobs, etc., has been added another one- by far the most onerous, up-to-date zealous protection of the environment.

However, while growth in technology promoted by big business has created problems of environmental destruction and degradation, it is this growth and technology that also hold the hope for improvement-the solution also lies there. A better choice of technology, both preventive and curative can reduce the damage already done to the environment and prevent further damage. The big business has already moved into a new chain of thinking, in which technological dimensions are

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<sup>15</sup> Adam Smith, *An Inquiry Into the Nature and Causes of Wealth of Nations*, New York, Random House/Modern Library, 1937.

decreased, and importance of social, economic, political, cultural and especially environmental dimensions are growing in importance. This change was first seen in the 1980s, especially in the attitude of chemical and oil companies. By the time world leaders gathered for the Rio Summit in 1992, a Business Council for Sustainable Development (BCSD) formed under the chairmanship of Stephen Schmidhering, a Swiss businessman, with its 50 members had put together the guidelines for environmental friendly behavior for companies.

#### **IV.5 Innovative Business Responses to Environmental Regulations**

There are several reasons why those managing business are becoming increasingly conscious of environmental issues and go a step further to convert them to their own advantages.

- ❖ For management morale to have a good environment record (especially after the Stockholm Convention) and the desire to earn good reputation as protectors of the environment.
- ❖ In an era of “lean management”, many companies are finding ways and means to cut waste wherever possible. Pollution prevention extends this concept to resources, and firms are finding that they can significantly lower their “end-of-pipe” abatement costs by not creating wastes in the first place. After all, some argue, what is pollution, if not wasted resources? “Waste Not, Pollute Not” is the pollution prevention mantra in American industries. “Doing it for Mother Earth” examines the gains that can be realized in both compliance and profits from pollution prevention programmes.
- ❖ The Environmental Protection Act (EPA) has acknowledged the potential gains from pollution prevention as opposed to mere “end-of-pipe” compliance, and has recently begun to encourage such practices through the use of voluntary programmes.
- ❖ Businesspersons have realized the advantage of taking a proactive stance towards environmental regulation. Instead of fighting against regulations, some firms are looking beyond mere compliance and improving their environmental

performance. There are a variety of innovative business strategies which involve strengthening the firm's bottom-line as well as the environment.

- ❖ Products may meet regulatory standards when they leave the factory, but may yet cause environmental damage through future use. Changing regulations may create costly burdens for firms that do not examine the lifetime effects of their products. For example, many firms in the United States are incurring huge remediation cost at Superfund sites, where polluting was not always illegal at the time. Recent trends in regulation suggest that forward looking firms will protect themselves through “green design” of their products and enhance their public image by examining the entire life-cycle of their products.
- ❖ To keep their consumers, who are increasingly environmentally conscious happy, companies have to ensure that their products, packages and even processes are environment friendly. There have been several instances where the consumer movement has made companies change their activities and processes, which contributed to environmental degradation, to become environment friendly. For example, McDonald's fast food chain<sup>16</sup> used to sell hamburgers in polystyrene ‘clamshells’. Environmentalists followed by school children and other consumers demonstrated outside McDonald's shops and heaps of letters poured into their headquarters at Chicago. The Environmental Defense Fund also approached the company. The company ultimately agreed to replace the clamshells with “quilted paper wrap”, which though still not biodegradable, made much smaller waste heaps, about a tenth of the earlier size. The company did not start using washable crockery on the plea that the detergent and hot water used to clean them would themselves not be much more environment friendly than throw away packaging carefully destroyed. This resulted in the company to look for ways to cut down waste by using recycled materials in packaging and restaurant furnishing, and transporting products such as ketchup in reusable crates.
- ❖ Eco-labelling is another example of companies trying to pacify consumers with proof of environment friendliness of their products. The first eco-labelling was done in Germany in 1978. The products carried the “Blue-Angel” label. A study

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<sup>16</sup> A.C. Fernando, “Role of the State in Environmental Governance”, *Management Matters*, Vol. 1, No. 3, September 2004- February 2005, Chennai:LIBA, pp. 97-121.

of 22 countries done by the Organization of Economic Cooperation and Development<sup>17</sup> (OECD) showed that these countries had or were planning eco-labelling. Consumers all over the world today look for the label showing that the product is 'green'.

- ❖ Potential savings through pollution prevention measures have been increasing. Companies have found that reduction in their use of raw materials and energy and in the amount of toxic wastes they produce could yield savings.
- ❖ The fear of incurring the cost of environmental damage has risen as regulations have been tightened by governments and courts of law.
- ❖ In the past, environmental advocacy groups and government regulations were seen as opponents of business. Now, however, some firms are finding that they can save a lot of effort and trouble, if they work with these groups to find solutions acceptable to all stakeholders.

#### **IV.6 Waste Management and Pollution Control**

Environmental damage through industrial activity can be of two types:

1. Depletion of natural resources: Excessive use leads to the reduction in natural resources that are extracted and/or used up in the production of other goods, such as minerals and fossil fuels. These resources are non-renewable. Once extracted, they cannot be replaced. Technology must find substitutes for such raw materials if further depletion of non-renewable resources is to be prevented. Depletion is thus a quantitative concept.
2. Degradation of the natural resources: Degradation refers to the deterioration of the quality of the environment. All production creates waste and pollution right through the process of manufacturing to the disposal of the final product. Wastes such as aerial, aqueous or solid degrade the air, soil and water quality and pose health hazards.

Disposing waste into the environment was cheap, if not free, until recently because the costs from pollution were not borne by the producer of that waste. As a

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<sup>17</sup> Ibid.



result, waste emission has almost surpassed nature's capacity to absorb wastes. Waste management has become essential, in many cases it has been made mandatory through government, but with industry and business becoming environment conscious, waste management is finding an increasingly important place in the agenda of big corporations.

#### **IV.6.1 Pollution Prevention**

As seen earlier, sustainable development has universally been accepted as the common environmental goal in business circles now. Corporate management has a great deal to achieve sustainable development. To implement sustainable development, it requires promotion and application of pollution prevention through source reduction or clean technologies. An effective pollution prevention programme can yield cost savings that will more appear directly on the balance sheet or may involve anticipated savings in terms of avoiding potential costs. Cost savings are particularly notable when the costs result from the treatment, storage or services that produce waste, e.g., material costs can be reduced by adopting processes.

Wastes may be aerial, aqueous or solid emissions, and waste management comprises containment, dispersal and remedial measures. Pollution prevention management implies both management of wastes and production before they create pollution problems. In the past, environment management strategy focused on pollution control- waste removal, treatment and disposal techniques, etc. mostly in the manufacturing process. However, the problem of environmental degradation is not limited to the manufacturing processes only. That is only the first generation problem that is release of waste within the plant. The problem is much more extensive, as besides manufacture, storage, transportation and use of products also contribute to pollution, waste accumulation and environmental degradation. Thus we need to differentiate between waste management strategies and pollution management strategies. While the former emphasizes reduction in waste generation and controlling pollutants in waste, the latter seeks not only to improve manufacturing processes, but also to consume environment friendly products.

#### IV.6.2 Key Strategies for Industrial Pollution Prevention

1. Systematic waste reduction audit: This will enable manufacturers to take inventory and trace input chemicals and to identify how much waste is generated through specific processes. It is an extremely useful tool in diagnosing how a firm can reduce or even eliminate waste.
2. Material balance: Identifying processes, inputs, outputs, recycle and reuse rates, deriving a preliminary material balance and evaluating and re-fixing material balance.
3. Economic balance: Identifying costs and reviews to achieve an economic balance. According to benefit-cost ratio, experience in the industrialized countries has proved that anti-pollution technology has been cost effective in terms of health, property and avoiding environmental damage that it has made many industries more profitable by making them more efficient in the usage of resources. While economic growth has continued, the consumption of raw materials was held or even declined. For the benefit-cost analysis, industries look for savings and cost effectiveness in any step or operation they undertake. Pollution prevention has been found to be cost effective and results in saving, especially in the longer-run. Several slogans on pollution prevention programmes clearly indicate this view. For example, Chevron gave the slogan 'SMART' (Save Money and Reduce Toxics), Dow Chemicals 'WRAP' (Waste Reduction Always pays). Of course, firms also found that their measures to tackle pollution made big improvements in their environmental performance. Between 1989 and 1991, Chevron Texaco reduced its output of dirty air, water and solid wastes by 40 per cent and toxic emissions by 58 per cent.<sup>18</sup> It would mean saving on waste disposal and clean up operations. Savings from pollution prevention programmes result from several sources. It reduces the need for pollution control equipment and disposal of hazardous and non-hazardous wastes. Further, companies found that their pollution prevention, resource conservation and designs and strategies can reduce the use of raw materials and energy costs. Another very important cost saving that results from pollution prevention strategies is that of invisible costs such as health problems of workers that cause decrease in productivity.

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<sup>18</sup> Ibid.

4. Waste reduction: Identifying opportunities and implementing them through simple process modifications such as pollution prevention measures such as good house-keeping, waste reduction and recycling, designing a waste-reduction strategy, implementing internal recycling for one's own or others' use, to reduce emission from the process and also to reduce for continued supply of raw material inputs.
5. Use of innovative, updated and cleaner technologies: Development of preventive technologies to benefit current and future scenarios, without transferring the problem from one media to another such as air, water and land, as is often the case. For example, waste treatment processes produce large amounts of sludge and residue, which again would need a disposal programme to prevent secondary pollution. The key, therefore, lies in technological change. In the past, technological inventions were mostly made to save the resources both human and natural. The need of the day is to use technological progress for environmental protection and damage abatement wherever possible. Experience shows that the technological management has reduced the adverse impact of many activities on the environment. However, the progress in environmental protection technology has failed to keep pace with the fast depletion and degradation of natural resources. Stress has to be laid on both preventive and curative technological progress.
6. Life-cycle assessment: This is a process of evaluating the environmental burdens associated with a product or activity. It addresses the entire production system, not just isolated components. It starts by identifying and quantifying energy, the material used and the waste released into the environment, assessing the impact of the energy and material uses and releases to the environment and identifying and evaluating opportunities of effecting environmental improvement. It is a complex process beginning with goal definition, going on to inventory of resources and requirements, and assessing the possible threat to planet survival. The corporate sector needs to be further proactive, that is, use technological innovations for environmental progress, which can be measured, communicated and also used effectively as a marketing tool to educate all stakeholders.

Business managers must recognize new business ethics and opportunities-clean products and clean technologies to create a competitive advantage. Old

established companies also need to enter the stream of environmental, technological innovations before the new entrants using the latest, cleaner technologies provide a stiff competition and drive them out of the market. Crime of the future will no longer be failure to comply with regulations. It need not act preventively. The Judgment pronounced by public opinion in the market, will make or mar the future of a business enterprise. To remain a vital, thriving competitor, a corporate management must gear up to meet the needs of the next generation of consumers. Companies realize that they have neither the resources nor the time to damage their environment now and clean up later. Emerging technologies offer the promise of higher productivity, increased efficiency and decreased pollution. Though they may bring problems of new toxic chemicals and wastes and of major accidents and scale beyond the present coping mechanism, implemented with caution, there is no reason why they should not lead to a more prosperous and bright future for the corporate world and respectability for management.

Thus company managers' roles and responsibilities are undergoing fast transformation not only in the area of maximizing return on investment, but also in the real-life proposition of social responsibility and social accountability. With unprecedented growth in information technology, speedy process of globalization and 24 hour trading in commodities, foreign exchange and bullion, managers and other functionaries of the corporate world have urgent need to re-orient their perception and working style.

#### **IV.7 Improving Corporate Environmental Performance**

Environmental performance has become a critical issue in recent times. Environmental disasters can create serious problems for organizations. A good example is the Bhopal gas tragedy in 1984, in which thousands of people lost their lives after methyl isocyanate leaked from the Union Carbide plant in Bhopal.

Many well-informed people remember vividly the tragic and poignant Chernobyl nuclear disaster in Kiev, Ukraine that occurred in 1986. The explosion of the nuclear reactor killed as in mid-2006 'fewer than 50' people and released large quantities of radioactive substances into the atmosphere.<sup>19</sup> Bhopal and Chernobyl did

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<sup>19</sup> K.S. Parthasarathy, "Chernobyl: 20 Years Later", The Hindu, 20<sup>th</sup> April, 2006.  
<<http://www.thehindu.com>>

not mark the end of environmental disasters. The Valdez (United States) oil spill of 1989 and the Tokaimura (Japan) nuclear accident of 1999 are other prominent examples. In developing countries like India, environmental issues often take a back seat and accidents are quite common.

In another environmentally damaging incident caused by criminally careless corporate attitude, Hindustan Lever dumped mercury waste from its thermometer factory in Kodikanal in the surrounding forests. This negligent attitude of the multinational company not only affected the forests but also the local community adversely. When environmentalists headed by Green peace unearthed the incident, the company initially denied the charges that it was responsible for the damage.<sup>20</sup> Later on, the Indian authorities coerced them to admit the truth about their deep involvement in the fiasco.

Since then Unilever has retrieved and sent back to the United States some of the waste for disposal but is shying away from compensating affected workers and further environmental remediation measures. The German transnational Bayer has continued to sell certain phased-out pesticides in Asia in spite of giving an assurance that they would stop the manufacture of these highly poisonous pesticides.<sup>21</sup> Ship-owning companies such as Bergesen of Norway and Chandris of Greece follow the unlawful practice of dumping their toxic waste in ship-breaking yards located in developing countries such as India, Pakistan, China, Turkey and Bangladesh. Though the International Marine Organization has chalked out a guideline to be followed by shipping companies for disposing off their harmful wastes before the ships are sent for being scrapped, these are hardly followed. Therefore, it is necessary that these guidelines are made mandatory to make the ship owners responsible in case of violations.<sup>22</sup>

In today's globalized world, transnational business and trade organizations tend to move around assets, products and wastes across countries with a view to increasing their profits by reducing costs. These companies take undue advantage of

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<sup>20</sup> "Unilever Admits to Toxic Dumping; Will Clean Up, But Not Come Clean", available at <http://acrchive.greenpeace.org/pressreleases/toxics/2001> , retrieved on 08.09.2012.

<sup>21</sup> A.C. Fernando, *Corporate Governance, Principles, Policies and Practices*, Pearson Education, New Delhi, 2006.

<sup>22</sup> Ibid.

the lack of well-defined local environmental and health laws in poor countries and their governments' laxity in implementing them. Further, they often export pesticides and wasteful and destructive technologies to under developed countries, which decisively harm the inhabitants of these countries.

Most types of environmental problems have been attributed to industry, whether local or global. Problems like global warming, depletion of ozone layer, and increase of instances of health problems are considered to be the result of rapid industrialization without a thought for environmental degradation. By tackling environmental problems, there may not be any immediate improvement in the bottom line. At the same time, it is wrong to assume that investments made to improve environmental performance will never pay off. A strategic approach to environmental risk management can generate sustainable, competitive advantages in the long-run. For this, environmental issues must be integrated with the companies' corporate strategies. One of the more prominent and significant ways of integrating environmental issues with the company's corporate strategies is by adopting environmental audit as a means of taking initiative to evaluate environmental performance.

#### **IV.8 Green Business**

Green business is otherwise known as sustainable business. Basically, green business refers to environmentally sustainable business; which has no negative impact on the global or local environment, community and economy. Again, green business is a business that strives to meet the triple bottom line of sustainability- economic, social and environmental. Sustainable business has been defined in many ways: "Meetings our needs while not compromising the ability of future generations to meet theirs" (Bruntland Commission), "Living well within the limits of nature" (Mathis Wackernagel, author of *Sharing Nature's Interest*) or simply "Not cheating on our children" (former UK Environment Minister John Gummer). Whatever may be the definition, those who are working in the field of sustainability, they have to take up the three realms/triple bottom line of sustainability (economic, social and environmental). Instead of trading these realms off against one another (jobs or the

environment; economic growth or environmental health; development or habitat), sustainability aims to optimize all three.<sup>23</sup>

In the long-term, you cannot have one without the others. For example, china has been reporting 9 per cent economic growth or more over the past decade but is beginning to recognize that the environmental costs of that growth (example, flooding, pollution, health problems and resource depletion) wipe out most of those gains. Pan Yue, deputy director of China's State Environmental Protection Administration, figures that environmental injury costs China 8 to 15 per cent of its annual gross domestic product.<sup>24</sup>

These three realms are intimately intertwined. Without a healthy economy, unemployment is high, leading to a host of social problems; and without a healthy economy, governments do not have the revenues to handle these increased social ills. Without a healthy environment, we deplete the resources upon which our economy depends and contribute to human illness. Without a vibrant community, we cannot have the employees to work in businesses and people in crisis do not have the luxury of being concerned about environmental degradation.

Thus, green business becomes mandatory, not voluntary. The moment one talks about green business, it becomes imperative to know that, does it pay to be green? The answer comes from the scholars, academicians and businesspersons that it pays to be green. In this new world, both business and the environment can win. Being green is no longer a cost of doing business; it is a catalyst for constant innovation, new market opportunity and wealth creation. The moment a company becomes a green company, it pays in the long-run. There is a company, since its inception, the company has pushed hard to become known as a "green company". It is none other than Anita Roddick's Body Shop. Employing about 10,000 people in some 2,500 stores in over 60 countries, and selling well over 1,200 different beauty products around the globe, The Body Shop International is the second largest cosmetics franchise in the world. Founded by Anita Roddick in 1976, the company's corporate vision was greatly influenced by its founder, who wrote in her book *Body*

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<sup>23</sup> Darcy Hitchcock and Marsha Willard, *The Business Guide to Sustainability*, published by Earthscan, London, 2008, pp. 8-9.

<sup>24</sup> Ibid.

*and Soul*, “There is no power on earth apart from business capable of making the changes we desperately need for the continued survival of the planet.”<sup>25</sup> The company has taken several stringent actions to be branded as a “green company”, avoiding animal testing, seeking fair trade practices, cutting carbon emissions, using only recycled packaging materials, among many initiatives geared towards a sustainable business model. After spectacular growth during its first decade and a half, The Body Shop went to countries like the United States and Germany and experienced growth rates that were significantly below expectations.

Serious losses forced the company, in the late 1990s, to give up on production of cosmetics and instead concentrated merely on sales. Shortly before the death of the founder, but following a renewed period of growth, the company was sold in 2006 to the L’Oreal Group. In order to retain its value-based identity, it continues to be headquartered in the United Kingdom and operates independently within the L’Oreal Group.

The company seeks to be a leader not only in promoting greater corporate transparency, but also in representing a force for positive social and environmental change. As such, the company pursues campaigns around the world that are ground in five core values:

- Opposing animal testing
- Supporting community fair trade
- Defending human rights
- Save the forests
- Protecting the planet

The Body Shop’s key distinctive proposition is that it is against animal testing. Every product is vegetarian and animal-cruelty free. It was the first cosmetics brand to be recognized under the Human Cosmetics Standard against Animal Testing Policy.<sup>26</sup>

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<sup>25</sup> Abhijit Roy, “The Body Shop”, in N. Cohen & P. Robbins (eds.), *Green Business*, Sage Publications, New Delhi, 2011, pp. 39-42.

<sup>26</sup> Ibid.



The company also believes in fair trade policies- in the 1990s, it set up a fair trade program called “Community Trade” that works with 30 suppliers in more than 20 countries, providing over 25,000 people around the globe with essential incomes to sustain themselves. A charitable wing, The Body Shop Foundation, was started in 1990 to aid pioneering front line organizations that otherwise could not find funding. In 1997, the company’s founder launched a global campaign to raise self-esteem in women and against the media stereotyping of women, with a particular focus on the socially pathological emphasis on skinny models, leading to massive increases in bulimia and anorexia victims. It has also focused on human and civil rights issues and environmental and animal protection.

#### **IV.8.1 Green as a Commitment**

Tetra Pak<sup>27</sup> is the world’s leading food processing and packaging solutions company. Founded in 1951 as one of the first packaging companies for liquid milk in the world, Tetra Pak has evolved to a global supplier of packaging systems for liquid food products. Today, the company operates in 165 countries with over 20,000 employees, providing integrated processing, packaging and distribution line and plant solutions for foods manufacturing. Tetra Pak has long been committed to running its business in a sustainable manner by setting goals for continuous improvement in development, sourcing, manufacturing and transportation activities. As one of its policies, all Tetra Pak packages have to be suitable for recycling. The company also supports customers seeking solutions for their waste packaging material, and is committed to facilitating and promoting local collection and recycling activities for post-consumer carton packages. Tetra Pak also endorses principles in the areas of human rights, labor and the environment via organizations such as: the United Nations Global Compact; NetAid, a growing network of people and organizations committed to end extreme poverty; and the International Business Leaders Forum (IBLF), a not-for-profit organization that promotes responsible business practices.<sup>28</sup>

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<sup>27</sup> Renato J. Orsato, *Sustainability Strategy: When does it pay to be green?*, Published by Palgrave Macmillan, New York, 2009, pp. 3-12.

<sup>28</sup> Ibid.



*Figure.1 The above figure shows the logo and the products of the Tetra Pak.  
Source:www.tetrapak.com*

The pioneering use of aseptic technology for packaging in the 1960s by Tetra Pak represented a breakthrough in the liquid-packaging industry. Aseptic technology keeps food safe and fresh by maintaining flavor for at least six months without refrigeration or preservatives. The aseptic packaging, better known as long-life packaging, is made of six layers of three different materials: long-fiber duplex paper (75 percent by weight), low-density polyethylene (20 percent) and aluminum (5 percent). Until recently, it would have been difficult to identify any problem with aseptic technology. But the multi-layered packaging material makes the total recycling process very difficult.<sup>29</sup>

The Brazilian subsidiary of Tetra Pak started its operations in 1957 and by 2005 it was the second largest member of the group, exceeding 8 billion packages in sales.<sup>30</sup> In an extension of the Swedish culture, the Brazilian branch has consistently invested in environmental protection.<sup>31</sup> When Fernando von Zuben joined Tetra Pak in 1995 to be the head of the environmental department, he understood that his major challenge would be to close the cycle of post-consumption aseptic cartons. The first major barrier was the low levels of selective collection of household waste. Tetra Pak addressed this problem by sponsoring environmental education. Since 1997, the

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<sup>29</sup> Ibid.

<sup>30</sup> <http://www.tetrapak.com>, retrieved on 7<sup>th</sup> October, 2012.

<sup>31</sup> Tetra Pak Brazil invested around US\$5000,000 per year during 1997-2000; US\$1000,000 per year during 2001-2002; and US\$2,000,000 per year during 2003-2005 (source: Tetra Pak Brazil)

company has been distributing a pedagogical kit developed by the University of Campinas, in the State of Sao Paulo, to support classroom discussion about the problem of urban solid waste, the importance of selective collection and the environmental, social and economic benefits of recycling. By 2005 around 2200 primary school teachers were trained to use the instructional material, which has been distributed to more than 5 million students in 40,000 schools around the country. In 2006 Tetra Pak made the program available via videoconference.

Another way of increasing recycling rates of aseptic packaging is to provide local councils and cooperatives of collectors with technical expertise. Between 1997 and 2005, more than 200 councils were offered Tetra Pak's expertise in recycling. Normally, Tetra Pak motivates councils to establish stable and reliable collection systems via cooperatives of collectors. The cooperatives provide a more systematic approach to the problem of collection but their formation serves a much broader social aim. Members receive greater social assistance via education and medical care among other services. In its efforts to support the formation of cooperatives, during 1997-2005, Tetra Pak sent more than 4 million brochures to municipalities and cooperatives of collectors. In order to increase process efficiency, during that period Tetra Pak donated 30 press machines to cooperatives in various states of Brazil. Such support resulted in aseptic cartons representing between 6 and 10 percent of the income of collectors by 2005. Once the material is collected, then the proper recycling can start. Until 1997, however, several technical and commercial hurdles limited recycling. The recycling of paper content in aseptic packaging has never represented a major problem. It can be extracted from the sandwiched layers of polyethylene/aluminum (Pe/Al) with a hydropulper- standard equipment in paper recycling plants, which has to be adapted for the separation of Pe/Al- and the filtering of eventual residues. Until 1997, such requirements made paper manufacturers reluctant to use the fiber from aseptic cartons. Tetra Pak addressed the problem by showing manufacturers the technical advantages of the fibers from aseptic cartons. Tetra Pak addressed the problem by showing manufacturers the technical advantages of the fibers from aseptic packaging. The fibers are new and therefore, longer than those that have already gone through a recycling process, which convinced recyclers of paper to gradually start giving priority to Tetra Pak aseptic packaging. The range of

recyclers is very broad, varying from medium and small local producers to Klabin,<sup>32</sup> a world-class corporation specializing in the manufacturing of paper.

After the extraction of paper fibers from the packaging, it is necessary to find uses for the blend of Pe/AI. Until 1999, there were no applications for the Pe/AI coming either directly from the Tetra Pak factory or as post-consumption waste. The environmental team of Tetra Pak was given the challenge of finding solutions. After a few years of trial and error, the Pe/AI blend was used for the production of roof tiles and boards. Basically, the process consists of pressing the material at temperatures around 180°C, with subsequent cooling, to produce plain boards or corrugated roof tiles. Even with very low levels of process optimization, the business is profitable. The initial investment in equipment is about US\$58,000 and revenues of US\$45,000 per year are feasible. Profitability depends on various factors. Location strongly influences the costs of transport and the price of the raw material. For instance, in 2005, out of the ten producers of roof tiles and boards in Southern Brazil, the producers operating in Parana and Sao Paulo states were in the best position. Since profit margins are relatively low, fluctuations in the price of raw material can have a perverse effect on the business viability. The Pe/AI is also used as raw material in plastic products. After the Pe/AI mix taken out of the hydropulper as a reject of the process of paper recycling, it is cleaned to remove dried up fiber and in order to increase the homogeneity of the material, ground up. After this, the rejects are fed into an extruder, which will melt them down at temperatures of 200°C and then extruded into Pe/AI pellets. These pellets are sold to the manufacturers of plastic materials, such as buckets, brushes and handles for tools. The Pe/AI pellets are used as substitutes for pure plastic material (polyolefin, normally polypropylene or polyethylene). In this case, even though the aluminum content is a contaminant of the plastic material, because it does not compromise the product performance, it can be used as a substitute for pure plastic.

Even though Tetra Pak's initiatives in Brazil resulted in greater rates of collection and recycling of aseptic packaging, until 2004 the solution was still an incomplete one. Because there were no technical ways of separating the layers of

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<sup>32</sup> Klabin has been the focus of media and academic studies for its early commitments toward environmental protection. The company received several environmental awards, including "Premio Expressao de Ecologia", <<http://www.expressao.com.br/ecologia>>

polyethylene from aluminum, they were used for applications that require lower performance than in aseptic packaging, such as brushes, brooms, boards and tiles. Even though this is a better solution than land-fill, still it does not close the material cycle. After more than ten years of research and development and collaboration between Fernando von Zuben of Tetra Pak and Dr. Roberto Szente, an expert in plasma technology and head of the plasma research team of IPT,<sup>33</sup> a Brazilian research institute, closing the cycle of aseptic cartons became possible via the use of thermal plasma technology. The process represents a new recycling option, which separates the three package components, allowing them to return to the production chain as raw materials.

Metallurgical companies have traditionally used plasma technology for metal recovery. However, the use of plasma for the recycling of aseptic packaging is novel. Plasma technology is highly efficient: 90 percent of the energy yield is actually achieved in the process. In comparison, doing the same process with natural gas, the efficiency would be down to 25-30 percent; the aluminum would be contaminated and the plastic would burn. Besides the eco-efficiency of the process, emissions during the materials recovery are near zero because the atmosphere of the reactor has close to zero concentration of oxygen.<sup>34</sup>

After the pilot plant had been running for 24 months, the quality of the plant output (paraffin wax and aluminum) was so encouraging that a proposal for a joint venture emerged. In 2004, Tetra Pak, TSL, Klabin and Alcoa (an American producer of aluminum in Brazil) formed a new firm named Edging Environmental Technology. The Thermal Plasma plant installed in the city of Piracicaba (in the State of Sao Paulo), has the capacity to process 8000 tons of Pe/AI material per annum (equivalent to 32,000 tons of aseptic packages), representing 20 percent of all Tetra Pak packaging produced in Brazil (160,000 tonnes/year). The plant required an investment of US\$5 million, shared among the four partners. During 2004-2008 the plant operated at 50 percent of its potential, reaching full capacity in 2009 with the installation of the second reactor.

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<sup>33</sup> Instituto de Pesquisas Tecnológicas de Sao Paulo.

<sup>34</sup> Detailed information can be found in: Fernando von Zuben, "The Thermal Plasma Technology Separates Aluminum from Plastic in Packages", in *Proceedings of the International Conference on Energy, Environment and Disasters* (INCEED), (North Carolina, USA, 2005).

Alcoa, the supplier of the aluminum foil for aseptic packaging, has been buying the recycled aluminum for the production of new foils. Aluminum has been sold to Alcoa at 95 percent of the London Metal Exchange (LME) price. The paraffin wax has been sold to the national chemical industry to be used as wax emulsion for paper. The sales of paraffin and aluminum produced by the plant are expected to result in an investment payback period of only two years. Such investment prospects have led to the increased interest outside Brazil. Plasma plants are planned for Spain and Belgium. In October 2005, the Brazilian Industry Council, a governmental organization, awarded Tetra Pak a prize in the category of sustainable development for the plasma plant factory. The project has been so successful that National Geographic Channel included it in its documentary series about Megacities.<sup>35</sup>

Overall, Tetra Pak's efforts to close the aseptic carton cycle resulted in great increase in recycling rates. Such results are important for the sake of overall environmental impact that has been reduced, at the same time; the recycling networks promoted by the company have generated new sources of wealth and alleviated poverty. The implementation of the plasma plant represented an opportunity for Tetra Pak to obtain a return from the US\$1.2 million per year invested since 1997 to close the aseptic carton cycle. Curiously, the company was interested in this type of return on investment. According to Fernando von Zuben, Tetra Pak does not intend to get profit from the plasma technology. The efforts of the company to close the material cycle are part of the overall philosophy of the group towards excellence in corporate environmentalism.

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<sup>35</sup> Megacities: Sai Paulo, National Geographic, 2005.

## **Conclusion**

From the above discussions, both business and environment are important and essential for the survival of the humankind. Business fulfils the emerging demands of the people, whereas environment provides a conducive atmosphere in which everybody can live safely. As long as consumers demand cheap, affordable goods, business will endeavor to provide them. If this requires the relocation of production to the emerging economics, then business will do that, because they have the responsibility towards their shareholders to optimize profits and dividends. We cannot survive without environment, at the same time, without business we cannot live also. The scholar's observation is that both are equally essential for the humankind as there is a moral link between the two (business and environment). But the overdose of business is not good and vice-versa. There should be a proper harmony or balance between the two. These two need to complement each other. Instead of pointing finger towards each other, the scholar believes that both the government and society have to play a significant role in bringing harmony between the business and environment. Apart from the commitment towards environment, a businessperson has to screen socially responsible advertisements. Let us proceed to the fifth chapter to know what kind of socially responsible advertisements, they have to show on screen.

## **CHAPTER-V**

### **SOCIALLY RESPONSIBLE ADVERTISING**

Business implies marketing and marketing is a lot about advertising. The purpose of advertising is to communicate with people with regard to the products and at the same time compel them to buy the products. Advertising has a huge impact on the social, political and economic aspects of a country. Since advertising is so visible, it gets criticized frequently, for both what is and what is not. By inviting people to try their products, companies risk public criticism and attack if their advertising displeases or offends the audience or if their products do not measure up to the advertised promised. Although there are false, bogus, pufferies and tall-claim ads are frequently shown on Televisions, the scholar attempts to through light on socially responsible advertising. Does socially responsible advertising pay? Is there anything called socially responsible advertising? Do the businesspersons take responsibility with regard to ads? If at all there is socially responsible advertising, what kind of ad that is? Do they compromise their business mind-set? At the end, the scholar concluded that advertising should be responsible. After all, it pays to be responsible. In this context, the researcher has taken the examples of Aircel (save the tigers), The Body Shop (beauty comes from within), Amul (the taste of India), Tata Tea (jaago re campaign), and Idea's keep cricket clean and also critically highlighted socially irresponsible advertising like Fair & Lovely and Complian. After going through the pros and cons of advertising, it seems that socially responsible advertising pays in the long-run.

#### **V.1 The History of Advertising**

It is not easy to trace the history of advertising. It has grown from time to time in different forms or patterns. The word advertising originates from a Latin word 'advertise', which means 'to turn to'. The dictionary meaning of the term is "to give public notice or to announce publicly." Advertising may be defined as the process of buying sponsor-identified media space or time in order to promote a product or an idea. The American Marketing Association, Chicago has defined advertising as "any form of non-personal presentation or promotion of ideas, goods or services, by an identified sponsor."



The seller in primitive times relied upon his loud voice to attract attention and inform consumers of the availability of his services. If there were many competitors, he relied upon his own personal magnetism to attract attention to his merchandise. Often it became necessary for him to resort to persuasion to pinpoint the advantages of his products. Thus, the seller was doing the complete promotion job himself. Development of retail stores, made the traders to be more concerned about attracting business. Informing customers of the availability of supplies was highly important. Some types of outside promotion were necessary. Signs on stores and in prominent places around the city and notices in printed matters were sometimes used.

When customers were finally attracted to the store and satisfied with the service at least once, they were still subjected to competitive influences; therefore, the merchant's signs and advertisements reminded customers of the continuing availability of his services. Sometimes traders would talk to former customers in the streets or join social organizations in order to have continuing contacts with present and potential customers. As the markets grew larger and the number of customers increased, the importance of attracting them also grew. Increasing reliance was placed on advertising methods of informing about the availability of the products. These advertising methods were more economical in reaching large numbers of consumers.

India's first newspaper, a weekly called the Bengal Gazette, which was started by James Augustus Hicky on 29<sup>th</sup> January, 1780, had a subtitle or Calcutta General Advertiser. And, true to its subtitle, Hicky's Gazette carried only advertisements on the front page. This practice of publishing merely advertisements on the front page continued for over a century in England and in India. The London Times and the English newspapers in India carried no news on the front page; instead, they just carried advertisements. Some of the English newspapers in India continued the practice even after independence. For example, The Hindu changed this practice only in the mid 1950s.

Volney Palmer of Philadelphia was the first man in the US to start the practice of selling newspapers space to prospective advertisers in 1841.<sup>1</sup> Palmer bought space from the newspaper publishers and resold it to advertisers, but he got his commission

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<sup>1</sup> J.V. Vilanilam and A.K. Varghese, *Advertising basics! A resource guide for beginners*, Response Books, New Delhi, 2004, pp. 1-5.

from the newspaper. Moreover, he initiated a service to the advertisers, individuals and companies. He assisted them with the matter that was to be inserted in the publication. Eventually, Palmer's services to advertisers became so widespread that he was considered an advertising agent rather than a press agent. Incidentally, in those days, press agency was the name given to public relations. Thus in the mid 19<sup>th</sup> century, advertising started in its modern print form in the printed publications. But in those days, advertising did not enjoy a great respect as many people called it puffing, puffery, etc., aimed to promote mostly spurious, but patented drugs and soaps which claimed unearthly qualities and dry goods of dubious value.

## **V.2 What is Advertising?**

Advertising is an organized method of communicating information about a product or service through which a company or individual wants to sell to the people. It is a paid announcement that is conveyed through words, pictures, music and action in a medium which is used by the prospective buyers. To some, advertising is a communication with the express purpose of selling a product or service. In other words, advertising is a highly visible business activity and any lapse in ethical standards can often be risky for the company in order to be consumer-oriented, an advertisement will have to be truthful and ethical. Now-a-days, most of the companies believe in "jo dikhata hai bo bikhata hai" (whatever is to be shown, to be sold). This is a wrong notion of most of the companies. To sell their products, they can go to any extent. They show false advertisements on Televisions by the filmy actors or actresses to appeal the emotions and sentiments of the people. This is called the fallacy of Argementum ad Populum.<sup>2</sup> But this should not be done in business. Though the ads of the celebrities or cricketers can turn the tide in company's favor, but in the long-run, it would not help at all. Advertising is now a \$180 billion-per-year industry.<sup>3</sup> Television commercials often cost as much as \$6.5 billion; by 1970 \$40 billion; by 1980, \$56 billion. Advertising expenditures nearly doubled from 1980 to 1986, suggesting a shocking development of advertising during the 1980s. All revenues for television and radio programming come from advertising. Eighty percent of newspaper and half of

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<sup>2</sup> K. OM Narayana Rao, +2 *Logic: Deductive and Inductive-II*, Kalyani Publishers, Ludhiana, 2007, pp. 133-134.

<sup>3</sup> Anthony J. Cortese, *Provocateur: Images of women (third edition)*, Rowman & Littlefield Publishers, Inc., Maryland, 2008, pp. 4-10.

magazine revenues come from advertising (Jhally 1990). According to Jerry Goodis, advertising executive, “Advertising does not mirror how people are acting but how they are dreaming.”<sup>4</sup>

### **V.3 Arguments for Advertising**

Arguments that justify advertising and the tactics of puffery and exaggeration include:

1. Advertising introduces people and influences them to buy goods and services. Without advertising, consumers would be uninformed about products.
2. Advertising enables companies to be competitive with other firms in domestic and international markets. Firms across the globe use advertisements as competitive weapons.
3. Advertising helps a nation maintain a prosperous economy. Advertising increases consumption and spending, which in turn creates economic growth and jobs, which in turn benefits all? “A rising tide lifts all ships.”
4. Advertising helps a nation’s balance of trade and debt payments, especially in large industries, such as food, automobile, alcoholic beverage, and computer technology, whose exports help the country’s economy.
5. Customers’ lives are enriched by the images and metaphors advertising creates. Customers pay for the illusions as well as the products advertisements promote.
6. Consumers are not ignorant. Buyers know the differences between lying, manipulation, and colorful hyperbole aimed at attracting attention. Consumers have freedom of choice. Ads try to influence desires already present in people’s minds. Companies have a constitutional right to advertise in free and democratic societies.

### **V.4 Arguments against Advertising**

Critics of questionable advertising practices argue that advertising can be harmful for the following reasons. First, advertisements often cross that thin line that exists between puffery and deception. For example, unsophisticated buyers, especially

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<sup>4</sup> Ibid.

youth, are targeted by companies. David Kessler, former commissioner of the FDA, referred to smoking as a pediatric disease, since 90% of lifelong smokers started when they were 18 and half began by the age of 14.<sup>5</sup> Some observers believe advertising actually restricts competition because small companies or industry newcomers cannot compete with the immense advertising budgets of large firms.

Another argument is that advertisements reveal only half-truths, based on tall-claims, conceal facts and intentionally deceive with profit, do not bother about consumer welfare. For example, the \$300 billion to \$400 billion food industry is increasingly being watched by the FDA for printing misleading labels that use terms such as “cholesterol free”, “lite”, and “all natural” are under attack, with an added push from the Nutritional Education and Labeling Act of 1990.<sup>6</sup> Consumers need understandable information quickly on how fat (a significant factor in heart disease) is in food, on standard serving sizes and also on the exact nutritional contents of foods. At stake in the short term, for food companies is an outlay of between \$100 million and \$600 million for relabeling. In the long-term, product sales could be at risk.

## **V.5 Objectives of Advertising**

- To position a product in a market: where a market is segmented, advertising can help position a product with a particular segment and identify with it. Rolls-Royce<sup>7</sup> and Mini cars occupy different segments. Their communication reflects this and maximizes this.
- To create or develop favorable attitudes: it can help to foster a positive view of product or service.
- To develop a brand identity: advertising can help invest a product with a special image or characteristic.
- To sustain relationships: it is a force to build and strengthen producer-customer relationships over time.

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<sup>5</sup> J.W. Weiss, *Business Ethics: A Stakeholder & Issues Management Approach (4<sup>th</sup> edition)*, Thomson South-Western, Mason, 2006, p. 201.

<sup>6</sup> Ibid.

<sup>7</sup> Rolls-Royce is an English Brand Car. Now, the company was called Bentley Motors Limited. It was acquired by Volkswagen in 1998, with the Rolls-Royce brand separately licensed (by Rolls-Royce plc) to BMW to establish a new car company called Rolls-Royce Motor Cars. <<http://www.rolls.roycemotors.com>, retrieved on 28th October, 2012>

- To persuade: advertising puts up a case for the customer to be attracted to the product on offer.
- To create demand: through advertising, companies have the scope to create demand and compel the buyers to buy the products.
- To build up enquiries: often advertising is a bridge between the product and a sales call. Its function is to obtain enquiries; for a sales call, or for literature, or for a sample, or for a price estimate.
- To support distributors: where there is a distributive chain, the distributor may require reinforcement in the local marketplace. Advertising is one of the forces that can supply this.
- To sustain the organization: a company may need to consolidate, or re-establish, or explain or reposition or rebuild relationships. It wishes to strengthen old friends or build new ones. Here advertising may have a strong corporate role.
- To launch new products: advertising is a key weapon in the battery of services used to launch products into the marketplace.
- To offset competition: one characteristic of the recent past has been the growth of the market concept. Another is the growth of the brand. A third feature is the growth of competitive activity. As markets grow so usually does competition. Few markets remain monopolies. As the customer remains sovereign, and a multiplicity of suppliers arises to serve him or her, so competitive activity accelerates. A prime example of this is telecommunications.<sup>8</sup> From a simple monopoly producer with a short range of products has emerged a spread of suppliers and a cornucopia of services. Competition is the norm. Advertising helps meet competitors and match competitors, by persuading the customer or providing a counter-claim. In an increasingly competitive world, suppliers must advertise to protect themselves against primary competition and some-times against other categories of product too.
- To help provide a point of difference: people do not favor 'me-too' products. The brand needs a difference, a unique personality, a point of interest, a feature which will isolate it from a multitude of others. Brands sell differences, or 'product pluses'. These can be powerfully conveyed through advertising. Guinness is not a

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<sup>8</sup> A.D. Farbey, *How to Produce Successful Advertising* (third edition), Kogan Page Ltd, London, 2002, pp. 3-10.

brown stout: it is a sophisticated, superior substance in its own right. Differences are of emotion, or style, or status as well as of product specification.

- To help reach people: in some cases, an organization may need to reach an important contact group, but finds it cannot do so directly, not effectively or economically. But it may do so with advertising.<sup>9</sup>

## **V.6 Limitations of Advertising**

It is important not to over claim for advertising. Potential advertisers may overpromise and expect rapid results and be disappointed when advertising cannot deliver this. It is not like a solve-all or universal fix-it for all business problems.<sup>10</sup> The essence of advertising is that it delivers messages to audiences but it has its own limits. Advertising ultimately is only as strong as the product or service it advertises. Overall, an old advertising adage is correct: that you can sell someone a poor product once but not twice if the product fails to perform adequately. Advertising has a powerful but limited competence. Advertising helps in problem solving, but there are some problems that cannot be solved through advertising. In this situation, it is wiser not to advertise at all. When labour relations are poor or the company is under-capitalized, or when its research and development programme has failed or when its pricing is inadequate, or when its financial controls have failed, then a corporate campaign extolling the virtues of the company will lack credibility. One cannot advertise in his own way out of corporate failure. When the product is obsolete, its quality is low, its features are irrelevant to the market or its specification of little value to customers, advertising cannot rescue it. One cannot advertise in his own way out of product failure. Any advertising can serve to buy a little time.

If the product is not available, if the customer is unable to obtain it, if it has no backing from the distributor, if there is a breakdown of supply, advertising it may only inflame the situation. One cannot advertise in his own way out of distribution failure. Advertising is indeed part of a wider marketing or corporate process. It is part of a chain of activities, where the links are mutually dependent and where each link is

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<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

only as strong as the weakest link in the chain. Advertising cannot overcome poor price, poor quality, poor distribution or poor organization.<sup>11</sup>

It cannot create demand when other elements have failed. It also cannot create demand when markets are low or do not exist in the first place. The public will remain indifferent. It is one of the factors that may help to create a market, but markets have wider considerations, composed of a multitude of factors. Advertising can help to stimulate a market, but this is usually a market that already has some being or some latent potential. In general, advertising cannot produce results when market circumstances are unfavorable and the other marketing elements are not functioning. It has a more humble role to play than some of its more enthusiastic exponents would have us believe. It can only communicate what is possible to communicate.

### V.7 Aircel- Save the Tigers



Fig.1 Tiger

Source: [www.aircel.com](http://www.aircel.com)



Fig.2 M.S. Dhoni and Baichung Bhutia

AIRCEL, India's fifth largest GSM mobile service provider initiated the campaign towards a social cause in association with WWF-India to help save our tigers in February, 2010. The campaign "Save Our Tiger"<sup>12</sup> has touched the hearts of the consumer emotionally, because of the dwindling numbers of tigers across the planet in general and India in particular. Tiger is the national animal in India. India lost around 86 tigers in 2009 alone. From around 40,000 at the turn of the last century,

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<sup>11</sup> Ibid.

<sup>12</sup> <<http://www.aircel.com>, retrieved on 29th October, 2012>

there are just 1411 tigers left in India. The national animal is on the verge of extinction and if serious efforts are not undertaken, Tigers will reside in images and pictures only. In order to save the national animal, Indian Cricket Player and Aircel's brand Ambassador Mahendra Singh Dhoni, footballer Bhaichung Bhutia and south Indian actor Surya are part of this campaign. In order to improve the effectiveness of the programme, Aircel partnered with NDTV<sup>13</sup> to amplify the cause together with the Sanctuary Magazine, India's premier wildlife magazine and the Wildlife Conservation Trust, an organization deeply involved in conserving tiger habitats across the country. A saying goes like this, "thousand miles of journey starts from a single step." Aircel did the same thing. In order to start the campaign without having any further delay, they launched a multimedia campaign to spread awareness about the situation of tigers in India using highly effective public service advertisements on television, internet and hoardings across India. NDTV had come forward to promote the multimedia campaign on tiger conservationists and concerned citizens to voice their opinion and contribute to the cause. A series of special tiger programmes were telecasted to highlight the situation and challenges facing our national animal. The campaign in its first year itself, helped bring forth a common agenda for tiger conservation which was presented to Chief Ministers of key tiger states, who committed their support to take affirmative action on-ground.

NDTV campaign culminated in a 12-hour Telethon<sup>14</sup> in the first year. During the telethon, the best minds on tiger conservation appealed to political leaders and the general public to do whatever they could to help to safeguard the most charismatic big cats on Earth. As a welcome result of the campaign, several prominent political leaders, celebrities and cricketers came on air and pledged to protect the forests of their respective states. The Telethon was an overwhelming success as it generated 19.9 million rupees through donations. Hemendra Kothari, Chairman, DSP Blackrock Investment Managers Pvt. Ltd. and Chairman, Wildlife Conservation Trust, donated 25 million rupees to raise the overall donation amount to approximately 50 million rupees.<sup>15</sup> The funds collected are being used to provide Rapid Response Units [RRU]

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<sup>13</sup> NDTV is a news channel, has come forward to save the tigers campaign with Aircel. To save the tigers, they made some action plans like how to save their habitat and keep the poachers at bay. Details can be found <<http://www.tiger.ndtv.com>, retrieved on 29th October, 2012>

<sup>14</sup> NDTV's 12 hour live programme, exclusively for tigers to raise funds.

<sup>15</sup> <<http://www.tiger.ndtv.com/receiptsandpayments.aspx>, retrieved on 29th October, 2012>



to equip and train Forest Departments to respond during emergency situations like man-animal conflict, anti-poaching patrolling and fire-fighting among others. Having succeed in the first year, second year (2012) also they raised 5.8 crores of rupees.<sup>16</sup> This is one of the socially responsible advertising where a company appeals to the consumer to buy the products through social issues. This is the company that works for the people, society and the environment, not just for profits. There is also a company that works for the society, not just for profits. Let us see the company and its socially responsible advertising and campaigning that promoted the company as well as the society into a new level, at the very next section below.

### V.8 Body Shop- Beauty comes from within



Fig.3 Anita Roddick



Fig.4 The beauty Products of the Body Shop

Source: [www.thebodyshop.com](http://www.thebodyshop.com)

When a brand associates itself with a cause through advertising, it changes the total image and reputation of the company. Research has proved that firms that are socially responsible are considered by consumers to have a good reputation. In a study done by British Telecom in 2002, as much as 25% of a company's reputation was dependant on its commitment to society. In order to show the commitment to society, the Body Shop launched a campaign called "Beauty comes from within", to sell its beauty products. Although the sole motto of the company is to sell the cosmetics products, they are quite socially responsible as far as the advertising is concerned. They neither show vulgar ads portraying women as a commodity nor were their ads based on tall-claims. They appealed to the consumers that all the products are purely

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<sup>16</sup> <[http://www.saveourtigers.com/NDTV\\_updates2.php](http://www.saveourtigers.com/NDTV_updates2.php), retrieved on 29th October, 2012>

vegetarians as we are against testing of animals for cosmetics reasons.<sup>17</sup> It means that none of the beauty products has been tested on animals. All The Body Shop products are certified by BUAV<sup>18</sup> (British Union for the Abolition of Vivisection) as meeting their Humane Cosmetics Standard. This move has touched the hearts of the young women consumers and Body Shop surpassed its competitors in leaps and bounds. Today, The Body Shop continues to produce only items that are animal cruelty-free and vegetarian-friendly. Its animal protection principles outline the following commitments:<sup>19</sup>

- Guaranteeing that no products are tested on animals
- Requiring that no raw ingredients are tested for cosmetics purposes
- Selling only vegetarian-friendly products
- Communicating clearly on our policies to customers and suppliers
- Supporting research into alternatives to bring a stop to animal testing

A lady was behind the flying success of the Body shop. She believed in not just doing business, but doing it with some heart too. She was called the “Mother Teresa” of the business world.<sup>20</sup> She is none other than Anita Roddick, the founder of the Body Shop. She started the company in Brighton on the south coast of England in 1976, with quaint ideas about socially and environmentally responsible business practices having the potential to change the world. Anita Roddick never forgot the African women who shared their skin care secrets with her, which she used to make her creams and lotions for her cosmetics brand “Body Shop”. The key to Body Shop’s success was not just its interesting products but the numerous social causes the brand stood for. It played an active role in Save the Whales campaign in 1985; again in 1989, it stood behind the cause of saving the Brazilian forests; and again in 1990, it energetically supported the petition against testing of animals. These were numerous causes that Anita Roddick and Body Shop fought for and her customers (the young women) just loved her for it. This dynamic woman breathed her last in September

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<sup>17</sup> <<http://www.thebodyshop.co.uk/values/AgainstAnimalTesting.aspx>, retrieved on 3<sup>rd</sup> November, 2012>

<sup>18</sup> This is a standard set for the Humane Cosmetics. This is regarded as the highest standard for animal welfare in the cosmetics industry. They have to audit the company regularly to ensure that the company adheres the latest animal-welfare guidelines.

<sup>19</sup> Jessica Marati, “Behind the Label: The Body Shop’s ‘Against Animal Testing’ Campaign”, <<http://www.ecosalon.com>> First uploaded on 18<sup>th</sup> April, 2012, retrieved on 3<sup>rd</sup> November, 2012.

<sup>20</sup> “Heal the World, Make it a Better Place”, 4P’s Business and Marketing Magazine, Vol. VI, Issue. 17, pp. 4-5.

2007, at the age of 64 but she showed the world how business does not just mean a crazy obsession with profits, but also a crazy obsession with the society.<sup>21</sup> Body Shop gave crazily and the more it gave, the bigger it grew. Hence, Anita Roddick soon became the fourth richest woman in Britain in 1990. Socially responsible advertising and campaigning is a powerful tool and cannot be ignored because it pays to be socially responsible. With the youth of today having a greater and louder voice in purchase decisions, companies that look after the society find increased customer loyalty as they increase their commitment towards the society. Customer loyalty is the one factor all brands would give their right arm for and socially responsible organizations get it, since the customers respect them, and the word-of-mouth advertising around these companies is so good that customers perceive their products to be more reliable and of better quality. As a result, they are ready to pay a higher price for these products and feel good about it. There is an Indian brand called Amul, that does the same thing but in a different way. Amul's humorous and funny ads not only brought attention of the consumers but also given some useful and valuable messages to the society. Let us see what Amul does in socially responsible ads.

## **V.9 Amul- The Taste of India**

Amul is an Indian dairy cooperative brand, situated at Anand in Gujrat, India. The word 'Amul' has derived from the Sanskrit word 'Amulya' which means 'invaluable'.<sup>22</sup> It was established in 1946 by Dr. Verghese Kurien. Amul has reached at a level where none of the food products have ever thought. The credit goes to the founder Dr. Verghese Kurien.<sup>23</sup> Mr. Kurien has brought White Revolution in the country. Therefore, he is known as "Father of White Revolution" and "Milkman of India". Today, Amul is the world's largest producer of milk and milk products. Amul is one of the prime examples of socially responsible ads.

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<sup>21</sup> Ibid.

<sup>22</sup> <<http://www.en.wikipedia.org/wiki/Amul>, retrieved on 3rd November, 2012>

<sup>23</sup> <[http://www.en.wikipedia.org/wiki/Verghese\\_Kurien](http://www.en.wikipedia.org/wiki/Verghese_Kurien), retrieved on 3rd November, 2012>



Fig.5



Fig.6



Fig.7

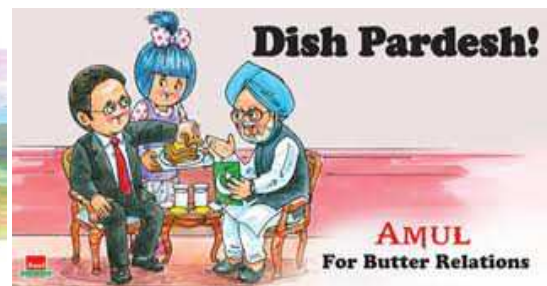


Fig.8

Source: [www.amul.com](http://www.amul.com)

Amul has been running eye-catching advertising since 1966 with politics, sports and Bollywood as its favorite themes. When Team Anna pressed hard on the UPA government that Lokpall Bill must be passed in the parliament. In order to force the UPA government to pass the Lokpall Bill, Team Anna along with its zillions of fans sat on a hungry strike on 29<sup>th</sup> July, 2012 at Jantar Mantar, New Delhi. Although Lokpall Bill did not pass in the parliament on account of sheer reluctance of the government; Amul has given its full commitment to the Bill. In order to create awareness among the people, Amul has advertised Lokpall Bill (fig.5) in a very funny and appealing way. That ad has become the most impressive ad.

Amul girl is one of the new and unique advertising concepts of the Amul brand. Amul girl is an advertising mascot. The Amul girl is a hand-drawn cartoon of a young, chubby Indian girl dressed in a polka dotted frock with blue hair and a half pony tied up.<sup>24</sup> In most of the ads, Amul has depicted the Amul girl. It is in the

<sup>24</sup> < [http://www.en.wikipedia.org/wiki/Amul\\_girl](http://www.en.wikipedia.org/wiki/Amul_girl), retrieved on 3rd November, 2012>

Lokpall Bill (fig.5), UPA government's campaign for the new president (fig.6), requesting Anna to break fast (fig.7) and Pakistan President Asif Ali Zardari's (fig.8) visit to New Delhi after a gap of seven years in April, 2012. The way Amul has portrayed the Amul girl in ads seems to be phenomenal and heart appealing. The ads neither portrayed the girl in a negative way nor diminished the dignity and self-esteem of the girl. There is also a company that walks the talk on honesty and integrity. The company tried its level best to clean up the society through socially responsible ads. It is none other than the Tata. Let us see how Tata advertised its products through socially responsible ways.

#### **V.10 Tata Tea (Jaago Re Campaign)**



Fig.9 A young man asks a girl outside of the cinema theatre that she should wake up.

Source: [www.tatatea.com](http://www.tatatea.com)

The Tata Corporation has decided to launch a social campaign with regard to create One Billion Votes. In order to create one billion votes, they launched Tata Tea's "Jaago Re Campaign". In English 'Jaago Re' means "Wake Up!" Since tea is a stimulating beverage; it is drunk by tens of millions of hard-working Indians not just as a refreshment but to help them stay awake. The Jaago Re tagline helped link the Tata Tea brand to this need. In 2007, a group of Tata Tea executives realized the need and launched the campaign beyond selling tea only. There was a concern in India that low voter turnouts at election time, especially in state and local elections, and there are fears that this is creating a democratic deficit. Tata Tea ran an advertising

campaign urging people to get out and vote. In one ad, a young man tells a girl about to enter a cinema that she should wake up. ‘But I am awake,’ she protests. ‘If you are going to watch a movie when you should be voting,’ he replies, ‘then you are still asleep.’ The message was that Indians, especially the young, needed to ‘wake up’ to their responsibilities.



Fig.10 A sequence of taking bribe starts from a civil servant and ends with a school teacher taking money for admission

In 2008 the Jaago Re! Campaign turned its attention to a new target, India’s endemic corruption. Bribery is known in India as ‘eating’ money. In a television ad, a small man (presumably meant to be a corrupt civil servant or executive) sits across a table from another man and pushes an empty food box towards him. “I am hungry”, he says. The other man smiles, takes out a briefcase and prepares to open it, to put money in the food box. At this point, two young men who have been watching intervene. Their voices are calm, they are smiling too; there is no confrontation. “Why are so many people eating?” one of the young men asks the other. Then follows a series of images: a motorist stopped for a traffic offence handing over his driving license to a policeman with banknotes tucked inside; a head teacher sitting at her desk beneath a picture of Gandhi takes a bribe from a father so that his child can be enrolled at the school. At one point a smiling priest at the door of a temple takes bribe

from a worshipper so that the latter can jump the queue to get inside and make an offering quickly. “Even in your name, God, they are stealing,” says the voiceover.<sup>25</sup>

Then the scene returns to the four men. “Why are so many people eating?” asks the young man again, and he looks at the man with the briefcase and says, “Because we feed them!” Responsibility is laid, not at the door of those who take bribes, but of those who pay them; they are part of the problem. Ashamed, the man closes his briefcase and does not pay the bribe. Only now, as the ad ends, do we see the Tata logo. “Stop eating”, says the text and “start drinking. Wake up!” This is a very powerful and very impactful ad. (Subsequently, Tata Tea launched a campaign urging people to sign a pledge not to pay bribes. At last report, 6, 00000 lakh people had done so.) It is the sort of ad you might expect to see from a political party or an NGO, launching a hard-hitting campaign against corruption and trying to clean up society.<sup>26</sup>

But ... from a tea company?

Corruption has become the part and parcel of India. Since India is a cricket mania nation and cricket is treated as a religion, cricket is not beyond the purview of corruption. In order to keep away corruption out of cricket, Idea Cellular had tried its best through socially responsible ads. Let us see the next section regarding Idea’s idea to clean up cricket.

### V.11 Idea Cellular (Keep Cricket Clean)



Fig.11 From left Allan Border, Clive Lloyd, Imran Khan, Steve Waugh, and Arjuna Ranatunga; Source: [www.ideacellular.com](http://www.ideacellular.com)

<sup>25</sup> <<http://www.tatatea.com>, retrieved on 3<sup>rd</sup> November, 2012>

<sup>26</sup> Morgen Witzel, *Tata: The Evolution of a Corporate Brand*, Penguin Books, New Delhi, 2010, p. 5.

India is a cricket mania nation. Cricket is treated as a religion in India. The cricketers (men) are worshipped as gods. Since corruption spreads in every field, Cricket is not an exception. In order to keep cricket clean, Idea cellular has launched one campaign before 2011 World Cup “Keep Cricket Clean”.<sup>27</sup> This is a well-organized and compelling ad features six World Cup Winning captains, namely, Clive Lloyd (West Indies,1975,1979), Kapil Dev (India ,1983), Allan Border (Australia,1987), Imran Khan (Pakistan,1992), Arjuna Ranatunga (Sri Lanka,1996) and Steve Waugh (Australia,1999), who appeal to the viewers keep corruption out of cricket.

The six legends had seen together in the first ad which goes on air on Thursday, 24<sup>th</sup> February, 2011, under the title “Idea Champions of the world”. The subsequent ads will show these legends suggest smart ideas to deal with situations and people which are against the spirit of the game. The ads had a crisp yet friendly look which will reflect the opinion of these legends on some real life cricketing issues. Talking about the campaign, Ms. Anupama Ahluwalia, Senior Vice President, Marketing, Idea Cellular said, “Cricket is a passion in India and fans like to enjoy the sport in its utmost purity and true spirit.”<sup>28</sup> With the help of socially responsible ads, Idea had spread the message of “Keep Cricket Clean” to built a strong connect with millions of Cricket fans across the country, during Cricket World Cup 2011.

There are certain ads, which are called socially irresponsible advertising. These ads never bother about the society, environment and its impact on the youth. Their main motto is to sell the products through ads. Let us turn to the next section to see irresponsible, puffery and tall-claim ads.

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<sup>27</sup> <<http://www.ideacellular.com>, retrieved on 3<sup>rd</sup> November, 2012>

<sup>28</sup> Ibid.



## V.12 Emami Fair and Handsome Fairness Cream for Men



Fig.12 This is Shah Rukh Khan, Bollywood Star; Source; [www.fairhandsome.com](http://www.fairhandsome.com)

This cream is specially formulated for men for fairer and improved skin smoothness and texture. It is manufactured by Emami with ActivorCorp, USA. It controls melanin production to enhance fairness and makes skin fairer and younger. It helps to protect the skin against pollution and scorching heat of the sun and dark shadows caused by daily shave, nicks and cuts. Herbs like Vetiver, Mint etc. makes skin fair and fresh with a pleasant cooling sensation. The brand ambassador of the product is Shah Rukh Khan, Bollywood Celebrity.<sup>29</sup> He appeals to zillions of fans to purchase this Fair and Handsome Cream to improve skin. Here, the ethical and philosophical question arises that had fairness creams would have been worked, and then there would have been no black/dark skins. The entire population of the planet would be white and white only. Thus, there would be no racial discrimination. But the reality is a different story. It never really works. The scholar has used this cream and has some adverse effects on the skin. This is a sheer cheating, bogus and fake advertising on the part of a corporate.

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<sup>29</sup> <<http://www.fairhandsome.ae>, retrieved on 3<sup>rd</sup> November, 2012>

### V.13 Baby Food Product (Complan)



Fig.13 Two children are expressing that “Drink Complan and see the difference”;

Source:www.complan.com

Complan is one of the leading baby food products in Indian market. It is manufactured by Heinz India. It has shown one advertising claiming that the moment a child consumes Complan regularly, his/her height grows almost two times, which is completely based on ‘Tall Claims’. Therefore, **The advertising Standards Council of India (ASCI)**<sup>30</sup> has sent a notice to Heinz India to either modify or withdraw an advertisement which claims that its health drink, Complan, that increases a child's height by as much as two times. ASCI said that the Complan ad, which has the tagline “Drink Complan and see the difference”, depicts exaggerated growth in children on consuming Complan, in terms of height, amounting to gross exaggeration in absence of any scientific validation. Maharashtra's Food and Drug Administration (FDA)<sup>31</sup> has filed a charge sheet in the Mazgaon metropolitan magistrate's court against health drink Complan's advertising claim that it can add two inches to children's height. The FDA's charge sheet named seven officials of Heinz India Pvt. Ltd. in its petition dated on 3<sup>rd</sup> May, 2010, clearly stating the offence as "an exaggerated advertisement on television channels about food product Complan.”

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<sup>30</sup> <<http://www.economicstimes.indiatimes.com>, retrieved on 3<sup>rd</sup> November, 2012>

<sup>31</sup> <<http://www.whichrightchoice.com>, retrieved on 3<sup>rd</sup> November, 2012>

## **Conclusion**

From the above discussions, it shows that socially responsible advertising pays in the long-run. Though initially it appears to be a hurricane task to advertise responsibly, because of the demand of consumers to watch something hot that could challenge their masculinities and feminities, still it pays in the long-run. If the businesspersons are really worried about the society and environment, where they operate business, consumers will give a thumbs-up to the company. After all, it is the quality of the product that counts, not only ads. If the quality is good and promises a lot, then you can sell the products in the desert also. One can fool some people all the time; all people some of the time but ultimately one cannot fool all people all the time. Therefore, as a businessperson one has to advertise in a socially responsible manner. Apart from showing only socially responsible advertising, there is another prime social responsibility of a businessperson is ethics behind corporate social responsibility. What are the ethical issues in corporate social responsibility? Do they take responsibility of the society, environment, country and employees? Do they pay wages in time to the laborers? In order to find out all the answers, let us proceed to the sixth chapter.

## CHAPTER-VI

### ETHICS BEHIND CORPORATE SOCIAL RESPONSIBILITY

This chapter presents ethics behind Corporate Social Responsibility (CSR) or ethical issues involved in CSR. CSR plays a pivotal role in the corporate sector. CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. In other words, it can be mentioned that CSR is a commitment to go beyond business. It is not just doing business but doing it differently. The scholar has chosen some of the ethical issues behind CSR. How to uplift the dignity and self-esteem of the poor and downtrodden people through business? In this context, an attempt is made to discuss with regard to upliftment of the poor and downtrodden people through Bottom of the Pyramid (BOP) concept. An attempt is also made to show that, can a Tobacco/ Liquor Corporation talk about CSR. What is the role of government to tackle unethical and corruption in business? In order to check the unethical practices in business, government has to play a prominent role.

#### VI.1 CSR history

The history of CSR can be traced back from the acrimonious relationship between Ken Saro Wiwa<sup>1</sup> and Royal Dutch Shell Company. Ken Saro Wiwa was a Nigerian writer, television producer, environmental activist and winner of the Right Livelihood Award<sup>2</sup> and the Goldman Environmental Prize.<sup>3</sup> He fought against the Shell Company for crude oil extraction in the Niger Delta, Ogoniland since 1950s.

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<sup>1</sup> < [http://www.en.wikipedia.org/wiki/ken\\_Saro\\_Wiwa](http://www.en.wikipedia.org/wiki/ken_Saro_Wiwa), retrieved on 9<sup>th</sup> December, 2012>

<sup>2</sup> The Right Livelihood Award is also known as the "Alternative Nobel Prize". It is a prestigious and international award to honour those "working on practical and exemplary solutions to the most urgent challenges facing the world today. The prize was established in 1980 by German-Swedish philanthropist Jakob von Uexkull, and is presented annually in early December. An international jury, invited by the five regular Right Livelihood Award board members, decides the awards in such fields as environmental protection, human rights, sustainable development, health, education and peace. The prize money is shared among the winners, usually numbering four, and is EUR 200,000. Very often one of the four Laureates receives an Honorary Award, which means that the other three share the Prize money. This can be traced from <[http://www.en.wikipedia.org/wiki/Right\\_Livelihood\\_Award](http://www.en.wikipedia.org/wiki/Right_Livelihood_Award), retrieved on 9th December, 2012>

<sup>3</sup> The Goldman environmental Prize is a prize awarded annually to grassroots environmental activist, one from each of the world's six geographic regions. The prize includes a no-strings-attached award of US\$150.00 per recipient. The headquarter is located in San Francisco, California. The details are available at <[http://www.en.wikipedia.org/wiki/Goldman\\_Environmental\\_Prize](http://www.en.wikipedia.org/wiki/Goldman_Environmental_Prize), retrieved on 9th December, 2012,>

The area has suffered extreme environmental damage from decades of indiscriminate petroleum waste dumping. He was a formidable critic of the Nigerian government on account of government's reluctant to enforce environmental regulations on the foreign petroleum companies operating in the area, especially Shell Company. He was also spokesperson and president of the Movement for the Survival of the Ogoni People (MOSOP).<sup>4</sup> Initially, he led a non-violent campaign against environmental degradation of the land and waters of Ogoniland by the operations of the multinational petroleum industry. Eventually, he failed to realize his dream and his non-violent protest had come to an end when he was hanged in 1995 by the military government of General Sani Abacha.<sup>5</sup> All the charges against him widely viewed as entirely politically motivated and completely unfounded. His execution provoked international outrage and resulted in Nigeria's suspension from the Commonwealth of Nations for over three years.

The term CSR might be new in India, but the concept is not. It has been there since ancient times when the society was in the formative stages. It has been mentioned in various religious laws where a part of one's earnings is donated for the benefit of the poor and community welfare. The Hindus call it 'dharmmada', the Muslims 'zakatah' and the Sikhs 'dashaant'. People may call it by various names, but the concept has been imbibed in the society from the very beginning. As individuals joined hands to form organizations, the same concept became embedded in the organizations.

The history of CSR in India has its four phases that run parallel to India's historical development and has resulted in different approaches towards CSR.

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<sup>4</sup> MOSOP is a campaigning organization representing the Ogoni people. Ogoniland is situated north-east of Niger Delta. Their manifesto was based on purely non-violent methods, such as, promote democratic awareness; protect the environment of the Ogoni people; seek social, economic and physical development for the region; protect the cultural rights and practices of the Ogoni people; and seek appropriate rights of self-determination for the Ogoni people. The details can be found from <[http://www.en.wikipedia.org/wiki/Movement\\_for\\_the\\_Survival\\_of\\_the\\_Ogoni\\_People](http://www.en.wikipedia.org/wiki/Movement_for_the_Survival_of_the_Ogoni_People), retrieved on 9th December, 2012>

<sup>5</sup> General Sani Abacha was a Nigerian military dictator and politician. He was the de facto President of Nigeria from 1993 to 1998. His regime was tied to human rights violations and allegations of corruption.

## The First Phase

Charity and philanthropy were the main drivers of CSR in the first phase. Religion, culture, family values, tradition, and industrialization had a tremendous effect on CSR. In the pre-industrialization period, which lasted till 1850, wealthy merchants shared a part of their wealth with the society by setting up temples for a religious cause. However, during the time of floods and famine, these wealthy merchants provided food from their godowns and money. In this way, they secured an integral position in the society. The approach towards CSR has changed since the arrival of colonial rule in India from 1850 onwards. The industrial families of the 19<sup>th</sup> century such as Tata, Godrej, Bajaj, Modi, Birla and Singhanian were strongly inclined towards economic as well as social considerations. However, it has been noticed that their efforts towards social as well as industrial development were not only driven by selfless and religious motives but also influenced by caste groups and political objectives.<sup>6</sup>

## The Second Phase

The second phase of CSR development occurred during the independence movement of India. There was increased stress on Indian industrialists to demonstrate their dedication towards the progress of the society. Most of the industrialist had influenced by the notion of “trusteeship”. It is the duty of the corporates to bring economic equality among the people. In order to bring economic equality without any coercive measure or encroaching upon individual freedom and bridge the gap between haves and have-nots, Indian corporations, namely, Tatas and Birlas had followed the Mahatma’s trusteeship principle.<sup>7</sup> His concept of trusteeship is a theoretical formulation for an economic order based on equitable distribution. For he takes economic equality as the key to a just and non-violent society. By economic equality, he does not mean that everyone will have literally the same amount. The real meaning of it is a better realization of the principle “from each according to his ability to each according to his needs.”<sup>8</sup> He opines that nature has enough for each man’s need but

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<sup>6</sup> <[http://www.en.wikipedia.org/wiki/Evolution\\_of\\_Corporate\\_Social\\_Responsibility\\_in\\_India](http://www.en.wikipedia.org/wiki/Evolution_of_Corporate_Social_Responsibility_in_India), retrieved on 8th December, 2012>

<sup>7</sup> “India Inc and the Mahatma”, The Hindu Business Line, dated on 07.09.2011. <<http://www.thehindubusinessline.com>>

<sup>8</sup> D. Sahoo, “Mahatma Gandhi”, in H. Sahoo (ed.), *Contemporary Indian Philosophy*, Kitab Mahal, Cuttack, 1999, p. 57.

not for anybody's greed.<sup>9</sup> Of course he does not discard possession altogether as it cannot be absolutely abolished. One's physical capacity intelligence, mental talent, artistic skill etc. are his possession. But he is against possessiveness which means accumulation with a selfish motive. Interpreting this idea of Gandhi, a Veteran Gandhian, Pyarelal has mentioned that, "The root of the evil lies not in possession but possessiveness. The way to tackle the problems created by the existence of natural and recurring inequalities in nature, therefore, said Gandhiji, is for each individual to regard his talent and wealth whether inherited or acquired not as a personal possession to be used or abused for one's selfish satisfaction but as a trust from God to be used for the service of the society."<sup>10</sup> Thus if the privileged people accept their possession and the inherent talent as a trust to be used for the benefit of the society at large, there would be enough for everybody to meet his requirements.

Trusteeship will have nothing to do in a community if there are no poor people nor does poverty exist in it. Of course, it is difficult to characterize who is a poor man because rich and poor are relative concepts. But in the Gandhian framework a poor man is he who does not have the bare minimum for his subsistence. Again, there may be countries where poverty does not exist but there may be wide gap or unequal distribution of the per capita income. And when such conditions like poverty and inequality prevail trusteeship can be taken as the panacea to solve the problems through a non-violent way. In the Indian contest, there were millions of people who did not have the bare minimum and also there were the capitalists and the landlords who had accumulated the country's wealth. Gandhi's trusteeship ensures the transfer of wealth from the privileged class to the unprivileged class. He believed that all wealth belongs to the society. He is against private accumulation or hereditary inheritance. Gandhi prefers trusteeship to abolition of ownership through state action. Of course, he is not opposed to the idea of fiscal measures of the Government to effect transfer of wealth from the rich to the poor for the betterment of all. But the fiscal measures by the Government are not the permanent remedy to effect the redistribution of wealth. The ideal of trusteeship is rooted in the principle of non-violence and it helps the trustee to cultivate the right moral and mental attitude for an egalitarian society. The steps by the Government to effect redistribution of wealth

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<sup>9</sup> Ibid.

<sup>10</sup> J.S. Mathur (ed.), *Gandhian Thought and Contemporary Society*, Bharatiya Vidya Bhawan, Bombay, 1974, p. 24.

may encroach upon the freedom of the individual and at times become coercive. So Gandhi prefers trusteeship.

Gandhi believes that the rich can be impressed upon with the idea that they should act as trustees and the wealth in their possession should be used in a constructive way to ameliorate the condition of all. Anybody who has wealth or talent can be appealed and persuaded to act as trustees. What belongs to an individual is actually the wealth of the community for every person is an integral part of the society. So a person's relationship to his material possession is like that of a trustee. He has to manage it without any selfish attachment but for the betterment of the community. Thus the material possession of an individual in a society is not a personal possession but can be used in the service of others who are less privileged. Similarly a scientist, a technocrat, a lawyer, a businessman, an engineer, etc. should use their talent to alleviate and help people in society which has nourished them to develop their talent. So talents should not be used for exploiting others or accumulating property for personal enjoyment. The possessor of talent will get commission for his service to the community according to his need. Thus trusteeship accepts the welfare of all through an equitable economic order as the basis of a just society.

Under his influence businesses established trusts for schools and colleges and also helped in setting up training and scientific institutions. The operations of the trusts were largely in line with Gandhi's reforms which sought to abolish untouchability, encourage empowerment of women and rural development.

### **The Third Phase**

The third phase of CSR (1960-80) is an era of "mixed economy".<sup>11</sup> The emergence of Public Sector Undertakings (PSUs) and laws relating to labour and environmental standards gained prime importance. The private sector was forced to take a backseat on account of stringent legal rules and regulations surrounded by the activities of the private sector; the period was described as an "era of command and

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<sup>11</sup> Mixed economy is an economic system in which both the state and private sector direct the economy, reflecting characteristics of both market economies and planned economies. Most mixed economies can be described as market economies with strong regulatory oversight, and many mixed economies feature a variety of government-run enterprises and governmental provision of public goods.



control”. The policy of industrial licensing, high taxes and restrictions on the private sector led to corporate malpractices. This led to enactment of legislation regarding corporate governance, labour and environmental issues. PSUs were set up by the state to ensure suitable distribution of resources (wealth, food, etc.) to the needy. However, the public sector was effective only to a certain limited extent. This led to a paradigm shift of expectations from the public to the private sector and their active involvement in the socio-economic development of the country became absolutely necessary.

### **The Fourth Phase**

In the fourth phase, (1980 until the present) Indian companies started abandoning their traditional engagement with CSR and integrated it into a sustainable business strategy. The process of globalization and economic liberalization were initiated in 1990s. Controls and licensing system were partly done away which gave a boost to the economy, the signs of which are very evident today. High economy growth of the Indian companies forced the corporate to contribute towards social cause. Globalization has transformed India into an important destination in terms of production and the quality of the product. As western markets are becoming more and more concerned about labour and environmental standards in the developing countries, Indian companies who export and produce goods for the developed world need to pay a close attention to compliance with the international standards.

The National Dairy Development Board (NDDB) has transformed huge areas in Indian villages by empowering producers and creating a marketing outlet for their produce. Dr. Kuriens AMUL-led Operation Flood was the forerunner of this initiative, which has spread to many states and similar operations. The Tatas, under the chairmanship of S.P. Kotwal conducted a social audit. The aim of the social audit is to find out where Tata was not able to discharge its responsibility towards society. The reason for all this hectic activity lies with the welfare of the company. CSR adds value to the social environment, the work environment and ultimately to the company. According to a report, nine of the top ten Forbes 500 firms have something in common besides success: CSR programmes. Corporate philosophy is undergoing a change, from “Profitmaking” to “value creation” something far more enduring.

The Tata Steel Rural Development Society (TSRDS) initiated a programme called “Operation Muskan” in October 2002. The TSRDS realized the urgent need for this form of reconstructive surgery at various health camps. At one weeklong camp in Ghatshila, doctors treated 108 cleft palate cases; in Deoghar, 149 people requested for the surgery. While India Inc. still calculates the pluses and minuses of good corporate conduct, corporate social responsibility for the Tatas and the Birlas is an old Tradition. The Tata Group invested more than Rs. 150 crore on the social sector in 2002, the A.V. Birla Group Rs. 57 crore, Reliance Rs. 30 crore, and Infosys Rs. 5 crore. Tata Steel set aside as much as 12-14% of its profit after tax (PAT for 2003-04 is Rs. 1746.22 crore) for welfare activities. The Infosys Foundation supports disadvantaged people directly or through organizations. The Foundation prefers to work through smaller organizations and donates in kind rather than cash. For instance, recently it gave books in Kannada worth Rs. 10,000 to a village library, so that it could help strengthen the local language.

The middle class founders of the mega-successful Infosys believe that wealth must be equitably distributed “Unless you create wealth by legal means, you cannot distribute it. And without the two you do not have progress”<sup>12</sup> says N.R. Narayanamurthy, Chairman of this celebrated and brilliantly successful Indian IT company. “Putting public good ahead of private good in every decision you make will, in fact, result in reaching the private good.” To distribute its substantial wealth and formalize its social support initiatives Narayanamurthy and his wife Sudha set up the Infosys Foundation in March 1997 which receives one percent of all the company’s after-tax profit. All financial assistance to the needy is given in the form of rule-based distribution of money.

In the field of education, the Foundation has instituted 26 scholarships for Ph.D. scholars in 13 prestigious institutions. It has also anchored the “train the trainee” program in which computer science students from engineering colleges are exposed to the latest IT trends. The Foundation has also played an important role in setting up science centres and libraries and to date, 1001 libraries have been inaugurated with assistance from this foundation.

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<sup>12</sup> Jagdish Gulati, “CSR Debate in India-From Philanthropy to Public-Private-People Partnerships”, in C. V. Baxi and Ajit Prasad (eds.), *Corporate Social Responsibility*, Excel Books, New Delhi, 2005, p. 51.

The Infoys Foundation is committed to give 30% of its funds to old people, the destitute and handicapped, 15% for rural development, 30% for the education of poor but talented children, 15% for cultural activities and 10% for health care, both in village and cities.

Dr. Irani propounded five basic tenets of CSR at the 27<sup>th</sup> annual meet of the US-India Business Council Meeting: “The primary aim of industry should not be to make money. The aim should be to serve customers and other stakeholders and the result would surely be more money. And pursuing excellence would enable it to create even more wealth.”<sup>13</sup> Companies are increasingly required to apply Corporate Social Responsibility by balancing the economic, social and environmental dimensions of their operation whilst building shareholder value.

## **VI.2 What is CSR?**

CSR plays a pivotal role in the corporate sector. CSR is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. In other words, it can be defined as, “Corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.”<sup>14</sup> A businessman has to do something for the betterment of the society without any kind of interest. He should believe in karma (action) only, not the results. It has been rightly pointed out in the Bhagavad-Gita:

“On action alone be thy interest

Never on its fruits.

Let not the fruits of action be thy motive,

Nor be thy attachment to inaction.”

-----Chapter-2.

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<sup>13</sup> Ibid.

<sup>14</sup> P. Kotler and N. Lee, *CSR: Doing the most good for your company & your cause*, Wiley India Pvt. Ltd., New Delhi, 2008, p. 3.

In the early 20<sup>th</sup> century, the first and foremost aims of business firms were maximization of profits. The social activities questioned the business firms with regard to their objective of profit maximization. They insisted that since business derives their existence from society, they have some obligations towards it. Business has the responsibility to give back to the community. The concept of social responsibility became popular after the publication of Howard R. Bowen's *Social Responsibilities of Business*.<sup>15</sup> Bowen argued that business enterprises should consider the impact of their decisions on society.

The concept of CSR has come from USA about seven decades ago. It is an obligation of decision-makers to take actions which protect and improve the welfare of society as a whole along with their own interests. Such decisions may affect environment, consumers and community. It was Peter Drucker who later emphatically argued that management should assume social responsibility. Management has to consider the impact of every business policy and action upon society. Again, it has to consider the actions that are likely to promote the public good and to advance the basic beliefs of society and contribute to its stability, strength and harmony. He laid emphasis on "quality of product and customer service."<sup>16</sup> Now-a-days, companies spend a considerable amount of money in the CSR activities. Several marketing studies have found that social responsibility programs have a significant influence on several customer related outcomes.<sup>17</sup>

Ministry of Corporate Affairs of India has passed a unanimously resolution regarding the amount to be spent for social development activities. Corporate Affairs Minister Sachin Pilot held that companies have to mandatorily spend two per cent of their average net profit for CSR activities and Lok Sabha has also given the green signal to Companies Bill in December, 2012.<sup>18</sup> Replying to a debate before the Bill was passed by a voice vote; Mr. Sachin Pilot held that through this new legislation, the government intends to make India an attractive and safe investment destination. He said special courts would be set up for speedy trials, as an assurance to investors

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<sup>15</sup> S. K. Bhatia, *Business Ethics & Global Values*, Deep & Deep Publications Pvt. Ltd., 2008, pp. 227-28.

<sup>16</sup> *Ibid.*

<sup>17</sup> C. B. Bhattacharya and S. Sen, *Doing better at doing good*, California Management Review, 47(1), pp. 9-24.

<sup>18</sup> "Bill Makes 2% Spend Must for CSR Activities", The New Indian Express, 19<sup>th</sup> December, 2012, p. 13. <<http://www.indianexpress.com>>

that cases will not linger on. Again, he mentioned that companies should voluntarily engage in CSR and not fear that the legislation amounts to return of “inspector raj”.<sup>19</sup>

Pilot said that under the new legislation, companies will be encouraged to create employees welfare fund. He encouraged the companies to engage in promoting education, reducing child mortality and any other matter that can contribute for social welfare. Under the new law, the CSR spending would be the responsibility of companies like their tax liabilities. The Bill, with 470 clauses, seeks to make CSR spending compulsory for companies that meet certain criteria. Firms having Rs. 5 crore or more profits in the last three years have to spend on CSR activities.<sup>20</sup>

### **Highlights of the Companies Bill**

- ✓ Firms having Rs. 5 crore or more profits in the last three years have to spend on CSR activities.
- ✓ Payment of two years’ salary to employees in companies which wind up.
- ✓ Remuneration of a director of a company should not be more than 5% of the net profit.
- ✓ Annual ratification of appointment of auditors for five years.
- ✓ Companies will be encouraged to create employees welfare fund.

### **VI.3 Arguments for CSR**

The arguments in favor of organization in socially responsible ways offer many reasons, such as:<sup>21</sup>

- ✓ Balancing corporate power with corporate responsibilities.
- ✓ Discouraging the creation and imposition of government regulation.
- ✓ Focusing on social problems.
- ✓ Brand differentiation.
- ✓ Long-term thinking.
- ✓ Employee engagement.
- ✓ Value Creation and Profitability

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<sup>19</sup> Ibid.

<sup>20</sup> <<http://www.mca.gov.in>, retrieved on 19th December, 2012>

<sup>21</sup> C V Baxi and Nazy Chadha, “Corporate Social Responsibility: Concepts, Practices and Country Experiences”, in C V Baxi and Ajit Prasad (eds.), *Corporate Social Responsibility: Concepts and Cases*, Excel Books, New Delhi, 2005, p. 5.

1. Cost and risk reduction,
2. Profit maximization and competitive advantage,
3. Reputation and legitimacy, and
4. Synergistic value creation.

#### **VI.4 Arguments against CSR**

Organizations have to fulfill certain needs of society and it is feasible for civil society to benefit from the activities of an organization. Some of the arguments against CSR are:

- ✓ Stakeholders bear the costs of corporate social action (shareholders, employees and consumers) which affect a “corporation’s operating efficiency and weaken competitive position and advantage.”
- ✓ Mismatch of the roles and expectations between the organization and society.
- ✓ The prospects of corporations becoming even more powerful, as they may already exercise considerable power over society.
- ✓ Management is trained in functional areas of management and does not have generic expertise in handling social issues.
- ✓ **Violation of profit maximization:** This is the essence of the classical viewpoint. Business is most socially responsible when it attends strictly to its economic interests and leaves other activities to other institutions.<sup>22</sup>
- ✓ **Dilution of purpose:** The pursuit of social goals dilutes business’s primary purpose: economic productivity. Society may suffer as both economic and social goals are poorly accomplished.
- ✓ **Costs:** Many socially responsible activities do not pay their own way. Someone has to pay these costs. Business must absorb these costs or pass them on to consumers in higher prices.
- ✓ **Too much power:** Business is already one of the most powerful institutions in our society. If it pursued social goals, it would have even more power. Society has given business enough power.

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<sup>22</sup> <[http://www.citeman.com/7667\\_arguments\\_for\\_and\\_against\\_social\\_responsibility.html](http://www.citeman.com/7667_arguments_for_and_against_social_responsibility.html), retrieved on 2th December, 2012>

- ✓ **Lack of skills:** The outlook and abilities of business leaders are oriented primarily toward economics. Business people are poorly qualified to cope with social issues.
- ✓ **Lack of accountability:** Political representatives pursue social goals and are held accountable for their actions. Such is not the case with business leaders. There are no direct lines of social accountability from the business sector to the public.
- ✓ **Lack of broad public support:** There is no broad mandate from society for business to become involved in social issues. The public is divided on the issue. In fact, it is a topic that usually generates a heated debate. Actions taken under such divided support are likely to fail.

### **VI.5 Underpricing**

Underpricing is one of the pivotal ethical issues for the corporate. Underpricing is a technique or method to lower the price of the product than the real, normal or appropriate value. In other words, the pricing of an initial public offering (IPO) is below its market value. When the offer price is lower than the price of the first trade, the stock is considered underpriced. A stock is usually only underpriced temporarily because the laws of supply and demand will eventually drive it towards its intrinsic value. This is a technique used by the big corporations to decimate the business of small corporations. Initially, they offer lower price to capture the customers but gradually they will increase the price that will be detrimental to the customers as well as to the market. There is no scope for small entrepreneurs to do business. This serious ethical issue cannot be neglected.

### **VI.6 Training Programme on Ethical Values**

An organization cannot talk about social responsibility unless and until it provides training on ethical values to the employees. Ethics matters a lot with regard to human character. The significance of ethics cannot be simply neglected or overlooked. A sound ethics programme should include the following six components:

1. Formal codes of conduct;
2. Ethics committees formed with a view to developing ethical policy for the organization and also investigating ethical infractions by employees;

3. Ethics communication system that would include the facility for employees to post queries, get advice or report any wrongdoing;
4. An ethics office with officers to oversee the process and facilitate the communication of the policy to employees;
5. Ethics training programmes meant to make workers conscious of ethical issues that are likely to arise at the place of work; and how to deal with them effectively; and
6. A disciplinary system that would ensure prompt, decisive and impartial dealings with violations.

Let us discuss these six components of an effective corporate ethics programme in some detail.

## **CODES OF CONDUCT**

Several companies that have vowed to implement ethical behavior at their work places have started the process with developing and implementing codes of conduct for their employees. Codes of conduct are statements of organizational values that comprise three components, namely, a code of ethics, a code of conduct and a statement of values. A code of ethics is an exhortation to employees to observe ethical norms and forms the basis for rules of conduct. A code of ethics is often inspirational and comprehensive enough to cover the entire scheme of organizational ethics expected to be followed by everyone in the company. It usually “specifies methods for reporting violations, disciplinary action for violations and a structure of the due process” to be followed. A code of conduct is a written document, inspirational in content and specifies clearly what is acceptable or unacceptable behavior at the workplace and beyond, when employees represent their organizations outside. In India, all major companies have developed their codes of conduct after the publication of *A Desirable Code* by the Confederation of Indian industry (CII) in 1998. Tata group of companies, Infosys, Hindustan Lever Ltd, Wipro Technologies Ltd, ICICI, HDFC, Cummins India, Ranbaxy, Dr. Reddy’s Lab, Polaris Lab, Orchid Chemicals and Pharmaceuticals Ltd and the Birla group of companies are some of the prominent corporations that have adopted codes of conduct for their employees.



## **ETHICS COMMITTEES**

Ethics committees are formed in many organizations that are exclusively devoted to the pursuit of ethics at their work places. These committees may raise concerns of ethical nature, prepare or update the codes of conduct and resolve ethical dilemmas in companies. These committees may formulate ethics policy, develop ethical standards and in the contest of these norms, evaluate the company's compliance with them. Members of ethics committees should be well chosen, if they are to serve any useful purpose in organizations. They should be well posted with the knowledge of their industry, their codes of ethics and community standards.

## **ETHICS COMMUNICATION SYSTEMS**

Ethics communication systems play a crucial role in making an ethics programme successful. If an organization keeps the various facets of the programme under the bushel as it were, it will serve no purpose. Ethics communication systems should allow employees to make enquiries get advice if needed or report wrongdoing. It is necessary to have a system in place to communicate and educate employees about the company's ethical standards and policies. The objective of the ethics communication system should be to (i) communicate the company's values and standards of ethical business conduct to employees; (ii) provide information to employees on the company's policies and procedures regarding ethical business conduct; (iii) put in place processes to help employees obtain guidance and to resolve questions regarding compliance with the firm's standards of conduct and values; and (iv) establish means of enquiry such as telephone hotlines, suggestion boxes and e-mail facilities for employees to get in touch with and get advice from competent authorities. It is also ideal to have one of these facilities for employees to get in touch with and get advice from competent authorities. It is also ideal to have one of these facilities available to allow anonymous contact, where and when required.

Apart from these means of communication within the organization, other avenues can be used to communicate the firm's moral standards and its workforce. Top management people can communicate with managers at the operational level, such as in production, finance and marketing and enforce overall ethical standards within the organization. If the organization has a newsletter, it can be used to publicize the company's code or statement of ethics. Since this internal medium of

communication has an extensive reach within the organization, it is an effective means to get the message across. If the organization has an existing system of briefing groups and management meetings, these fora can also be used as means of communicating values. In recent times, companies publish attractive multi-colored laminated posters with their ethics policies printed and place them at the most visible and accessible places such as meeting halls and canteens for all to see and remind them constantly what the company stands for in terms of values.

### **ETHICS OFFICE/OFFICERS**

In the United States and Europe, the practice of setting up ethics offices or appointing ethics officers has become popular among organizations to oversee the process and to facilitate communication of ethics policies to employees. The ethics officer has become a recognized job title and there is now a professional association for such individuals. Ethics officers are usually “responsible for assessing the needs and risks that an organization-wide ethics programme must address, developing and distributing a code of conduct or ethics, conducting training programme for employees, establishing and maintaining a confidential service to answer employees’ questions about ethical issues, making sure that the company is in compliance with government regulation, monitoring and auditing ethical conduct, taking action on possible violations of the company’s code and reviewing and updating code.”

The position of ethics office/officer is relatively new, hardly about two decades old in most organizations even in advanced countries. Since the position of ethics officers itself is new, its functions are yet to be standardized; they are gradually evolving over time. In India, ethics officers are an emerging breed. Many ethically committed, professionally run corporate bodies have started appointing ethics officers whose functions in the Indian context are still evolving, though their basic job descriptions remain the same as found elsewhere.

### **ETHICS TRAINING PROGRAMMES**

One of the important components of a corporate ethics programme is the training given to employees, aimed at ensuring their ethical behavior in an organization. The basic objective of such a training programme is to assist employees to understand the ethical issues that are likely to arise in their work environment and

how to deal with such issues. Mere mouthing of values and distribution of glossy brochures on company's ethics policy at company meetings do not change employee behavior to any significant degree. Reinforcement of the message on the importance of its espoused values will show that the company means business. One of the most powerful ways of achieving this objective is to ensure that the ethical principles the company believes in are incorporated in every aspect of employee training with a view to sensitizing them on the need for ethical behavior. The researcher has already discussed regarding ethical behavior in third chapter.

### **DISCIPLINARY SYSTEM**

Just working out a code of conduct or ethical behavior will not serve any purpose in an organization. If it is not properly enforced, it becomes mere window-dressing and will not help in achieving the company's mission of enhancing ethical decisions and behavior. It is necessary, therefore, for a corporation committed to ethics to establish a disciplinary system to deal with ethical infractions promptly and decisively. Workers in organizations generally desire such infractions to be dealt with severely. Failure to respond to unethical behavior may lead to feelings of inequity on the part of ethical employees and threaten the entire social system that supports ethical behavior in the organization. Moreover, there should be serious efforts to curb unethical conduct are needed for companies to establish long-term relationships with their workers, customers and community at large. If the code of ethics is aggressively enforced and becomes part of corporate culture, it can effectively improve ethical behavior within the organization.

While implementing an ethics programme, companies should follow a coordinated approach if they want it to bear the desired results. They should (i) be very clear about the goals and means of implementing the programme, (ii) set realistic and easily observable objectives, (iii) associate senior managers in the development and running of the programme, (iv) develop programme literature that addresses the ethical dilemmas and concerns of the average employee, (v) develop a programme exclusively for the particular work place and not try to duplicate it elsewhere, especially in locations in other countries where there could be different norms of ethical behavior, (vi) ensure that the programme is not a series of lectures, (vii) monitor assiduously, evaluate the effectiveness of the programme and adopt

corrective measures wherever necessary, (viii) put in place an effective communication system to facilitate a two-way exchange of information, (ix) ensure the existence of a disciplinary system that penalizes promptly and appropriately the wrongdoers while patting and rewarding the achievers and (x) create a machinery for continuous monitoring and evaluation, with a view to updating the programme and its methodology.

### **VI.7 Bottom of the Pyramid (BOP)**

The bottom of the pyramid is the largest, but it is the poorest socio-economic group. The phrase “bottom of the pyramid” is used in particular by people developing new models of doing business that deliberately target that demographic, often using new technology. This field is also often referred to as the **"Base of the Pyramid"** or just the “Bop”. Sociologically, the pyramid has been used as a metaphor to describe the hierarchical nature and inequality of modern societies since the 18<sup>th</sup> century. The industrial Workers of the World (IWW) disseminated a poster of a social pyramid in 1911 that later became famous, depicting the masses of people at the bottom, working for and feeding all, and at the top rulers and capitalists and clergy, ruling and fooling all. Then, in the midst of the Great Depression, shortly after he announced his candidacy for president, Franklin D. Roosevelt<sup>23</sup> popularized the term bottom of the pyramid in his famous April 1932 speech “The Forgotten Man”. For far too long, Roosevelt argued, those at the top had enjoyed all the benefits of economic progress. Now it was time for the government to support society’s disadvantaged-“the bottom of the pyramid”-those who form “the infantry of our economic army”. Later, Roosevelt of course became president, and his New Deal programs not only helped the poor and unemployed, but it also realized what was, at the time, a new economic theory: the basic Keynesian insight that, particularly during severe economic downturns, the federal government had a large role to play, namely to boost the demand by providing people with money to spend.<sup>24</sup>

The bottom of the pyramid (BoP) as a term and concept has seen a recent renaissance through the work of an eminent Professor, C.K. Prahalad of the University of Michigan. Of the roughly 6.5 billion people in the world today,

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<sup>23</sup> <[http://www.wikipedia.org/wiki/Bottom\\_of\\_the\\_pyramid](http://www.wikipedia.org/wiki/Bottom_of_the_pyramid), retrieved on 6th March, 2013>

<sup>24</sup> Ibid.

according to Prahalad, more than 4 billion live at the bottom or by some of the their varying definitions, at below \$2 a day or below a purchasing power parity of \$1,500 a year.<sup>25</sup> Due to their inherent lack of money, businesses around the world have largely ignored this vast collection of poor people. According to Prahalad, such neglect constitutes a missed opportunity of vast proportions, for the multitudes at the bottom represent an almost-limitless and promising pool of future consumers. In his words, “as multinational firms search for avenues for profitable growth and radical innovation in the new millennium, they may find a unique, counter intuitive opportunity-the 4 billion poor that are at the bottom of the economic pyramid. Converting the very poor into active consumers will foster innovations in technologies and business models.”<sup>26</sup> In recent statements, Prahalad further elaborated that since two or three or four billion additional consumers and producers will inevitably put a tremendous strain on the environment and particularly water and energy resources, the issue of what he calls “inclusive growth of poor people” and the issue of corporate sustainability are inextricably linked.<sup>27</sup>

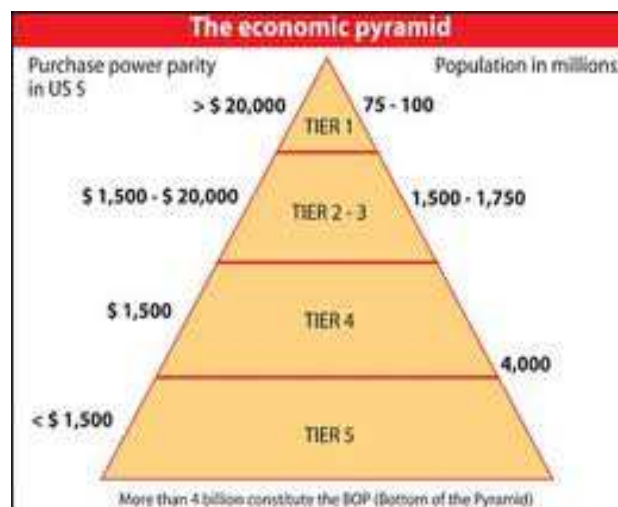


Fig. 1 Source: C.K. Prahalad and Stuart Hart, *The Fortune at the Bottom of the Pyramid*, 2002.

C. K. Prahalad wanted to convert the poor into active consumers by the help of innovative technologies and products. There are certain organizations that help the handicapped walk and helping subsistence farmers check commodity prices and

<sup>25</sup> C. K. Prahalad, *The Fortune at the Bottom of the Pyramid*, Wharton School Publishing, New Jersey, 2005, pp. 3-30.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

connect with the rest of the world. There are also some banks offer financial help to the poor, power companies reaching out to meet energy needs and construction companies doing what they can to house the poor in affordable ways that allow for pride. There are chains of stores tailored to understand the needs of the poor and to make products available to them.

The strength of these innovative approaches is that they tend to create opportunities for the poor by offering them choices and encouraging self-esteem.<sup>28</sup> Entrepreneurial solutions such as these place a minimal financial burden on the developing countries in which they occur. To begin to understand how all of this is remotely possible, we need to start with some basic assumptions:

➤ First, while cases certainly can be found of large firms and multinational corporations (MNCs) that may have undermined the efforts of the poor to build their livelihoods, the greatest harm they might have done to the poor is to ignore them altogether. The poor cannot participate in the benefits of globalization without an active engagement and without access to products and services that represent global quality standards. They need to be exposed to the range and variety of opportunities that inclusive globalization can provide. The poor represent a “latent market” for goods and services. Active engagement of private enterprises at the BOP is a critical element in creating inclusive capitalism, as private-sector competition for this market will foster attention to the poor as consumers. It will create choices for them. They do not have to depend only on what is available in their villages. If large firms approach this market with the BOP consumers interests at heart, it can also lead to significant growth and profits for them. These characteristics of a market economy, new to the BOP, can facilitate dramatic change at the BOP. Free and transparent private-sector competition, unlike local village and shanty-town monopolies controlled by local slum lords, can transform the “poor” into consumers. Poverty alleviation will become a business development task shared among the large private sector firms and local BOP entrepreneurs.

➤ Second, the BOP, as a market, provides a new growth opportunity for the private sector and a forum for innovations. Old and tired solutions cannot create markets at the BOP.

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<sup>28</sup> Ibid.

➤ Third, BOP markets must become an integral part of the work of the private sector. They must become part of the firms' core businesses; they cannot merely be relegated to the realm of corporate social responsibility (CSR) initiatives. Successfully creating BOP markets involves change in the functioning of MNCs as much as it changes the functioning of developing countries. BOP markets must become integral to the success of the firm in order to command senior management attention and sustained resource allocation.

There is significant untapped opportunity for value creation (for BOP consumers, shareholders and employees) that is latent in the BOP market. These markets have remained "invisible" for too long. It is natural for anyone to ask this: If all of this is so obvious, why has this not yet occurred?

### **VI.7.1 The Power of Dominant Logic**

India is a home to more than 400 million people who are below poverty line. The World Bank, MNCs, developing countries, charitable organizations, national governments and private sector have tried their best to alleviate poverty but they are conditioned by their own dominant logic.<sup>29</sup> Since they attached utmost emphasis on dominant logic that restricts their ability to see a vibrant market opportunity at the BOP. For example, it is common in MNCs to have the assumptions outlined in Table 1. These assumptions dictate decision and resource allocation processes for developing countries and BOP markets in particular.

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<sup>29</sup> Ibid.

**Table 1 The Dominant Logic of MNCs as It Relates to BOP**

Assumption	Implication
The poor are not our target customers; they cannot afford our products or services.	Our cost structure is a given; with our cost structure, we cannot serve the BOP market.
The poor do not use the products sold in developed countries.	We are committed to a form over functionality. The poor might need sanitation, but cannot afford detergents in formats we offer. Therefore, there is no market in the BOP.
Only developed countries appreciate and pay for technological innovations.	The BOP does not need advanced technology solutions; they will not pay for them. Therefore, the BOP cannot be a source of innovations.
The BOP market is not critical for long-term growth and vitality of MNCs.	BOP markets are at best an attractive distraction.
Intellectual excitement is in developed markets; it is very hard to recruit managers for BOP markets.	We cannot assign our best people to work on market development in BOP markets.

Adapted from C. K. Prahalad and Stuart Hart, *The Fortune at the Bottom of the Pyramid*

The other implicit assumptions surface in every discussion of BOP markets with managers in MNCs and those in large domestic firms in developing countries that fashion their management practices after those at successful MNCs. These biases are hard to eradicate in large firms. Although the dominant logic and its implications are clear, it is our aim to challenge and provide counterpoints. For example, BOP markets enable firms to challenge their perspectives on cost. We will show that a 10 to 200 times advantage (compared to the cost structures that are oriented to the top of the pyramid markets) is possible if firms innovate from the BOP up and do not follow the traditional practice of serving the BOP markets by making minor changes to the products created for the top of the pyramid. Most of the charitable organizations also believe that the private sector is greedy and uncaring and that corporations cannot be trusted with the problems of poverty alleviation. From this perspective, profit motive and poverty alleviation do not mix easily or well. Aid agencies have come full circle in their own thinking. From aid focused on large infrastructure projects and public spending on education and health, they are also moving toward a belief that private-sector involvement is a crucial ingredient to poverty alleviation.



Historically, governments, aid agencies, non-governmental organizations (NGOs), large firms and the organized (formal and legal as opposed to extralegal) business sector all seem to have reached an implicit agreement: Market-based solutions cannot lead to poverty reduction and economic development. As shown in Figure 2, the dominant logic of each group restricts its ability to see the market opportunities at the BOP. The dominant logic of each group is different, but the conclusions are similar. During the last decade, each group has been searching for ways out of this self-imposed intellectual trap. To eradicate poverty, we have to break this implicit compact through a BOP-oriented involvement of the private sector.

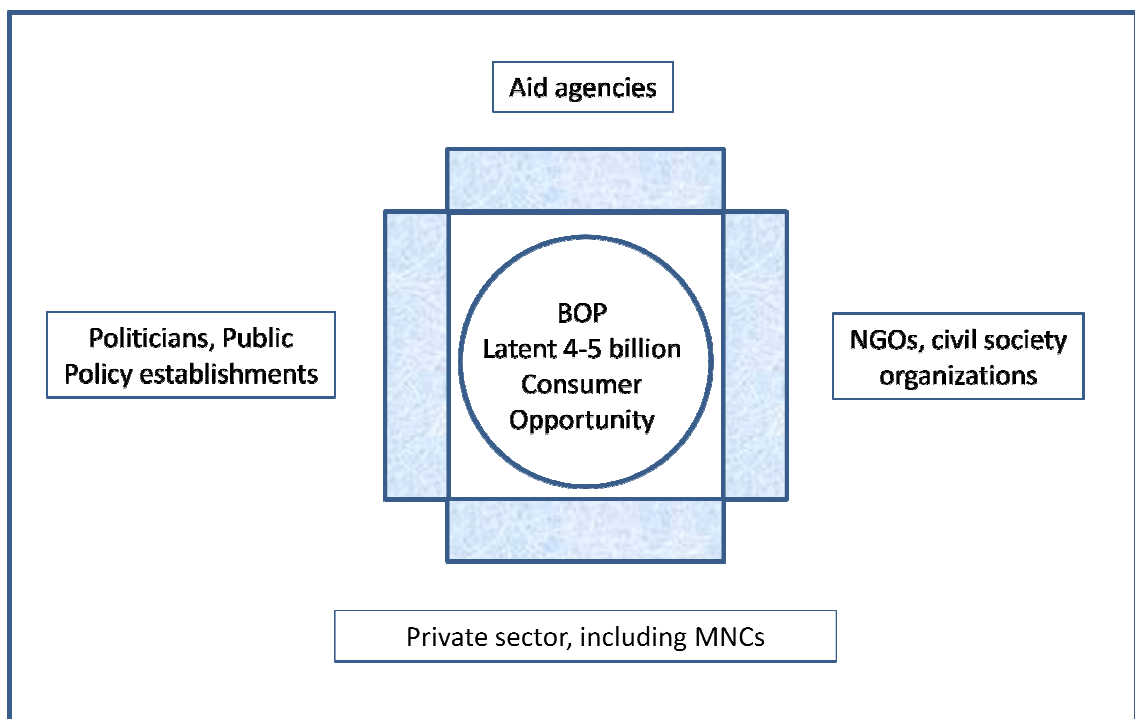


Fig. 2 The influence of dominant logic

We have to change our long-held beliefs about the BOP-our genetic code, if we will. The barrier that each group has to cross is different, but difficult nonetheless. However, once we cross the intellectual barrier, the opportunities become obvious.

## **VI.7.2 The Nature of the BOP Market**

The nature of the BOP market has characteristics that are distinct. We outline some of the critical dimensions that define this market. These characteristics must be incorporated into our thinking as we approach the BOP.

### **There is Money at the BOP**

*The dominant assumption is that the poor have no purchasing power and therefore do not represent a viable market.*

Let us start with the aggregate purchasing power in developing countries where most of the BOP market exists. Developing countries offer tremendous growth opportunities. Within these markets, the BOP represents a major opportunity. Take China as an example. With a population of 1.2 billion and an average per capita gross domestic product (GDP) of US \$1,000, China currently represents a \$1.2 trillion economy. However, the US dollar equivalent is not a good measure of the demand for goods and services produced and consumed in China. If we convert the GDP-based figure into its dollar purchasing power parity (PPP)<sup>30</sup>, China is already a \$5.0 trillion economy, making it the second largest economy behind the United States in PPP terms. Similarly, the Indian economy is worth about \$3.0 trillion in PPP terms. If we take nine countries-China, India, Brazil, Mexico, Russia, Indonesia, Turkey, South Africa, and Thailand- collectively they are home to about 3 billion people, representing 70 percent of the developing world population. In PPP terms, this group's GDP is \$12.5 trillion, which represents 90 percent of the developing world. It is larger than the GDP of Japan, Germany, France, the United Kingdom, and Italy combined. This is not a market to be ignored.

Now, consider the BOP within the broad developing country opportunity. The dominant assumption is that the poor do not have money to spend and therefore, are not a viable market. Certainly, the buying power for those earning less than US \$2 per day cannot be compared with the purchasing power of individuals in the developed nations. However, by virtue of their numbers, the poor represent a significant latent purchasing power that must be unlocked. For example, all too often, the poor tend to

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<sup>30</sup> Purchasing Power Parity (PPP) is a theory of long-term equilibrium exchange rates based on relative price levels of two countries. It asks how much money would be needed to purchase the same goods and services in two countries, and uses that to calculate an implicit foreign exchange rates.

reside in high-cost ecosystems even within developing countries. In the shanty town of Dharavi, outside Mumbai, India, the poor pay a premium for everything from rice to credit. Compare the cost of everyday items of consumption between Dharavi and Warden Road (now redesignated B. Desai Road), a higher income neighborhood in Mumbai. The poverty penalty in Dharavi can be as high as 5 to 25 times what the rich pay for the same services (Table 2). Research indicates that this poverty penalty is universal, although the magnitude differs by country. The poverty penalty is the result of local monopolies, inadequate access, poor distribution and strong traditional intermediaries. Large-scale private-sector businesses can “unlock this poverty penalty”. For example the poor in Dharavi pay 600 to 1,000 percent interest for credit from local moneylenders. A bank with access to this market can do well for itself by offering credit at 25 percent. Although 25 percent interest might look excessive to a casual observer, from the point of view of the BOP consumer, access to a bank decreases the cost of credit from 600 percent to 25 percent. The BOP consumer is focused on the difference between the local moneylender rates and the rates that a commercial bank would charge. The bank can make a reasonable profit after adjusting for risk (10 percent over its traditional, top-of-the-pyramid customers).

Table 2 The Poor and High-Cost Economic Ecosystems

Item	Dharavi	Warden Road	Poverty Premium
Credit (annual interest)	600-1,000%	12-18%	53.0
Municipal grade water (per cubic meter)	\$1.12	\$0.03	37.0
Phone call (per minute)	\$0.04-0.05	\$0.025	1.8
Diarrhea medication	\$20.00	\$2.00	10.0
Rice (per kg)	\$0.28	\$0.24	1.2

Source: Harvard Business Review, “The Poor and High Cost Economics Ecosystems”, from “Serving the World’s Poor Profitably” by C.K. Prahalad and Allen Hammond, September 2002.

These cost disparities between BOP consumers and the rich in the same economy can be explained only by the fact that the poverty penalty at the BOP is a result of inefficiencies in access to distribution and the role of the local intermediaries. These problems can easily be cured if the organized private sector decides to serve the BOP. The organized sector brings with it the scale, scope of operations and

management know-how that can lead to efficiencies for itself and its potential consumers.

The poor also spend their earnings through the ways that reflect a different set of priorities. For example, they might not spend disposable income on sanitation, clean running water and better homes, but will spend it on items traditionally considered luxuries. Without legal title to land, these residents are unlikely to invest in improving their living quarters, much less the public facilities surrounding their homes. For example, in Dharavi, 85 percent of the households own a television set, 75 percent own a pressure cooker and blender, 56 percent own a gas stove, and 21 percent have telephones. In Bangladesh, women entrepreneurs with cell phones, which they rent out by the minute to other villagers, do a brisk business. It is estimated that the poor in Bangladesh spend as much as 7 percent of their income on connectivity.

### **Access to BOP Markets**

*The dominant assumption is that distribution access to the BOP markets is very difficult and therefore represents a major impediment for the participation of large firms and MNCs.*

Urban areas have become a magnet for the poor. By 2015 there will be more than 225 cities in Africa, 903 in Asia and 225 in Latin America. More than 368 cities in the developing world will have more than 1 million people in each. There will be at least 23 cities with more than 10 million residents. Collectively, these cities will account for about 1.5 to 2.0 billion people. Over 35 to 40 percent of these urban concentrations will be comprised of BOP consumers. The density of these settlements-about 15,000 people per hectare-will allow for intense distribution opportunities.

The rural poor represent a different problem. Access to distribution in rural markets continues to be problematic. Most of the rural markets are also inaccessible to audio and television signals and are often designated as “media dark”. Therefore, the rural poor are not only denied access to products and services, but also to knowledge about what is available and how to use it. The spread of wireless connectivity among the poor might help to reduce this problem. The ability to download movie and audio

clips on wireless devices might allow firms to access traditionally “media dark” areas and provide consumers in these locations with newfound access to information about products and services. However, this is still an evolving phenomenon restricted to a few countries.

The BOP does not lend itself to a single distribution solution. Urban concentrations represent a problem distinct from that of the distribution access to dispersed rural communities. Worldwide, the cost of reach per consumer can vary significantly across countries. A wide variety of experiments are underway in these markets to find efficient methods of distributing goods and services. One such experiment, Project Shakti at Hindustan Lever Ltd. (HLL) in India, is a case in point. HLL created a direct distribution network in hard-to-reach locales (markets without distribution coverage through traditional distributors and dealers). HLL selected entrepreneurial women from these villages and trained them to become distributors, providing education, advice, and access to products to their villages. These village women entrepreneurs, called Shakti Amma (empowered mother), have unique knowledge about what the village needs and which products are in demand. They earn between Rs. 3,000 and 7,000 per month (US \$60-\$150) and therefore create a new capacity to consume for themselves and their families. More important, these entrepreneurial women are increasingly becoming the educators and access points for the rural BOP consumers in their communities. This approach is not new. Avon is one of the largest cosmetics operations in Brazil and has used a similar approach by leveraging more than 800,000 “Avon ladies” as distributors to reach even the most remote regions of Amazonia.

### **The BOP Markets Are Brand-Conscious**

*The dominant assumption is that the poor are not brand-conscious. On the contrary, the poor are very brand-conscious. They are also extremely value-conscious by necessity.*

The experience of Tata and Reliance in India—two of the prominent retailers of consumer durables suggests that the BOP markets are very brand-conscious. Brand consciousness among the poor is universal. In a way, brand consciousness should not be a surprise. An aspiration to a new and different quality of life is the dream of everyone, including those at the BOP. Therefore, aspirational brands are critical for

BOP consumers. However, BOP consumers are value buyers. They expect great quality at prices they can afford. The challenge to large firms is to make aspirational products affordable to BOP consumers. These consumers represent a new challenge for managers with increased pressure on costs of development, manufacturing, and distribution.

### **The BOP Market Is Connected**

*Contrary to the popular view, BOP consumers are getting connected and networked. They are rapidly exploiting the benefits of information networks.*

The spread of wireless devices among the poor is proof of a market at the BOP. For example, by the end of 2003, China had an installed base of 250 million cell phones. India had an installed base of approximately 30 million. The Indian market is growing at about 1.5 million handsets per month. The expectation is that India will reach 100 million handsets by 2005. Brazil already has 35 to 40 million. Both the current market size and the growth rates suggest that the BOP market is a critical factor in worldwide wireless growth. Telecommunications providers have made it easier for BOP consumers to purchase handsets and service through prepaid cards. The proliferation of wireless devices among the poor is universal, from Grameen Phone in Bangladesh to Telefonica in Brazil. Further, the availability of PCs in kiosks at a very low price per hour and the opportunity to videoconference using PCs are adding to the intensity of connectivity among those at the BOP. The net result is an unprecedented ability of BOP consumers to communicate with each other in several countries. The technology of wireless and PC connectivity is allowing the BOP population to be actively engaged in a dialogue with each other, with the firms from which they wish to purchase goods and services, and with the politicians who represent them.

Connectivity also allows the BOP consumers to establish new patterns of communication away from their villages. With cell phones and TV, the BOP consumer has unprecedented access to information as well as opportunities to engage in a dialogue with the larger community. As a result, word of mouth among BOP consumers is becoming a very potent force for assessing product quality, prices and options available to them. The spread of good bargains as well as bad news can be very rapid. For example, in India, it appears that some consumers found worms in

chocolates sold by Cadbury, a large and very successful MNC. Ten years ago this would have been a nonevent, but with access to multiple and fiercely competitive TV channels, wireless, and Internet, the news spread so rapidly across India that not just managers within Cadbury but all managers involved in the “fast-moving consumer goods” industry were surprised and worried.<sup>31</sup>

### **BOP Consumers Accept Advanced Technology Readily**

*Contrary to popular belief, the BOP consumers accept advanced technology readily.*

The spread of wireless devices, PC kiosks and personal digital assistants (PDAs) at the BOP has surprised many a manager and researcher. For example, ITC, an Indian conglomerate, decided to connect Indian farmers with PCs in their villages. The Indian Tobacco Corporation (ITC) e-Choupal (literally “village meeting place”) allowed the farmers to check prices not only in the local auction houses (called mandis), but also prices of soybean futures at the Chicago Board of Trade. The e-Choupal network allowed the farmers access to information that allowed them to make decisions about how much to sell and when, thus improving their margins. Similarly, women entrepreneurs in southern India, given a PC kiosk in their villages, have learned to videoconference among themselves, across villages on all kinds of issues, from the cost of loans from various banks to the lives of their grandchildren in the United States.<sup>32</sup> Chat rooms are full of activity that none of us could have imagined. Most interestingly, in Kerala, Indian fishermen in traditional fishing boats, after a day of productive work, sell their catch to the highest bidders, using their cell phones to contact possible landing sites along the Kerala coast. The simple boats, called catamarans, have not changed, but the entire process of pricing the catch and knowing how to sell based on reliable information has totally changed the lives at the BOP. The BOP consumers are more willing to adopt new technologies because they have nothing to forget. Moving to wireless from nothing is easier than moving to wireless from a strong tradition of efficient and ubiquitous landlines.

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<sup>31</sup> Syed Firdaus Ashraf, “Worms Found in Chocolate Packet”, <http://www.rediff.com/news/2003/03cad.htm> First uploaded on 3<sup>rd</sup> October, 2003, retrieved on 12<sup>th</sup> March, 2013.

<sup>32</sup> See multiparty video conferencing at <http://www.n-Logue.com>

### VI.8.3 The Market Development Imperative

The task of converting the poor into consumers is one of market development process. Market development involves both the consumer and the private-sector firm. We consider the risks and benefits to the private-sector firm later. Here, we reflect on the incentives for the BOP consumer, who is so far isolated from the benefits of access to regional and global markets, to participate.

#### Create the Capacity to Consume

*To convert the BOP into a consumer market, we have to create the capacity to consume. Cash-poor and with a low level of income, the BOP consumer has to be accessed differently.*

The traditional approach to creating the capacity to consume among the poor has been to provide the product or service free of charge. This has the feel of philanthropy. It is said that “charity might feel good, but it rarely solves the problem in a scalable and sustainable fashion. A rapidly evolving approach to encouraging consumption and choice at the BOP is to make unit packages that are small and therefore, affordable. The logic is obvious. The rich use cash to inventory convenience. They can afford, for example, to buy a large bottle of shampoo to avoid multiple trips to the store. The poor have unpredictable income streams. Many subsist on daily wages and have to use cash conservatively. They tend to make purchases only when they have cash and buy only what they need for that day. Single-serve packaging-be is shampoo, ketchup, tea and coffee or aspirin- is well suited to this population. A single-serve revolution is sweeping through the BOP markets. For example, in India, single-serve sachets have become the norm for a wide variety of products, as shown in Table 3.

Table 3 Creating the Capacity to Consume: Single-Serve Revolution

<b>Single-Serve Value at Retail</b>		
<b>Rupees</b>	<b>\$</b>	<b>Typical Products</b>
0.50	0.01	Shampoo, confectionary, matches, tea
1.00	0.02	Shampoo, salt, biscuits, ketchup, fruit drink concentrate
2.00	0.04	Detergent, soap, mouth fresheners, biscuits, jams, spreads, coffee, spices
5.00	0.10	Biscuits, toothpaste, color cosmetics, fragrance, bread, cooking oil, skin crea



Note: Shampoo and biscuits are shown under different price ranges because these items are available in multiple single-serve and low unit pack quantities.

The number of products sold in the single-serve format is rapidly increasing. The format is so popular that even firms producing high-end merchandise have to adopt it to remain viable long-term players in the growing markets. Measured in tons, the size of the Indian shampoo market is as large as the US market. The shampoo market in India is estimated to be Rs. 2,500-3,000 crore.<sup>33</sup> Large MNCs, such as Unilever and Procter & Gamble (P&G), are the major participants in this market, as are large local firms. Because the poor are just as brand-conscious as the rich, it is possible to buy Pantene, a high-end shampoo from P&G, in a single-serve sachet in India. The entrepreneurial private sector has created a large market at the BOP; the penetration of shampoo in India is about 90 percent.

Creating the capacity to consume is based on three simple principles best described as the “Three As”:

1. **Affordability:** Whether it is a single-serve package or novel purchasing schemes, the key is affordability without sacrificing quality or efficacy.
2. **Access:** Distribution patterns for products and services must take into account where the poor live as well as their work patterns. Most BOP consumers must work the full day before they can have enough cash to purchase the necessities for that day. Stores that close at 5:00 PM have no relevance to them, as their shopping begins after 7:00 PM. Further, BOP consumers cannot travel great distances. Stores must be easy to reach, often within a short walk. This calls for geographical intensity of distribution.
3. **Availability:** Often, the decision to buy for BOP consumers is based on the cash they have on hand at a given point in time. They cannot defer buying decisions. Availability (and therefore, distribution efficiency) is a critical factor in serving the BOP consumer.

Of course, the ideal is to create the capacity to earn more so that the BOP consumers can afford to consume more. The ITC e-Choupal story illustrates how farmers with access to the Internet and thereby access to the prices of commodities around the world can increase their incomes by 5 to 10 percent. These farmers can

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<sup>33</sup> <<http://www.business.mapsofindia.com/top-brands-india/top-shampoo-brands-in.india.html>, retrieved on 13th March 2013>

decide when and how much to sell based on their understanding of the likely price movements for their products. Modern technology not only allows them to realize better prices, but also to improve their logistics. The aggregation of food grains allows for efficiencies for both the farmer and the buyer. By focusing on the BOP consumers capacity to consume, private-sector businesses can create a new market. The critical requirement is the ability to invent ways that take into account the variability in the cash flows of BOP consumers that makes it difficult for them to access the traditional market for goods and services oriented toward the top of the pyramid.

### **The Need for New Goods and Services**

*The involvement of the private sector at the BOP can provide opportunities for the development of new products and services.*

Amul, a dairy cooperative in India, has introduced good quality ice cream at less than \$0.05 per serving, affordable by all at the BOP. This product is not only a source of enjoyment; the milk in it is also a source of nutrition for the poor. Now, Amul is planning to introduce a natural laxative-laced ice cream called “isabgol-enriched”. It is too early to tell whether the product can be a success. However, the experimentation is what the game is about. Similarly, the popularization of pizza by the same company allows the poor to obtain an adequate quantity of protein.<sup>34</sup> PRODEM FFP, a Bolivian financial services company, has introduced smart automated teller machines (ATMs) that recognize fingerprints, use color-coded touch screens, and speak in three local languages. This technological innovation allows even illiterate BOP consumers to access, on a 24 hour basis, high-quality financial services.<sup>35</sup>

### **Dignity and Choice**

*When the poor are converted into consumers, they get more than access to products and services. They acquire the dignity of attention and choices from the private sector that were previously reserved for the middle-class and rich.*

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<sup>34</sup> Harish Damodaran, “Try Amul’s New Ice Cream and- be relieved!”, The Hindu Business Line, 8<sup>th</sup> September, 2002, retrieved on 14<sup>th</sup> March, 2013.

<sup>35</sup> Roberto Hernandez and Yerina Mugica, “What Works: Prodem FFP’s Multilingual Smart ATMs for Micro Finance”, World Resources Institute, August, 2003, retrieved from <<http://www.wri.org/publication/what-works-prodem-ffps-multilingual-smart-atms-microfinance> , on 14th March, 2013>

Prior to the introduction of ITCs e-Choupal programme, the farmers did not have much choice. Once they went to a mandi, they had to sell their products at the prices offered on that day. They could not wait for better prices or haul their products back to their villages. More important, the local merchants who controlled the mandi were not very respectful of the farmers. Now the same farmers can access information on the Web across all the mandis and can decide where, when, and at which prices they want to sell. Similarly, women in self-help groups (SHGs) working with ICICI Bank in India also have had their dignity restored. As a group, they decide which borrowers and projects will receive loans. This involvement of women in leadership development and in learning about finances and bank operations has given them a new sense of personal worth. The single-serve revolution has created a revolutionary level of choice for consumers at the BOP. For example, the “switching costs” for the consumer are negligible because she can buy a sachet of shampoo or detergent or pickles; if she is not satisfied with her purchase she can switch brands the next day. Firms must continuously innovate and upgrade their products to keep customers interested in their brands, thereby improving quality and reducing costs.

#### **VI.7.4 Benefits to the Private Sector**

We have identified the immediate benefits of treating the poor as consumers as well as the poverty alleviation process that will result as businesses focus on the BOP. It is clear that the consumers (the poor) benefit, but do the private-sector businesses benefit as well? The BOP market potential is huge: 4 to 5 billion underserved people and an economy of more than \$13 trillion PPP. The needs of the poor are many. The case for growth opportunity in the BOP markets is easy to make. However, to participate in these markets, the private sector must learn to innovate. Traditional products, services and management processes will not work.

#### **VI.7.5 A Philosophy for Developing Products and Services for the BOP**

The BOP, as a market, will challenge the dominant logic of MNC managers (the beliefs and values that managers serving the developed markets have been socialized with). For example, the basic economics of the BOP market are based on small unit packages, low margin per unit, high volume and high return on capital employed. This is different from large unit packs, high margin per unit, high volume and reasonable return on capital employed. This shift in business economics is the

first surprise to most managers. As the researcher discussed in section V.8.3 (The Market Development Imperative), creating the capacity to consume the single-serve and low unit pack revolution at the BOP-can be the first surprise for product developers trained in the West. “How can anyone make money at \$0.01/unit price at retail?” is often the question. Similarly, in the West, product developers often assume that the required infrastructures for the use of products exist or that Western infrastructure can be made economically viable and will function properly in these markets. In a developed market, access to refrigerators, telephones, transportation, credit, and a minimum level of literacy can all be assumed. The choice of technologies is not constrained by the infrastructure. However, in BOP markets, the quality of infrastructure can vary substantially, especially within a country as vast as China, Brazil or India. What is available in Shanghai or Mumbai is not an indication of the infrastructure in the hinterlands of China or India. For example, the supply of electricity can be quite erratic and blackouts and brownouts are very common. Advanced technology solutions, such as a regional network of PCs, must coexist with poor and indifferent electrical and telecom infrastructures. Hybrid solutions that integrate backup power sources with PCs are a must, as are customer interfaces. For example, India boasts more than 15 official languages and 500 dialects, and 30 percent of the total population is illiterate. How then can we develop user-friendly interfaces for products that the poor and the illiterate can understand and utilize? Surprisingly, illiteracy can lead to acceptance of the state-of-the-art solutions. For example, illiterate consumers can “see and hear”, not read. Therefore, video-enabled cell phones might be more appropriate for this market.

These challenges are not isolated conditions. Involvement in BOP markets will challenge assumptions that managers in MNCs have developed over a long period of time. A new philosophy of product development and innovation that reflects the realities of BOP markets will be needed. This philosophy must represent a different perspective from those that we have grown accustomed to in serving Western markets. Based on the present research, the scholar has identified 12 principles that, taken together, constitute the building blocks of a philosophy of innovation for BOP markets.

## **VI.7.6 Twelve Principles of Innovation for BOP Markets**

1. Focus on price performance of products and services. Serving BOP markets is not just about lower prices. It is about creating a new price-performance envelope. Quantum jumps in price performance are required to cater to BOP markets.
2. Innovation requires hybrid solutions. BOP consumer problems cannot be solved with old technologies. Most scalable, price-performance-enhancing solutions need advanced and emerging technologies that are creatively blended with the existing and rapidly evolving infrastructures.
3. As BOP markets are large, solutions that are developed must be scalable and transportable across countries, cultures and languages. How does one take a solution from the southern part of India to the northern part? From Brazil to India or China? Solutions must be designed for ease of adaptation in similar BOP markets. This is a key consideration for gaining scale.
4. The Developed markets are accustomed to resource wastage. For example, if the BOP consumers started using as much packaging per capita as the typical American or Japanese consumer, the world could not sustain that level of resource use. All innovations must focus on conserving resources: eliminate, reduce, and recycle. Reducing resource intensity must be a critical principle in product development, be it for detergents or ice cream.
5. Product development must start from a deep understanding of functionality, not just form. Marginal changes to products developed for rich customers in the United States, Europe or Japan will not do. The infrastructure BOP consumers have to live and work in demands a rethinking of the functionality anew. Washing clothes in an outdoor moving stream is different from washing clothes in the controlled conditions of a washing machine that adjusts itself to the level of dirt and for batches of colored and white clothes.
6. Process innovations are just as critical in BOP markets as product innovations. In developed markets, the logistics system for accessing potential consumers, selling to them and servicing products is well-developed. A reliable infrastructure exists and only minor changes might have to be made for specific products. In BOP markets, the presence of a logistics infrastructure cannot be assumed. Often, innovations must

focus on building a logistics infrastructure, including manufacturing that is sensitive to the prevailing conditions. Accessing potential consumers and educating them can also be a daunting task to the uninitiated.

7. Deskillling work is critical. Most BOP markets are poor in skills. The design of products and services must take into account the skill levels, poor infrastructure and difficulty of access for service in remote areas.

8. Education of customers on product usage is key. Innovation in educating a semiliterate group on the use of new products can pose interesting challenges. Further, most of the BOP also lives in “media dark” zones, meaning they do not have access to radio or TV. In the absence of traditional approaches to education-traditional advertising-new and creative approaches, such as video mounted on trucks and traveling low-cost theatrical productions whose job it is to demonstrate product usage in villages, must be developed.

9. Products must work in hostile environments. It is not just noise, dust, unsanitary conditions and abuse that products must endure. Products must also be developed to accommodate the low quality of the infrastructure, such as electricity (e.g., wide fluctuations in voltage, blackouts and brownouts) and water (e.g., particulate, bacterial and viral pollution).

10. Research on interfaces is critical given the nature of the consumer population. The heterogeneity of the consumer base in terms of language, culture, skill level and prior familiarity with the function or feature is a challenge to the innovation team.

11. Innovations must reach the consumer. Both the highly dispersed rural market and a highly dense urban market at the BOP represent an opportunity to innovate in methods of distribution. Designing methods for accessing the poor at low cost is critical.

12. Paradoxically, the feature and function of evolution in BOP markets can be very rapid. Product developers must focus on the broad architecture of the system-the platform, so that new features can be easily incorporated. BOP markets allow (and force) us to challenge existing paradigms. For example, challenging the grid-based supply of electricity as the only available source for providing good-quality, inexpensive energy is possible and necessary in the isolated, poor BOP markets.

It might appear that the new philosophy of innovation for the BOP markets requires many changes to the existing approach to innovation for developed markets. It does require significant adaptation, but all elements of innovation for the BOP described here might not apply to all businesses. Managers need to pick and choose and prioritize. Although effective participation requires changes to the philosophy of innovation, the scholar argued that the pain of change is worth the rewards that will be reaped from the BOP as well as from traditional markets. Further, once we recognize the issues involved, innovation can be quite an energizing experience. The author also plans to illustrate with a large number of examples that a wide variety of organizations-MNCs, local firms, and NGOs-are successfully innovating with vigor in these markets, and are making a great difference in the quality of life of low-income customers and low-income communities. This is of particular importance to MNCs. Because innovations for the BOP markets challenge our established ways of thinking, BOP markets can become a source of innovations for the developed markets as well. Innovation in BOP markets can reverse the flow of concepts, ideas and methods. Therefore, for an MNC that aims to stay ahead of the curve, experimenting in BOP markets is increasingly critical. It is no longer an option.

#### **VI.7.7 Case Stories of Tata Nano and Nokia Mobile**

##### **Tata Nano**



Fig.1 Ratan Tata along with Tata Nano

After having successfully launched the low cost Tata Ace truck in 2005, Tata Motors began development of an affordable car that would appeal to the many Indians

who drive motorcycles. The purchase price of this no frill<sup>36</sup> auto was brought down by dispensing with most nonessential features, reducing the amount of steel used in its construction and relying on low cost Indian labour. The Tata Nano is the cheapest car in the world today. It is made and sold in India. The Nano is a city car manufactured by Tata Motors.<sup>37</sup> Since its inception in 2009, the price has increased. Although, the Nano remains the lowest-cost four-wheeled passenger vehicle in India. The motto behind launching this cheapest car was to give dignity and self-esteem at the bottom of the pyramid, at the same time, there is a huge business opportunities at the bottom of the pyramid.

Sunil Kumar Budhwani, a software engineer working in the city of Pune, became a minor celebrity in August 2009.<sup>38</sup> He took delivery of a Nano, the new low-cost compact car designed and built by Tata Motors. He at once found himself, and his car, with the objective of intense interest. A few weeks later, he drove home to visit his family in Nagpur. Each time he stopped, people gathered around and began to ask him questions about the car. Some asked permission to take photographs of it. At least he escaped the media hype that some other Nano customers had to face. The purchasers of the first three Nanos off the assembly line, who received their keys in Mumbai in July 2009 from Ratan Tata, Chairman of Tata Sons and leader of the Tata group of companies, received the kind of press attention normally reserved for pop stars and cricketers. Photographers followed them in the streets and camped outside their homes and articles were written about them and their families in local newspapers and magazines.

It is a fact that, the Nano had become a phenomenon long before the first one was ever built. Tata Motors had promised to design and make a compact car that would go on sale for one lakh of rupees or roughly \$2,500. The announcement was received with extreme skepticism. It was not possible to build a car that cheaply, said Tata Motors' rivals, or if it was possible the product would be junk. Tata Motors had

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<sup>36</sup> No frills service or product is one for which the nonessential features have been removed to keep the price low. The use of the term “frills” refers to a style of fabric decoration. In other words, it refers to something that should be offered to the customers for no additional charge may be designated as a “frill”. For example, free drinks on airline journey or a radio installed in a rental car. This concept believes in the principle that by removing luxurious additions, customers may be offered lower prices.

<sup>37</sup> < [http://www.en.wikipedia.org/wiki/Tata\\_Nano](http://www.en.wikipedia.org/wiki/Tata_Nano), retrieved on 14<sup>th</sup> March, 2013>

<sup>38</sup> Morgen Witzel, *Tata: The Evolution of a Corporate Brand*, published by Penguin Group, New Delhi, 2010, pp. 1-3.



also announced that the initial production run would be 200,000 units. Critics, sneering at the design as a “four-wheeled moped”, predicted that the company would be lucky to sell half that. Having made this promise, Tata Motors now had to live up to it. Initial sketches for the car show something that looked rather like a golf cart, but executives quickly realized that this had to be a genuine compact car. “Ratan Tata insisted that this had to be a car we would be proud of”, says Prakash Telang, managing director of India operations for Tata Motors.<sup>39</sup> The end result was a “car for the masses”, “peoples’ car”, a well-designed and well-made vehicle intended to make motoring affordable and accessible to ordinary people in the same way that, a hundred years ago, the Ford Model-T did in the United States or the Austin Seven did in Britain.

In the months before the launch, public fascination with the Nano spread beyond India and around the world. European and American newspapers carried stories about the Nano and now everyone knew about Tata Motors and the Tata group, previously known to most foreigners only for things such as steel or IT services. At the offices of Tata Communications in Montreal, people began ringing up to ask if this was the same company that was making “that small car”.

“The Nano has increased the visibility of the group beyond all expectations”, says Ratan Tata.<sup>40</sup> In engineering terms, Tata had proved it could do what everyone else believed to be impossible. Whether the Nano really will revolutionize motoring in the way that Ratan Tata and Tata Motors hope it will remains to be seen. Several other car makers, Indian and foreign, have announced that they intend to bring out ultra-cheap compact cars of their own. The fact will always remain, however, that Tata did it first. Sunil Budhwani and his friends who bought the first Nanos will always know that they were part of motoring history.

## **Nokia Mobile**

Fredrik Idestam established a pulp mill in south-west Finland and started manufacturing paper in 1865. He opened a second mill three years later near the town of Nokia and by 1902, the firm had moved into electricity generating. Shortly after the First World War, Nokia was close to bankruptcy and the nearby Finnish Rubber

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<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

Works, maker of galoshes, hoses and tyres, bought the firm in order to ensure a power supply. A few years later, the group acquired Finnish Cable Works, exporter of telephone and electricity cables to the Soviet Union and the crucible of Nokia's electronics business. The three companies merged in 1922 to form a conglomerate.<sup>41</sup>

Nokia had begun making radio phones for the Finnish military in 1960. In 1982, Nokia introduced its first car phone, with the grand title of Mobira Senator.<sup>42</sup> Its first handheld mobile arrived in 1987 and weighed a hefty 0.7kg (1.7lbs). Officially called the Mobira Cityman, it soon became known as the 'Gorba' after Soviet president Mikhail Gorbachev was pictured using one. By 1992, conglomerates were out of fashion and Nokia decided to focus entirely on mobile phones, gradually selling off its rubber, cable and consumer electronics businesses.<sup>43</sup>

Nokia has around 101,982 employees across 120 countries, sales in more than 150 countries and annual revenues of around €30 billion.<sup>44</sup> It is the world's second-largest mobile phone maker by 2012 unit sales (after Samsung), with a global market share of 22.5% in the first quarter of that year.<sup>45</sup> Nokia is a public limited-liability company listed on the Helsinki Stock Exchange and New York Stock Exchange. It is the world's 143rd-largest company measured by 2011 revenues according to the Fortune Global 500.<sup>46</sup> Nokia was the world's largest vendor of mobile phones from 1998 to 2012.<sup>47</sup> However, over the past five years it has suffered a declining market share because of the growing use of touch screen smart phones from other vendors - particularly the Apple iPhone and devices running on Google's Android operating system, in which Nokia did not take enough advantage of. As a result, its share price had fallen from a high of US\$40 in late 2007 to under US\$2 in mid-2012.<sup>48</sup> In order to recover, Nokia announced a strategic partnership with Microsoft in February 2011, as

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<sup>41</sup> Charles Arthur, "A history of Nokia's from paper mills to Gorbachev", <<http://www.guardian.co.uk/technology/2013/apr/01/history-nokia>> First uploaded on 1<sup>st</sup> April, 2013, retrieved on 26<sup>th</sup> May, 2013.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid.

<sup>44</sup> Nokia Annual Reports 2012, published on 24<sup>th</sup> January, 2013, retrieved on 26<sup>th</sup> May, 2013. <<http://www.results.nokia.com>>

<sup>45</sup> Lucy Williamson, "Samsung overtakes Nokia in mobile phone shipments", <<http://www.bbc.co.uk/news/business>> First uploaded on 27<sup>th</sup> April, 2012, retrieved on 27<sup>th</sup> May, 2013.

<sup>46</sup> Fortune 2011, retrieved on 28<sup>th</sup> May, 2013. <<http://www.money.cnn.com>>

<sup>47</sup> Lucy Williamson, "Samsung overtakes Nokia in mobile phone shipments"

<sup>48</sup> Almost Nothing Can Save Nokia, Except Maybe Widespread Poverty, 247wallst.com, First uploaded on 14<sup>th</sup> May, 2012, retrieved on 27<sup>th</sup> May, 2013.

part of which all Nokia smart phones will incorporate Microsoft's Windows Phone operating system, replacing Symbian. Nokia's current flagship product is the Nokia Lumia 920.

## **Nokia in India**



**Fig. Nokia 105 cheapest phone in India**

Nokia came to India in 1995 as a solid, affordable and user-friendly mobile. India is among the world's fastest-growing markets for mobile phones. The country has some 170 million subscribers and adds 6 million to 7 million more each month.<sup>49</sup> In contrast, China adds 5 million subscribers and the U.S. 2 million subscribers per month. Recognizing this potential, several global telecom giants jumped into the fray when the Indian government first opened up the country's telecom market to private enterprise in 1994. Among them, Nokia forged ahead of rivals and today commands a 58% market share for mobile phones (also called "handsets"). In specific segments, such as GSM telephony, Nokia's market share in India is as high as 70%. (GSM, which stands for Global System for Mobile, is the world's most popular standard for mobile communications.)

The Nokia story in India has not been about grafting a model that has worked abroad. In fact some of its models -- the handsets, not the strategies -- are unique to India. Consider this example: It would probably be inconceivable to mobile phone users in the U.S. or Europe that their mobile phones should incorporate a flashlight or torch. However, in India where large number of the rural population do not have electricity and power cuts are commonplace even in the cities having a torch built into a mobile phone is a distinct and tangible benefit. The Nokia 1100, the first made-for-

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<sup>49</sup> How Did Nokia Succeed in the Indian Mobile Market, While Its Rivals Got Hung Up? IndiaKnowledge@Wharton, First published on 23<sup>rd</sup> August, 2007, retrieved on 27<sup>th</sup> May, 2013.

India phone, has been a runaway success. It is also being exported, manufactured at Chennai. The 1100 incorporates a torch, an alarm clock and a radio. "Innovation is something which consumers reward in this market", says D.Shivakumar, Nokia India's vice president and country manager.<sup>50</sup>

Similar plans are in the works at Nokia's three India R&D labs, which employ 700 people. For obvious reasons, most of the activity is secret. Nokia is, however, willing to talk about the "shared" phone. This is, again, something that mobile phone users in affluent countries might find puzzling, but the concept is simple. For reasons of affordability, in rural areas several people may share a phone. The models being launched to cater to this need will have separate address books, individual billings and more. Will it work? People initially doubted the torch phone, too, but it became a popular product.

Shivakumar offers some reasons to explain why he thinks the Indian market is different and needs out-of-the-box thinking. "Fundamental consumer differences exist between India and other countries," he says. A cell phone is a huge style icon for the Indian masses: 62% of Indians buy a cell phone because of its looks. That is something that is not true anywhere else in the world. It is as huge a style statement as our watch, pen, cufflinks or bag. Hence, the brand matters quite a lot.<sup>51</sup>

Further, he held that, it is a safety product for women in small towns, because with a cell phone one can be in touch all the time and accessible. Next, it is a huge productive vehicle. When somebody calls, we need not to take the bike or car out. Just a phone call is enough. It is also a driver of a lot of economic activity. If we go down the roads of Gurgaon and Delhi, we will find that many people have written their mobile phone numbers on the walls -- a plumber, an artisan, a carpenter, a tailor. This showed that the whole service sector has gotten a huge lift, thanks to the technology. Perhaps this has killed the visiting card business.... It is also the ultimate entertainment device. We can have music on it now, in terms of radio and stored music. The day is not far when we will see movie clips and TV. One of our products has that, so that is TV on the go.

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<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

The Indian market for mobile phones, in addition to its base of 170 million subscribers, is also one of the most cost-effective in the world. Call rates in India are among the lowest anywhere -- making a mobile phone call costs two cents in India, compared with about four cents in China. The market also has tremendous growth potential. So far, most of the growth has been penetration-led, which means placing devices in consumers' hands. The bulk of the growth going forward will be replacement-led, where consumers come back for more. In India, consumers tend to change their phones faster than in most other places. Whenever they change their phone, 60% of the people are willing to pay a higher price.

Nokia launched the cheapest phone in India by targeting at the bottom of the pyramid. The news published in the Hindu on 23<sup>rd</sup> April, 2013.<sup>52</sup>

“Nokia, fighting to regain its lost ground, has launched its most affordable phone the Nokia 105 at a price of Rs 1249.00 to attract customers from the low income group as well as first time buyers. Nokia 105 is a colorful introduction to the Nokia range and is the lowest priced color screen entry phone available in the Indian market, the company said. A successor to Nokia 1280, which sold more than 100 million units in its lifetime, the Nokia 105 comes with everyday essentials for cell phone users. “The Nokia 105 marks the end of black and white screen era in the Indian handset market. The very human and fresh fabula design of Nokia 105 makes it distinct in this price range, and utterly modern despite a traditional form factor,” Viral Oza, Director Marketing, Nokia India said in a statement. “Our most affordable device-the Nokia 105, with some of the best category features, is the ideal handset for first time buyers to enjoy the benefits and experiences of mobility,” he added. With a dust-and splash-proof key mat and superior battery life that can exceed one month in between charges, the Nokia 105 also serves as a back-up phone. It can be used in situations when people prefer to leave their smartphone at home, the company said. The single SIM Nokia 105 features a 1.45-inch true color screen with a user-friendly interface. These include FM radio,

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<sup>52</sup> Nokia launches cheapest phone, The Hindu, dated on 23<sup>rd</sup> April, 2013, p. 14.  
<<http://www.thehindu.com>>

up to five pre-loaded games, multiple alarm clock capabilities, a speaking clock and flashlight. The Nokia Life service may also be available for tips on education and health, as well as entertainment topics. Nokia said the device has a Standby time of up to 35 days and talk time of up to 12.5 hours.”

## **VI.8 Tobacco/Liquor Corporation**

A cigarette is the only consumer product which kills its consumer. -  
Anonymous

CSR has become a part and parcel of any corporation. Some organizations take CSR as a tool to serve people and some take it as a platform to sell the products.<sup>53</sup> In the name of CSR, they are doing unethical business and eventually harm the society and people. They claimed themselves to be the best. Take for example- Indian Tobacco Corporation (ITC). ITC’s tagline is “putting India first.” Y.C. Devashwar, Chairman, ITC Limited, maintained that ITC is the only company in the world to be carbon positive, water positive and solid waste recycling positive.<sup>54</sup> It has innumerable products, but out of them, the main product is cigarette. It generates maximum revenue from tobacco related products. Cancer has become rampant in India. Cancer is the second biggest cause of death in India, growing at 11per cent annually. There are 2.5 million cancer cases and four lakh deaths a year in India. In 1991, six lakh new cancer cases were diagnosed that figure has now risen to eight lakh. Smoking one to seven cigarettes daily doubles the cancer risk. One in five Indian men dies between age 30 and 69 due to tobacco-related cancers.<sup>55</sup>

Tobacco is a leading cause of preventable death and is estimated to kill more than five million people each year worldwide.<sup>56</sup> The gap in deaths between the low and middle income countries and the high income countries, is expected to widen further over the next several decades if we do nothing. If the current trends persist, tobacco will kill more than eight million people worldwide each year by 2030, with

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<sup>53</sup> Jayadev Sahoo, “CSR: Reality or Buzz Word?”, in Manoj Kumar (ed.), *Corporate Social Responsibility: Contemporary Issues in India*, Adhyayan Publishers and Distributors, New Delhi, pp. 16-35.

<sup>54</sup> Ibid.

<sup>55</sup> India Today, August 23, 2010.

<sup>56</sup> Dr. R. N. Kalra, “A terrorist called tobacco”, The Hindu, 2<sup>nd</sup> June, 2013, p. 10.

80% of these premature deaths in the low and middle income countries. By the end of this century, tobacco may kill a billion people or more unless urgent action is taken.<sup>57</sup>

Smoking kills 900,000 people every year in India, and unless corrective action is taken soon that number will increase to 1 million smoking-related deaths annually by 2010 and beyond, according to a study published in the *New England Journal of Medicine* and conducted by scientists for India, Canada and the UK. For the study, 900 field workers gathered information from a sample of 1.1 million homes in all parts of India.

**Highlights of the study and research include:**

1. Smoking may soon account for 20 percent of all male deaths and 5 percent of all female deaths among Indians between the ages of 30 and 69.
2. About 61 percent of men who smoke expect to die between the ages of 30 and 69, compared with only 41 percent of non-smoking men who are similar in other ways.
3. About 62 percent of women who smoke can expect to die between the ages of 30 and 69, compared to only 38 percent of non-smoking women.
4. On average, men who smoke bidi- the popular hand-rolled cigarettes that contain about one-quarter as much tobacco as a full-sized cigarette-shorten their lives by about six years. Men who smoke full-sized cigarettes lose about 10 years of life.
5. Bidi-smoking women shorten their lives by about eight years on average.
6. Smoking 1-7 bidis a day, for example, raised mortality risks by 25 percent while smoking an equal number of cigarettes daily doubled the risk of death to 50 percent.

Can this company talk about CSR anymore? Do not you think in the name of CSR, most of the companies are following the same trend? Let us take the example of Liquor Corporation in India.<sup>58</sup> How many people are dying every day due to liquor consumption? How many road accidents are occurring due to reckless drivers (drunkard drivers)? Who forgets the incident where more than 100 people died after drinking tainted home-brewed liquor in Gujarat, 2009? Deaths from drinking illegally

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<sup>57</sup> Ibid.

<sup>58</sup> Jayadev Sahoo, "CSR: Reality or Buzz Word?"

brewed cheap alcohol are common in India, where few people can afford licensed liquor. The illegally brewed cheap alcohol is known as desi daru. Could the Indian government dare to ban liquor like Narendra Modi, Gujarat, Chief Minister? Those liquor corporations also talk about CSR. CSR has become a platform to sell their products. Hence, it seems that any tobacco/liquor corporation cannot talk about CSR as far as the morality and ethicality are concerned.<sup>59</sup>

## **VI.9 The Role of Government**

Government plays a key role in checking and controlling the unethical practices in business. Government can set reference frameworks, encourage action and promote dialogue but crucially can enforce action through legislation. For example, Odisha government state-wide banned on the manufacture, sale and use of guthka and chewing tobacco containing nicotine on 1<sup>st</sup> January 2013. Health and Family Welfare Minister Damodar Rout held that, “I appeal to people to cooperate with the state government to make Odisha a tobacco-free state.”<sup>60</sup> Noting that Odisha was not the only state where government imposed such a ban, Rout said the Supreme Court and different high courts had earlier directed the states to slap such a ban as the nicotine-contained chewing masalas triggered diseases like cancer. Odisha is the 15th state in the country to ban 'guthka'.<sup>61</sup> While union territory Chandigarh has effected a ban on it, Kerala banned pan masala and guthka containing tobacco under the Food Safety and Standards (Prohibition and Restriction on Sales) Regulation, 2011. The states which had so far banned guthka include Madhya Pradesh, Kerala, Bihar, Rajasthan, Maharashtra, Gujarat, Haryana, Chhatisgarh, Jharkhand, Mizoram, Delhi, Uttar Pradesh, Uttarakhand, Himachal Pradesh, Chandigarh, Punjab and Goa.

There should be some regulative mechanism to control and check the unethical practices. For example, in kerala, people accused Coca Cola of creating severe water shortages for the community by extracting large quantities of water for their factories, affecting both the quantity and quality of water and thereby causes

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<sup>59</sup> Ibid.

<sup>60</sup> Odisha bans use of 'guthka', chewing tobacco, The Indian Express, 1<sup>st</sup> January, 2013 <<http://www.indianexpress.com>> retrieved on 31<sup>st</sup> may, 2013.

<sup>61</sup> Ibid.



environmental damage as well as affecting the lives of rural people.<sup>62</sup> Coca Cola has the largest soft drink bottling facilities in India. Water is the primary component of the products manufactured by the company. Kerala assembly passed a bill allowing compensation claims against environmental damage caused by a bottling plant. A high-level committee was formed to assess the value of loss which found that a huge loss to the tune of Rs. 216.16 crore.<sup>63</sup> The panel suggested creation of an exclusive tribunal to make the company pay based on the “polluter pays” principle.

Government can use taxation to encourage ‘green’ practices, set minimum wages and impose restrictions on working hours. In many countries, targets are set on businesses to reduce greenhouse emissions. Yet many businesses stress that government incentives, rather than punitive taxes, would do more to encourage ethical behavior, especially on ‘green’ issues. Again, government can enforce laws to protect child labour. Those corporations are indulged in hiring children below fourteen years, stringent actions should be taken against them. Besides that, women’s safety matters a lot at the workplace. It is the prime duty of the government and corporations to provide them security. After all, the need of the hour is to protect consumer rights. Hence, it seems that unless and until there is a potent political will at the centre, we cannot tackle unethical practices in business

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<sup>62</sup> Case against Coca-Cola Kerala State: India, The Rights To Water And Sanitation. <<http://www.rightwater.info>, retrieved on 31st May, 2013>

<sup>63</sup> Kerala fines Coca Cola for Rs. 216 cr loss, The Indian Express, 24<sup>th</sup> February, 2011. <<http://www.indianexpress.com>, retrieved on 1st June, 2013>

## **Conclusion**

From the above detailed analysis, it shows that CSR does not mean that doing sensible and responsible business only. It is beyond socially responsible business. An organization has to follow all the ethical issues involved in CSR. The scholar has analyzed various ethical issues behind CSR, namely, underpricing, Bottom of the Pyramid-eradicating poverty through profits, training programme on ethical values to the employees, the gloomy aspects of CSR (tobacco/liquor corporation) and the role of government to frame a regulative mechanism to check and control unethical practices. An attempt is made to show that what kind of ethics the scholar wants to prove in his thesis. In other words, the scholar intends to prove that whether it is a teleological ethics, deontological ethics or a situational ethics. Let us proceed to the concluding part to know that what kind (teleological, deontological or situational) of ethics, the thesis is all about.

## **CHAPTER-VII**

### **CONCLUSION**

So far, we have analyzed five paramount and prominent issues in business ethics. The first one talks about the significance of ethical values in business. They are honesty, integrity, responsibility, quality, trust, respect, teamwork, leadership, corporate citizenship and shareholder value. The more company applies these values, the more profit they get. The second one talks about ethical challenges in business. They are challenge of ethical behavior, challenge of managing a diverse workforce, challenge of new technologies, challenge of increased quality and challenge of employee motivation and commitment. The five ethical issues are broadly covers most of the issues in business ethics. The third one talks about the moral and unconditional relationship between business and environment. Both business and environment are inter-related and dependent on each other. Whatever business does that affects environment and vice-versa. Both are accountable to each other. The fourth issue expresses the significance of socially responsible advertising. We cannot do successful business without advertising. Advertising plays a paramount role in business. Advertising has the power to give message to the society that will hugely benefit and rectify the society. And the last one reveals regarding ethics behind CSR. CSR seems to be in demand. It has become an obligation rather than choice. The businesspersons are forced to apply it in business.

This clearly illustrates ethics plays a cardinal role in business. In other words, it pays to be ethical. A question can be raised, if ethics really matters in business, then what is the future of business ethics. In order to answer this typical question, there are two approaches, namely, optimistic and pessimistic. The optimistic approach discloses that ethics has to play a dominant role in business. Those who have practiced unethical/unfair means in business, they have never succeeded. In addition, they had to pay the price for it. The corporate leaders were apologized and repented for their misdeeds. They have made a commitment to the stakeholders that business executives will be ethically “born again” and return to their ethical standard business. A new commitment to ethical management will cause many leading executives to step forward and demonstrate ethical leadership and statesmanship, and the world will be encouraged by those new found expressions of integrity and transparency. One day or

other, the public will have some degree of trust on business sector and economic growth will return. The pessimistic approach unfolds that business will never learn its lessons. The current scenario of business is gloomy and unpredictable. Business leaders will shirk responsibility and society will have a hard time holding decision makers accountable. Many companies are looking to cut corners in order to gain profit because of fierce global competition, slacking demand and the pressure of cost cutting. In this context, corporate boards, ethical management team and ethics training programme, and code of conduct will not help much. The attitude of cutting corners with regard to stakeholders will adversely affect shareholders, employees, customers, the community and the environment. Shareholders will be hurt by the vagaries of the market. The job security of the employees will be constantly in question and they will pay more for their health insurance, if it is available. Their retirement funds will be in serious jeopardy. The same goes with other stakeholders also. Under these harsh economic conditions, the possibility of ethical behavior is highly questionable and doubtful. This leads to further unethical practices to keep companies afloat. Therefore, the future of business ethics looks gloomy. Out of these two (optimistic and pessimistic) approaches, the scholar advocates former one. We need to be positive. As Gandhiji rightly pointed out: “Be the change that you wish to see in the world.” If everyone will start to shirk responsibility, then who will bell the cat? Therefore, the scholar predicts that the future of business ethics is bright and prosperous.

### **VII.1 Deontological Ethics**

The scholar intends to prove that whether it is a deontological ethics, teleological ethics or situational ethics. Deontological ethics is otherwise known as nonconsequentialist and teleological ethics is known as consequentialist. Deontology is one of the systems of ethics. It holds that ethics is a system of rules and there is hierarchy of rules. Sometimes the rules try to conflict with each other. Ethics is based on the notion of duty and right. Deontology gives importance on actions rather than consequences. Deontology is the ethical theory holds that there are moral constraints on promoting overall best consequences; sometimes the right action is not the one whose consequences are best. The constraints that deontological theories emphasize are familiar from our everyday experience of morality: One ought to keep one's promises, truth telling and be loyal to one's friends; one ought not to inflict unnecessary suffering or to ignore debts of gratitude and so on. In other words,

deontological ethics is a position that judges the morality of an action based on the action's adherence to a rule or rules.

Jeremy Bentham coined the word deontology in the nineteenth century. Initially, the word "deontology" was used to refer, quite widely, to the "science of duty". The word deontology derived from two Greek words, namely, deon and logos. Deon means needful, fitting, obligation and duty, and logos means science or discourse. Within a century, the term gained its narrower meaning; even this wide use of the term, however, carries some definite commitments. These stem from each of its two roots: (1) It is fitting to be virtuous; but it is not part of the concept of virtue that virtue is always needful or morally necessary. In focusing on the needful, deontology may thus either leave the moral virtues to one side or demote them to a derivative status. In its concern with duty, deontology also either ignores, or treats as peripheral, the nature of moral success—described by some as happiness or eudaimonia, by others as perfected moral worth. Deontology's principal terms of assessment are, instead, deontic: they concern what ought to be the case and more specifically, what people ought (morally) to do. (2) It is possible to speak or discourse about almost anything; but holding that there is a logos of duty suggests that moral duties may be correctly described in general terms. This suggestion runs contrary to the views of at least some contemporary moral particularists, who deny that there are any general truths about what people ought to do.

Immanuel Kant's theory of ethics can be considered as deontological for two different reasons. First, Kant argues that to act in the morally right way, people must act from duty (deon). Secondly, Kant argued that it was not the consequences of actions that make them right or wrong but the motives of the person who carries out the action.

Kant holds that to act in the morally right way one must act purely from duty begins with an argument that the highest good must be both good in itself and good without qualification. Something is called "good in itself" when it is intrinsically good and "good without qualification" refers to something when the addition of that thing never makes a situation ethically worse. Again, Kant argues that those things that are usually thought to be good, such as intelligence, perseverance and pleasure, fail to be intrinsically either good or good without qualification. For example, pleasure appears

not to be good without qualification because when people take pleasure in watching someone suffering, this seems to make the situation ethically worse. He concludes that there is only one thing that is truly good: Nothing in the world, indeed nothing even beyond the world can possibly be conceived which could be called good without qualification except a good will.

Further, Kant argued that the consequences of an act of willing cannot be used to determine that the person has a good will; good consequences could arise by accident from an action that was motivated by a desire to cause harm to an innocent person and bad consequences could arise from an action that was well-motivated. He claims, instead, a person has a good will when he “acts out of respect for the moral law”. People “act out of respect for the moral law” when they act in some way because they have a duty to do so. So, the only thing that is truly good in itself is a good will and a good will is only good when the willer chooses to do something because it is that person’s duty, i.e., out of “respect” for the law. He defines respect as “the concept of a worth which thwarts my self-love.”

Kant’s two significant formulations of the categorical imperative are:

- Act only according to that maxim by which you can also will that it would become a universal law.
- Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end. In other words, he held that never use anyone as a means to realize your ends.

## **VII.2 Teleological Ethics**

Teleological ethics is otherwise known as consequentialism. Consequentialism is one of the systems of ethics. This word “consequentialism” derived from “consequent”. Elizabeth Arscombe is the advocator of the consequentialism. It means, “forward looking”. We have to look forward, what will happen in future. Again, the word “teleology” has derived from the Greek word “telos”, meaning “end”. Teleological ethics gives importance on consequences rather than actions. In other words, it maintains that there is a purpose behind every action.

Further, teleological theory is a theory that first identifies what is good in states of affairs and then characterizes right acts entirely in terms of that good. The paradigm case of a teleological theory is therefore an impartial consequentialist theory, such as hedonistic utilitarianism; defended by John Stuart Mill (1969) and Henry Sidgwick (1907), it states the right act is always the one whose consequences contain the greatest total pleasure possible.

Hedonistic utilitarianism has three principal features: First, it identifies good states of affairs independently of claims about the right, so even pleasure in a wrong act, such as a sadist's pleasure in torturing, is intrinsically good; and these goods are always consequences in the ordinary sense of acts that produce them, that is, separate states that follow after the acts. Second, in evaluating consequences, utilitarianism weighs all people's pleasures impartially, so for any person, a stranger's pleasure counts just as much as his child's or even his own. Finally, utilitarianism characterizes right acts in terms only of promoting the good and more specifically, of maximizing it, so the right act is always the one that produces the most good possible.

It has become commonplace to hold that teleological theory is based on the rightness and wrongness of actions that wholly determined by their tendencies to generate good. Deontological theories deny this, holding that the right action at least sometimes expresses deontological necessity, which stands independent of teleology—even a teleology that tots up overall goodness. As we have seen, the initial, wide use of “deontology” suggests that there are general ethical truths. In keeping with that suggestion, the more specific idea of deontological theory, as it is usually presented, invokes the idea of a general type of duty. One or more generally statable moral constraints prohibit certain ways of pursuing good results. In this way, we arrive at the conception of deontology stated at the outset: Deontology is the ethical theory or family of ethical theories, according to which there are constraints on promoting overall best consequences that imply that sometimes the right act is not the one whose consequences are best.

The distinction between deontological and teleological theory does not cover all possible ethical theories, not even all of the non-particularist ones that focus on duty rather than virtue or happiness. On the one hand, there are other ways of resisting the idea that the right act is the one whose consequences are best. Philippa Foot

(1985) and others have questioned the coherence of this apparently all- purpose notion of overall goodness: Does it really make sense to ask, for any two states of affairs or any two alternative actions, which is “better?” Another possibility emphasized by Samuel Scheffler (1982) is to hold that the basis for deviating from what is for the best is not a set of constraints or duties, but rather a set of prerogatives or permissions: Perhaps we sometimes have moral attitude to act in some merely acceptable ways. On the other hand, there are ways of developing consequentialism that drop any reference to teleological necessity: Perhaps we simply rank some alternative actions as better or worse, on the basis of whatever considerations apply, interpreting “consequentialism” simply as holding that we ought take the best available alternative. If this abstract understanding of consequentialism is taken to the limit, the contrast between deontology and consequentialism will blur.

Further, teleological theories are commonly contrasted with deontological ones, which say an act can be wrong even if it has best consequences. Thus, a deontological theory can say it is wrong to kill an innocent person even if that will prevent five other innocent people from being killed because doing so violates a moral constraint against killing; it can likewise contain constraints against lying, promise breaking and so on. A deontological theory is clearly nonconsequentialist and it is also nonteleological if its constraints are independent of the good, say, if it contains independent, underived prohibitions of killing and lying. But some deontologists, who call their view Thomist, do connect constraints to the good. They start by identifying certain states of affairs as intrinsically good, say, pleasure, knowledge and freedom. But they then claim that alongside a duty to promote these goods is a separate and stronger duty to respect them, which means not choosing against or intentionally destroying them. This second duty grounds constraints against killing, which destroys good human life; lying that aims at the opposite of knowledge and more.

Hence, deontology is a theory that is based on rules, whereas consequentialism is not based on rules. It is opposed to each other. Deontology is a theory where the rules are not violated; consequentialism is a theory where the rules are violated. Consequentialism is a forward-looking process that moves people forward. Consequentialism starts with goal, consequence, purpose and result, whereas deontology starts with rules.



### **VII.3 Situational Ethics**

Situational ethics or situation ethics is a Christian ethical theory. Joseph Fletcher developed situation ethics in 1960. Joseph Fletcher is known as the “Father of Situation Ethics”. He was the pioneer of “Business Ethics” and “Biomedical Ethics”. He defined situation ethics as a kind of ethics, which gives importance on a particular situation rather than rules or laws.<sup>1</sup> In other words, he replaced ethical rules and regulations with law of love. He calls it “agape love” (means unconditional love, non-reciprocal and neighbor-centred love even enemy).<sup>2</sup> Fletcher believed that in forming an ethical system based on love, he was best expressing the notion of “love thy neighbor”, which Jesus Christ taught in the Gospels of the New Testament of the Bible.

Fletcher mentioned that as no situation requiring an ethical response is ever exactly the same as another, there is never a right course of action, which fits all situations. This means that there are three approaches to make ethical decisions, Fletcher points out. They are legalistic, antinomian and situation.<sup>3</sup> Let us discuss these three ethical approaches in decision-making.

#### **Legalistic ethics**

The ethical legalist holds that every ethical decision should be taken from the perspectives of a set of rules and regulations. The attraction of ethical legalism is that it simplifies ethical decisions, because there is always a rule to apply. Its drawback is its rigidity, which may lead to mistaken ethical priorities: Fletcher agrees with Bertrand Bussell’s comment that Christian ethical legalists tend (wrongly) to regard adultery as more immoral than political corruption, despite the fact that the effects of the latter are much more damaging.

#### **Antinomianism**

Antinomianism is against legalistic ethics. The word “antinomianism” is derived from two Greek words, anti means against or instead of and nomos means law. So an antinomian is one who does not believe that there are ethical laws. Further,

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<sup>1</sup> David Mills Daniel, *Briefly: Fletcher’s Situation Ethics*, SCM Press, London, 2009, pp. 2-31.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

antinomianism held that there are no guidelines or principles, not even love, can tell us whether an action is right or wrong. The decisions of the antinomian are random, unpredictable and erratic.

### **Situationism**

Fletcher refutes both legalistic and antinomian approaches and advocates situation ethics. In his opinion, moral decisions cannot be made on the basis that some things always are right and some things always are wrong; rather each moral decision should be made with regard to specific situation on the basis of “love” alone. The situationist treats his community’s ethical values and principles with respect, because he realizes that they can shed light on ethical problems, but he refuses to make them into an ethical straitjacket. He is prepared to set them aside in a particular situation, if he thinks that doing so is the most loving action. For the situationist, self-sacrificing, neighbor-centred love, the Christian agape, is the only absolute ethical standard. Any other general principles derive from and are subordinate to it. The situationist’s ethical decisions and actions reflect his awareness that circumstances alter cases and that he must apply the love ethic in a way, which acknowledges that no two situations are exactly alike.

How situationism works in practice? Fletcher cites an example of a young unmarried female patient having a radical schizophrenic psychosis. Another patient in USA’s mental hospital had raped her. Her father wants an immediate abortion, but state law only allows it on “therapeutic” grounds: where the mother’s life is at risk. What would the situationist’s attitude be? Fletcher maintains that the law of love requires an abortion, for the sake of the patients’s physical and mental well-being, irrespective of whether or not her life is in danger. He adds that the situationist would argue that abortion is not killing in this situation because there is no person or human life in an embryo at an early stage of pregnancy.

## **Four Working Principles**

Fletcher's situationism is based on four working principles.

1. Pragmatism – This is to do with what works and achieving a successful outcome to problems. It does not provide ethical principles or standards; we have to choose these for ourselves. But approaching ethical problems in a practical, common-sense way enables situationists to take account of all the aspects and complexities of a situation and to apply the principle of love effectively to it.<sup>4</sup>
2. Relativism- No two situations are identical, so situationists should avoid words like 'never'. For the Christian situationist, the absolute norm or ultimate criterion is agapeic love, which must always be applied but also made relative to the actual situation. Further, situationists must never make a subordinate principle, which may be helpful in one situation, into an absolute rule, which they always apply.
3. Positivism- Faith claims cannot be proved rationally. They can only be "posited" and affirmed by the person who chooses to believe their accuracy. Thus, situationism does not seek to prove that an ethical conclusion is true. It only seeks to provide justification (support) for the ethical decision.
4. Personalism- Situation ethics puts people, not things, at the centre of concern: obligations are to persons, so situationists are personalistic. We cannot separate ethics from people. To have an ethical system that is based upon a code or rule without regard for the people is pointless. Situationism, with love as its primary standard, focuses on love as it relates to people.

### **Situation ethics is based on six fundamentals**

- Only one thing is intrinsically good, namely, love: nothing else.
- The ultimate norm of Christian decisions is love: nothing else.
- Love and justice are the same, for justice love is distributed.
- Love wills the neighbor's good whether we like him or not.
- Only the end justifies the means: nothing else.
- Decisions ought to be made situationally, not prescriptively

Now, let us move to the basic and fundamental question, whether the thesis is deontological ethics or teleological ethics or situation ethics. Deontological ethics

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<sup>4</sup> Ibid.

gives importance on actions only. It never bothers about consequences. Teleological ethics gives importance on consequences, not on actions. If an action does not bring good consequences, then it is not considered to be a good action. On the other hand, situation ethics talks about situation only. There are no ethical rules and regulations. Person's credentials will be judged based on a performance in a particular situation. A businessperson does not do anything in view of present situations. If a businessperson invests hefty amount of money, he will look for the future. A businessperson has to take care of three things, namely, land, labor and capital. In this sense, it is not deontological ethics because deontological ethics ends in itself. Deontological ethics does not look for future or consequences. On the other hand, situation ethics gives importance on a particular situation rather than rules or laws. A person has to act on a particular situation on the basis of love only. However, a businessperson does not act on a particular situation on the basis of love alone. He acts on the basis of rationality. He applies reason rather than emotions or sentiments. He thinks about the consequences. If I would invest a hefty amount of money, will I get the profit? He calculates the good consequences in terms of profit or loss. Therefore, the scholar does not advocate situation ethics. The scholar tries to bring out teleological ethics in the thesis. Since teleological ethics is purposive, consequentialist or brings good consequences for maximum number of peoples, the thesis aimed at establishing teleological ethics. A businessperson does exactly the same things, which are the guidelines of teleological ethics.

In all humility, the scholar admits the lacunae with respect to the techniques and methods, which has been applied throughout the thesis, as this is just the beginning. As it is said: "The room for improvement is the biggest room in the world."

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