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BBA	SEMESTER II	UNIVERSITY OF KERALA	COURSE CODE: UK2DSCMGT103

BUSINESS ETHICS AND CORPORATE GOVERNANCE

EXAM REVISION NOTES

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MODULE I

FOUNDATIONS OF BUSINESS ETHICS AND MORAL PHILOSOPHY

Conceptual Foundations of Business Ethics: Ethics (from Greek ethos, character and custom) is the philosophical inquiry into right versus wrong human conduct, moral duty, and virtue. Business Ethics applies moral principles, normative standards, and value systems to enterprise policies, commercial dealings, and executive leadership decisions. Scope operates across three systemic dimensions: **Macro-Systemic Dimension** (evaluating moral legitimacy of economic systems, free-market capitalism, global trade regimes, sovereign patent rights on essential medicines, and ecological exploitation); **Corporate / Organizational Dimension** (workplace safety standards, whistleblower protections, diversity inclusion, non-discriminatory hiring, and fair executive compensation); and **Individual / Micro-Behavioral Dimension** (personal integrity, professional conflicts of interest, bribery, insider trading, and truthfulness in corporate communications).

Distinctions Between Morality, Ethics, and Law: Morality originates in personal conscience, spiritual traditions, and cultural upbringing, enforced through internal remorse and social guilt. **Ethics** represents systematic philosophical inquiry and formal professional and organizational codes of conduct, enforced through professional disbarment and loss of commercial reputation. **Law** embodies formal, codifiable minimum behavioral rules enacted by state sovereign authority, enforced through financial penalties, asset confiscation, and imprisonment. Crucial axiom: **The law represents the absolute moral minimum**. Actions can be legal but unethical (such as aggressive corporate tax avoidance in offshore tax havens, predatory marketing of processed foods to young children, and outsourcing manufacturing to unregulated foreign sweatshops); or illegal but ethical (such as historical civil disobedience against discriminatory apartheid legislation, or an employee breaking an NDA to expose life-threatening toxic dumping).

Philosophical Frameworks of Moral Philosophy: Enterprise managers resolve complex moral dilemmas using three foundational normative traditions:

- **Deontological (Duty-Based) Ethics (Immanuel Kant):** Morality is intrinsic to the action itself and adherence to universal moral duties, completely independent of consequences or outcomes. Governed by the **Categorical Imperative**: 1. **Formula of Universal Law**: act only on maxims that you would will to become universal law (universalizing deceit destroys the entire institution of contracts; therefore lying and fraud are unconditionally immoral); 2. **Formula of Humanity as an End**: never treat human beings merely as a means to an end (profit), but always at the same time as an end possessing inherent rational dignity.
- **Teleological / Utilitarian Ethics (Jeremy Bentham and John Stuart Mill):** Consequentialist doctrine holding that the moral worth of an action is judged solely by its outcomes. Governed by the **Principle of Utility**: promoting the greatest net happiness or well-being for the greatest number of affected stakeholders. Manifests in corporate Cost-Benefit Analysis (CBA). Limitation: risk of "Tyranny of the Majority" justifying the exploitation of minority or vulnerable stakeholder groups.
- **Virtue Ethics (Aristotle):** Shifts focus from abstract universal duties or calculated consequences to moral character and habitual integrity. The ultimate goal of human life is **Eudaimonia** (human flourishing). Virtues are moral excellences cultivated through habitual practice, conceptualized as the **Doctrine of the Mean** between vices of deficiency and excess: **Courage** (between cowardice and rashness), **Temperance** (curbing corporate greed), **Justice** (fairness and equitable distribution), and **Prudence** (Phronesis: practical executive wisdom).

The Great Debate: Shareholder Primacy vs Stakeholder Theory: Milton Friedman's Shareholder Primacy posits that the sole social responsibility of business is to maximize economic profits within the rules of law and ethical custom. Corporate managers are legal agents of equity shareholders; spending corporate capital on non-profit social causes imposes an undemocratic tax on shareholders without their consent. In contrast, **R. Edward Freeman's Stakeholder Theory** asserts that corporations are socially embedded institutions with binding fiduciary duties to all **Stakeholders**—any group who can affect or is affected by corporate objectives (Shareholders, Employees, Customers, Suppliers, Creditors, and Communities). The Separation Fallacy is rejected: business decisions inherently carry ethical consequences. Long-term shareholder wealth cannot be sustained while exploiting non-financial stakeholders.

Moral Psychology and Stages of Moral Development: Lawrence Kohlberg's Six Stages of Moral Reasoning across three developmental levels: 1. **Pre-Conventional Morality**: Stage 1 (Obedience and Punishment Orientation) and Stage 2 (Individualism and Instrumental Exchange); 2. **Conventional Morality**: Stage 3 (Interpersonal Conformity / Good Boy-Nice Girl) and Stage 4 (Social System Maintenance / Law and Order; where the majority of adults operate); 3. **Post-Conventional Morality**: Stage 5 (Social Contract and Individual Rights) and Stage 6 (Universal Ethical Principles of Justice and Dignity). **James Rest's Four-Component Model**: Moral action requires **Moral Sensitivity** (awareness), **Moral Judgment** (reasoning), **Moral Motivation** (prioritizing values over profit), and **Moral Character** (implementation courage).

Ethical Decision-Making Frameworks in Practice: Executives deploy structured models to resolve complex dilemmas: **The Potter Box** (systematic analysis of empirical Definition, underlying Values, philosophical Principles, and ultimate Loyalties); **Laura Nash's Twelve Questions** (defining problems accurately, evaluating alternative perspectives, and passing the public Sunlight Test); and **Rushworth Kidder's Right-versus-Right Paradigms** (Truth vs Loyalty, Individual vs Community, Short-Term vs Long-Term, and Justice vs Mercy).

Indian Ethos and Spiritual Wisdom in Management: Purusharthas (Dharma / moral duty governing Artha / wealth creation, Kama / desire, and Moksha / spiritual liberation). **Nishkama Karma** (Bhagavad Gita: process-oriented dedication to craftsmanship and duty without selfish attachment to the fruits of action). **Kautilya's Arthashastra** (statecraft, consumer protection, auditing standards, ruler's happiness in subjects' welfare). **Trusteeship (Mahatma Gandhi)** (business owners as moral trustees holding societal wealth in trust for the public good).

MODULE II

ETHICAL VALUES, FUNCTIONAL ETHICS AND DIGITAL DILEMMAS

Universal Core Values in Enterprise: Five foundational pillars: **Integrity** (uncompromising adherence to moral principles; wholeness between speech and action), **Transparency** (open, accurate, timely disclosures eliminating deceptive obscurity), **Fairness / Equity** (impartiality in hiring, compensation, supplier bidding, customer pricing), **Accountability** (taking full ownership of corporate externalities and outcomes), and **Respect for Human Dignity** (honoring individual rights, safe working conditions, living wages).

Institutionalizing Ethics Architecture: Translating abstract values into operational systems through: 1. **Corporate Code of Conduct** (clear, written operational manual defining behavioral boundaries regarding conflicts of interest, bribery, harassment, data privacy, backed by strict disciplinary enforcement); 2. **Ethics Committee** (high-level board committee directing compliance, investigating violations, updating codes); 3. **Chief Ethics and Compliance Officer (CECO)** (independent executive with unhindered board access); 4. **Whistleblower Architecture** (confidential 24/7 hotlines, ironclad statutory anti-retaliation protections under the Whistle Blowers Protection Act and Section 177 Vigil Mechanism, independent forensic investigations).

Marketing and Sales Ethics: Prohibiting **Deceptive Advertising** (false efficacy claims, concealed fine-print exclusions, bait-and-switch pricing). Eliminating **Greenwashing**—deceptive environmental claims violating the Seven Sins of Greenwashing (hidden trade-offs, no proof, vagueness, false labels, irrelevance, lesser of two evils, outright fibbing). Curbing **Exploitative Pricing** (Price Gouging on essential medicines/water during natural disasters; Predatory Pricing driving rivals into bankruptcy). Protecting **Vulnerable Consumers** (children, financially distressed borrowers, cognitively impaired seniors).

Financial and Accounting Ethics: Financial statements must reflect a True and Fair View. Prohibiting **Creative Accounting and Window Dressing** (premature revenue recognition, channel stuffing, aggressive capitalization of operational expenses, off-balance-sheet Special Purpose Vehicles hiding debt [Enron], Big Bath restructuring write-downs). Prosecuting **Insider Trading** (trading securities based on Unpublished Price-Sensitive Information [UPSI], prosecuted in India under SEBI PIT Regulations). Preserving **Auditor Independence** (resolving client-pays conflicts of interest; Section 144 of Companies Act 2013 and SOX prohibit statutory auditors from providing management consulting, IT, or internal audit services to audit clients; mandatory audit firm rotation every 5 to 10 years).

Ethical Dilemmas in the Digital Age: Surveillance Capitalism (extracting personal behavioral data without informed consent; monetizing predictive human profiles). **Algorithmic Bias** (machine learning models trained on historical datasets encoding and scaling racial, gender, and socio-economic prejudice in hiring, credit scoring, and insurance underwriting; the Black Box opacity problem). **Dark Patterns** in UX design (Roach Motel, Confirmshaming, Forced Continuity, Misdirection). **Generative AI Ethics** (unauthorized scraping of copyrighted human works, deepfakes, synthetic misinformation, automated social bot manipulation).

Supply Chain and Environmental Ethics: Supply Chain Due Diligence (holding lead firms strictly liable for modern slavery, forced labor, and child labor in tier-1/tier-2 suppliers and critical mineral extraction [cobalt in DRC]; UK Modern Slavery Act, German Supply Chain Act). **Environmental Ethics**: Anthropocentrism (instrumental human-centric value) vs Ecocentrism / Deep Ecology (intrinsic rights of all living ecosystems; Arne Naess). **Intergenerational Justice** (Rawls: present generation acting as planetary trustees for unborn generations). **Extended Producer Responsibility (EPR)** (mandatory post-consumer plastic and e-waste recycling under Indian statutory rules).

Ethics in Corporate Restructuring: Hostile takeovers frequently deploy controversial mechanisms: **Leveraged Buyouts (LBOs)** and asset stripping (hollowing out productive manufacturing plants to pay speculative acquisition debt); **Poison Pills** (diluting shares to protect entrenched board members); **Golden Parachutes** (lavish multi-million bonuses rewarding failed executives); and **Greenmail** (corporate ransom payouts). Humane downsizing mandates exhausting non-layoff alternatives, providing procedural transparency, generous severance cushions, and professional outplacement counseling.

MODULE III

ORGANIZATIONAL CULTURE AND DIVERSITY MANAGEMENT

Architecture of Organizational Culture: The shared pattern of values, beliefs, and behavioral norms learned by enterprise members to solve problems of external adaptation and internal integration. Peter Drucker noted that culture eats strategy for breakfast. **Edgar Schein's Three Levels of Culture**:

- **Level 1: Artifacts:** Surface, visible manifestations (physical architecture, dress codes, rituals, ceremonies, jargon, organizational myths).
- **Level 2: Espoused Values:** Conscious, articulated corporate philosophies, mission statements, behavioral codes, and formal values.
- **Level 3: Underlying Basic Assumptions:** Invisible, taken-for-granted, deeply ingrained beliefs and mental models that actually drive human behavior. The gap between Espoused Values and Basic Assumptions is the root cause of corporate hypocrisy and scandal (e.g., Enron).

Cultural Typologies and Diagnostic Frameworks: Charles Handy's Four Cultures: 1. **Power Culture (Web of Zeus)** (central entrepreneur, fast decisions, vulnerability to leader whims); 2. **Role Culture (Temple of Apollo)** (bureaucracy, functional pillars, rules, stability, paralysis during innovation); 3. **Task Culture (Matrix of Athena)** (project teams, expertise power, dynamic, high-cost); 4. **Person Culture (Cluster of Dionysus)** (serves individual experts; law/medical chambers). **Competing Values Framework (Quinn & Cameron)**: Clan (collaborative/family), Adhocracy (creative/risk-taking), Market (results/rivalry), and Hierarchy (controlled/structured).

Building and Sustaining Ethical Culture: Shaped permanently by **Founders' Values** (founding DNA; J.R.D. Tata, Steve Jobs). Reinforced by **Executive Modeling ("Tone at the Top" & "Mood in the Middle")**. Aligned through **Performance Appraisals and Reward Systems** (balanced scorecards incorporating ethical KPIs, compliance audits, public dismissal of top-performing sexual harassers or ethical violators). Transmitted via **Socialization Protocols** (rigorous onboarding rites of passage, award rites of enhancement, legendary organizational folklore).

Diversity, Equity, and Inclusion (DEI) Management: Diversity (demographic and cognitive representation), **Equity** (dismantling systemic structural barriers to provide tailored resources; differs from identical equality), and **Inclusion** (qualitative psychological belonging and integration into decision-making). **Hofstede's Six Cultural Dimensions**: Power Distance (PDI), Individualism vs Collectivism (IDV), Masculinity vs Femininity (MAS), Uncertainty Avoidance (UAI), Long-Term vs Short-Term Orientation (LTO), and Indulgence vs Restraint (IND). Mitigating the **Glass Ceiling** (invisible barriers to C-suite/board) and the **Glass Cliff** (appointing women/minorities to leadership during near-bankruptcy crises).

Organizational Culture Change Models: Drivers include financial crises, cross-border M&A integration, technological disruption, and ethical scandals; resisted by cultural inertia and psychological fear. **Kurt Lewin's Three-Stage Model**: 1. **Unfreezing** (creating urgency, disconfirming complacency); 2. **Moving / Changing** (introducing new behaviors, structures, training); 3. **Refreezing** (institutionalizing new norms into compensation and culture). **John Kotter's 8-Step Process**: Urgency → Guiding Coalition → Vision → Communicating Vision → Removing Barriers → Short-Term Wins → Consolidating Gains → Anchoring in Culture. **M&A Acculturation Modes**: Assimilation, Integration, Separation, Deculturation.

Trompenaars Cultural Dimensions: Fons Trompenaars identified seven cultural dilemmas in cross-border management: Universalism vs Particularism (rules vs relationships), Individualism vs Communitarianism, Neutral vs Emotional (affective expression), Specific vs Diffuse (separating work from personal life), Achievement vs Ascription (status earned by merit vs status accorded by birth/age), Sequential vs Synchronic Time (linear vs fluid time), and Internal vs External Direction.

MODULE IV

CORPORATE GOVERNANCE PRINCIPLES, CODES AND REGULATIONS

Foundations and Theories of Corporate Governance: The system of rules, practices, and processes by which corporations are directed, administered, and controlled. Manages the balance of power among Shareholders, the Board of Directors, and Executive Management. Theoretical models: **Agency Theory (Jensen & Meckling)** (separation of ownership and control; principals face opportunism from agent managers; incurs agency costs: monitoring, bonding, residual loss); **Stewardship Theory (Donaldson & Davis)** (managers as intrinsically motivated, pro-organizational stewards deserving structural autonomy); **Stakeholder Governance Theory** (fiduciary duties to all social constituents; German co-determination); **Resource Dependence Theory** (board as strategic co-optation tool linking firm to external capital, technology, and political networks).

Global Governance Milestones: Cadbury Report (UK, 1992) (introduced Code of Best Practice, separation of Board Chair and CEO, independent non-executive directors, independent Audit Committees, and the "Comply or Explain" regulatory philosophy). **OECD Principles of Corporate Governance** (ensuring effective frameworks, shareholder rights, institutional investors, stakeholder roles, transparent disclosures, and board responsibilities). **Sarbanes-Oxley Act (SOX, USA, 2002)** (statutory mandates post-Enron: Section 302 CEO/CFO criminal certifications, Section 404 internal financial control [ICFR] audits, Section 802 document alteration criminal penalties, creation of the PCAOB).

Evolution of Corporate Governance in India: CII Code (1998) (first voluntary code); **Kumar Mangalam Birla Committee (1999)** (landmark creation of **Clause 49** in Equity Listing Agreement); **Naresh Chandra Committee (2002)** (auditor independence and non-audit service prohibitions); **Narayana Murthy Committee (2003)** (overhauled Clause 49, financial literacy of audit committees, formal risk frameworks, whistleblower mechanisms); **Uday Kotak Committee (2017)** (mandating separation of Chair and MD/CEO, minimum 6 directors on top listed boards, independent woman directors, enhanced board evaluation).

Statutory Governance Architecture: Companies Act 2013 and SEBI LODR: Codification of Directors' Duties (Section 166) (acting in good faith to promote company objects, employees, shareholders, community, and environment). **Mandatory Independent Directors (Section 149)** (minimum 1/3 of board for listed firms; zero pecuniary ties during preceding 3 years; maximum two 5-year terms). **Women Directors** (at least one woman director for prescribed firms; at least one independent woman director for top 1,000 listed firms). **Related Party Transactions (Section 188 / SEBI LODR)** (prior Audit Committee approval; shareholder approval where related parties cannot vote). **Indian Reality**: **Concentrated Promoter Ownership** (the primary governance problem is Principal-Principal conflict: controlling promoters expropriating minority public shareholders).

Board Committees and Fiduciary Liabilities: Audit Committee (Section 177) (minimum 3 directors; 2/3 independent; all financially literate; oversees reporting, auditor appointment, ICFR, RPTs, and vigil mechanisms). **Nomination & Remuneration Committee (NRC)** (minimum 3 non-executive directors; majority independent; executive pay and succession planning). **Stakeholders Relationship Committee (SRC)** (shareholder grievance redressal). **Risk Management Committee (RMC)** (top 1,000 listed entities; monitoring cybersecurity, macroeconomic, and ESG risks). **Director Liability (Section 149(12))**: Independent directors liable only for acts occurring with their knowledge, consent, connivance, or lack of due diligence. Protected by the **Business Judgment Rule** (presuming informed, good-faith decisions without conflict of interest).

Comparative International Systems and Major Scandals: Anglo-Saxon Model (dispersed ownership, unitary board, active takeover market) vs **Continental German Model** (two-tier board: Vorstand and Aufsichtsrat with 50% Mitbestimmung worker co-determination) vs **Japanese Keiretsu** (cross-shareholdings and main banks). Major governance autopsies: **Satyam Scandal (2009)** (B. Ramalinga Raju fabricating 7,000 crore fictitious cash balances; auditor collusion by Price Waterhouse) and **IL&FS Crisis (2018)** (asset-liability mismatches, rating agency compromises, emergency board supersession by MCA). **Shareholder Activism**: Institutional voting mandates, Class Action Suits (Section 245), and the rise of independent Proxy Advisory Firms (IiAS, SES, InGovern).

MODULE V

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABLE GOVERNANCE

Evolution and Foundations of CSR: The continuing commitment by business to behave ethically and contribute to sustainable economic development while improving the quality of life of workers, families, and society. Evolved from **Philanthropic Charity → Trusteeship (Gandhi, Bowen) → Strategic CSR / Creating Shared Value (Porter & Kramer) → Statutory Mandates & ESG Integration**. **John Elkington's Triple Bottom Line (TBL)**: Evaluating corporate success across the **3 Ps**: **Profit** (economic viability), **People** (social justice, human capital, labor welfare), and **Planet** (environmental stewardship, zero pollution, carbon neutrality).

Theoretical Models of Social Responsibility: Archie Carroll's Pyramid of CSR: 1. **Economic Responsibility** (foundational; be profitable, required by society); 2. **Legal Responsibility** (obey laws and regulations, required by society); 3. **Ethical Responsibility** (do what is right, just, and fair, expected by society); 4. **Philanthropic Responsibility** (apex; good corporate citizenship, discretionary, desired by society). **Robert Ackerman's Responsiveness Model**: Three developmental phases: Policy Awareness → Specialized Staffing / Planning → Institutionalized Operational Implementation.

The Indian Statutory CSR Framework (Section 135, Companies Act 2013): India is the first nation to mandate CSR by law. **Applicability Thresholds** (preceding financial year: Net Worth ≥ 500 crore, Turnover ≥ 1,000 crore, OR Net Profit ≥ 5 crore). **CSR Committee**: 3 or more directors with at least one Independent Director. **Mandatory Spending Formula**: At least **2% of average net profits** made during the three immediately preceding financial years (calculated under Section 198).

Permissible Activities (Schedule VII) and Legal Sanctions: Funds must align with Schedule VII themes: hunger, poverty, sanitation (Swachh Bharat Kosh), education, healthcare, gender equality, environmental sustainability (Clean Ganga Fund), heritage preservation, armed forces veterans, rural/Olympic sports, PM CARES Fund, rural/slum development, and disaster management. Political donations and employee sports are prohibited. **Treatment of Unspent CSR Funds**: Ongoing projects must transfer unspent funds within 30 days to a dedicated bank *Unspent CSR Account* (spent within 3 years); non-ongoing projects transfer funds to Schedule VII government funds within 6 months. Severe monetary penalties apply for default. Mandatory independent third-party **Impact Assessment** for large projects.

CSR Implementation Architecture and Social Audit Methodologies: Corporations execute CSR through direct corporate programs, captive foundations (e.g., Tata Trusts, Infosys Foundation), or verified external NGOs holding mandatory MCA CSR-1 registration numbers. Project governance deploys **Theory of Change (ToC)** logic models (mapping Inputs → Activities → Outputs → Outcomes → Long-Term Impact), **Social Return on Investment (SROI)** calculating monetary societal value created per rupee invested, and **Participatory Rural Appraisal (PRA)** to ensure village community ownership and eliminate abandoned white elephant projects.

Corporate Sustainability and ESG Frameworks: ESG Triad: Environmental (Scope 1/2/3 emissions, water, circular waste), Social (workplace safety, human rights, pay equity, data privacy), and Governance (board independence, executive compensation, anti-corruption). **SEBI's BRSR Framework**: Mandatory Business Responsibility and Sustainability Reporting for top 1,000 listed firms based on the 9 NGRBC principles; **BRSR Core** introduces reasonable third-party assurance for top 250 firms. Global frameworks: **GRI Standards** (Double Materiality: financial and impact materiality), **TCFD** (Governance, Strategy, Risk Management, Metrics/Targets), and **ISSB (IFRS S1 & S2)**.

Sustainable Finance and Hallmarks of Good Governance: Green Finance Instruments: Green Bonds, Sustainability-Linked Loans (SLLs with coupon step-ups tied to KPI targets), Social Impact Bonds (SIBs), and SEBI's **Social Stock Exchange (SSE)** (enabling Social Enterprises to issue Zero Coupon Zero Principal [ZCZP] bonds). **Hallmarks of Good Governance**: Transparency, accountability, minority shareholder equity, ethical tone at the top, proactive risk governance, and collaborative stakeholder capitalism. Impeded by promoter hegemony, imperial CEOs, quarterly earnings short-termism, and regulatory intermediary conflicts of interest.

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