

**SREENIVASA INSTITUTE OF TECHNOLOGY AND MANAGEMENT STUDIES
(AUTONOMOUS)**

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LECTURE NOTES
Business Ethics and Corporate Governance (BECG)

Subject	Business Ethics & Corporate Governance
Regulation	R22
Subject Code	22MBA232

UNIT – I

Introduction to Business Ethics

1. Introduction to Business Ethics

1.1 Meaning of Ethics

Ethics is the study of right and wrong in human life. It is a branch of philosophy that helps people decide how they should behave. Ethics talks about values like honesty, fairness, justice, and responsibility. It is important because it guides us when we face difficult choices.

1.2 Definition of Ethics

Ethics means the moral rules and principles that guide our actions. It studies what behaviour is good or bad, acceptable or unacceptable, and gives a clear framework to make judgments. It is useful in personal life, professional work, and society. Without ethics, people would only think about their own benefit, which could harm others.

Example: *In business, ethics tells us not to bribe officials, even if it may bring profit.*

Key Terminologies

Term	Definition
Ethics	Moral principles guiding right and wrong conduct
Morality	Personal internal values and beliefs about good/bad behaviour
Business Ethics	Application of ethical principles in business operations and decisions
Integrity	Quality of being honest and having strong moral principles consistently

Why Is Ethics Important?

Ethics is essential in every sphere of human life. Below are the key reasons why ethics matters:

- **In Personal Life:** Builds trust, respect, and meaningful relationships.
- **In Professional Life:** Ensures fairness, honesty, and accountability.
- **In Society:** Reduces corruption, promotes justice, and sustains peace.
- **Globally:** Addresses issues like climate change, poverty, and human rights.

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Example: *Without ethics, business leaders could exploit workers, doctors could cheat patients, and governments could misuse power. With ethics, systems run fairly and people live with dignity.*

2. Types of Ethics

Ethics is divided into several types. Each type provides a different framework for deciding what is right and wrong.

2.1 Normative Ethics

Normative ethics creates moral standards that humans should follow. It includes three major sub-types:

a) Deontological Ethics (Duty-Based)

Focuses on duties and principles regardless of the outcome. The act itself is judged as right or wrong.

Example: *Never stealing, even if stealing could save you from hunger, because stealing itself is wrong.*

b) Utilitarian Ethics (Result-Based)

Focuses on the outcome. The best action brings maximum happiness or minimum harm to the greatest number.

Example: *A school spends funds on safe drinking water for all students rather than a sports ground, as it benefits more children.*

c) Virtue Ethics (Character-Based)

Focuses on building good character traits such as courage, kindness, and honesty.

Example: *A fire-fighter risks their life to save others because bravery is part of their character.*

2.2 Descriptive Ethics

This type does not prescribe what is right or wrong. It studies what people actually believe and practice across different societies and cultures.

Example: *In some cultures, touching an elder's feet is respectful, while in others, a simple greeting suffices. Descriptive ethics records and studies these differences without judgment.*

2.3 Applied Ethics

Applied ethics applies moral principles to real-life situations across various professional fields:

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- **Business Ethics:** Deciding right and wrong in the business world. Example: Paying fair wages and not exploiting workers.
- **Medical Ethics:** Right and wrong in healthcare. Example: Not sharing a patient's private health details without permission.
- **Environmental Ethics:** Our duty towards nature. Example: Choosing renewable energy to protect the environment.
- **Bioethics:** Questions in biology and medicine. Example: Debates on human cloning.
- **Media Ethics:** Rules for journalists. Example: Not spreading fake news for higher ratings.

2.4 Other Types of Ethics

Religious Ethics

Every religion has its own ethical system based on its holy books and teachings. Most religions teach that lying and harming others is wrong and helping the poor is virtuous.

Feminist Ethics

Focuses on equality and justice, especially for women and disadvantaged groups.

Example: *Fighting workplace discrimination where women are paid less than men for the same work.*

Care Ethics

Emphasizes compassion, empathy, and caring for others. Morality is not just about rules but also about relationships.

Example: *A teacher being patient with a struggling student instead of punishing them harshly.*

Cultural Relativism

What is right or wrong depends on culture. There is no universal rule because values change from society to society.

Example: *Polygamy is accepted in some cultures but not in others.*

Comparison Table: Types of Ethics

Type	Focus	Example
Normative Ethics	What should be done	Duty, outcomes, virtue
Descriptive Ethics	What is actually practiced	Cultural customs
Applied Ethics	Real-world situations	Medical, business, media
Religious Ethics	Faith-based conduct	Divine teachings

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Feminist Ethics	Equality and justice	Workplace fairness
Care Ethics	Compassion and relationships	Teacher-student bonds
Cultural Relativism	Context-dependent values	Marriage customs

3. Ethics in Business

Business ethics means following moral values and principles in the business world. It deals with fairness, honesty, responsibility, and respect for people and the environment. Ethical businesses build trust with customers, attract loyal employees, win investor confidence, and create a positive image in society.

Key Components of Ethics in Business

1. Corporate Social Responsibility (CSR)

CSR is the duty of businesses to contribute to society beyond making money. Companies should help communities, support education, health, and protect the environment.

Example: Infosys Foundation in India runs schools, hospitals, and rural development programs.

2. Fair and Honest Business Practices

Ethics requires honesty in all dealings. No false promises, no cheating customers, no unfair competition.

Example: A company showing the true price of a product without hidden charges.

3. Employee Rights and Welfare

Employees are an asset. Businesses must ensure safety, equality, fair wages, and respect at the workplace.

Example: Google provides flexible working hours, health benefits, and equal opportunity policies.

4. Environmental Responsibility

Businesses must reduce pollution, save natural resources, and adopt sustainable practices.

Example: Tesla develops electric cars to reduce carbon emissions worldwide.

5. Consumer Protection

Consumers must be given safe, high-quality products with correct information. Misleading ads or harmful goods are unethical.

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Example: Johnson & Johnson recalled millions of medicine bottles when a defect was found, prioritizing consumer safety over profit.

6. Ethical Leadership

Leaders set the culture of an organization. Ethical leaders encourage honesty, transparency, and accountability.

Example: Ratan Tata refused to compromise on quality and values even if it meant losing deals.

7. Whistleblowing and Reporting

Businesses must create systems where employees can report unethical acts without fear. Protecting whistle-blowers encourages a culture of integrity.

Example: The Satyam scam in India was exposed when whistle-blowers reported accounting fraud.

8. Corporate Governance

Managing a company in a fair and transparent way, including accountability, ethical use of funds, and fair treatment of all stakeholders.

Example: Companies publishing yearly reports that clearly show profits, expenses, and policies.

Advantages of Business Ethics

- Builds trust with customers, investors, and employees.
- Enhances brand reputation and market standing.
- Prevents scandals, fraud, and financial losses.
- Motivates employees and reduces staff turnover.
- Promotes long-term sustainable business growth.

Disadvantages / Challenges of Business Ethics

- May reduce short-term profits due to ethical cost constraints.
- Can conflict with competitive or market pressures.
- Difficult to enforce uniformly across global operations.
- May create dilemmas when legal standards differ across countries.

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Real-Life Case Studies

Tata Group (India) – Ethical Business Model

Tata Group is globally respected for its honesty, philanthropy, and social responsibility. It donates heavily to education and healthcare through the Tata Trusts, demonstrating that ethical business and profitability can coexist.

Patagonia (USA) – Environmental Ethics in Business

Patagonia, an outdoor clothing brand, promotes eco-friendly products and donates profits to environmental causes. It openly encourages customers to buy less and repair instead of replace.

Enron Scandal (USA) – Consequences of Unethical Business

Enron, once among the largest US companies, collapsed in 2001 due to massive accounting fraud. The scandal demonstrated how unethical behaviour destroys businesses, harms thousands of employees, and erodes public trust.

4. Importance of Ethics

Ethics is like a compass that shows the right direction in life. It shapes human decisions, builds trust, and ensures peace and progress in society. Without ethics, selfishness, dishonesty, and injustice would dominate.

Key Reasons Why Ethics Is Important

1. **Moral Guidance:** Ethics provides clear principles to decide what is right or wrong, preventing harmful choices and encouraging fairness and respect.
2. **Social Cohesion:** Shared ethical values create unity. When people respect rules and fairness, society functions smoothly.
3. **Individual Integrity:** Ethics strengthens personal character. It keeps individuals honest and principled even when no one is watching.
4. **Trustworthiness:** Trust is built only when people or organizations act ethically. Trustworthy behaviour forms lasting relationships.
5. **Accountability:** Ethics ensures that actions have responsibility attached. Wrong actions bring consequences; right actions bring respect.
6. **Conflict Resolution:** Ethical rules help solve disputes fairly through negotiation and shared frameworks.

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- Social Progress:** Ethics drives reforms and progress. Movements for equality, justice, and rights are all based on moral values.
- Professionalism:** Every profession has a code of ethics that protects dignity and ensures service to society.
- Legal Compliance:** Ethics supports the law by motivating sincere compliance and preventing misuse of legal loopholes.
- Global Cooperation:** Ethics builds peace among nations by respecting equality, fairness, and human rights.
- Environmental Sustainability:** Ethics teaches care for the earth, ensuring natural resources are not exploited for short-term gain.
- Business Success:** Ethics brings long-term success. Ethical companies attract customers, employees, and investors.

Broader Impact of Ethics

Domain	Impact of Ethics
Family Life	Teaches love, honesty, and responsibility among members.
Education	Creates responsible citizens and lifelong learners.
Government	Prevents corruption and promotes good governance.
Technology	Ensures responsible use of AI, data, and inventions.
Media	Promotes truth and prevents misinformation.
Healthcare	Protects patient rights and guides ethical research.

5. Scope of Ethics

Ethics plays an important role in guiding human life, society, and professional practices. The scope of ethics is very wide, covering all areas of life.

1. Personal Ethics

Personal ethics are the moral values guiding a person in daily life, coming from family, culture, religion, and experience. Examples include honesty, kindness, respect, and keeping promises.

2. Professional Ethics

Rules and principles followed in a particular career to ensure fairness, responsibility, and respect. Teachers, doctors, and engineers all have professional ethics that guide their conduct.

3. Business Ethics

Involves doing business in a fair and honest way — treating employees well, being truthful to customers, and caring for the environment.

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4. Medical Ethics

Guides healthcare workers in treating patients, including patient privacy, proper treatment, and difficult issues like organ donation, abortion, and euthanasia.

5. Environmental Ethics

Deals with the relationship between humans and nature, teaching respect and protection of the environment and natural resources.

6. Bioethics

Relates to new developments in science and medicine such as cloning, genetic engineering, and stem cell research, balancing innovation with human values.

7. Political Ethics

Moral duties of leaders and governments, including honesty, fairness, and accountability in politics.

8. Ethics in Technology

Addresses privacy, cyber security, fake news, and job displacement by technology, ensuring progress benefits society.

9. Media Ethics

Guides journalists and content creators to share true, fair, and unbiased information while respecting privacy.

10. Legal Ethics

Applies to lawyers and judges who must maintain honesty, confidentiality, and avoid conflicts of interest.

11. Research Ethics

Guides researchers to maintain honesty, avoid plagiarism, and respect participants in studies.

12. Global Ethics

Deals with moral issues affecting the whole world: climate change, poverty, human rights, terrorism, and refugee crises.

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13. Religious Ethics

Values from religious teachings. Hinduism emphasizes Dharma, Buddhism teaches compassion, Christianity stresses love, and Islam focuses on justice.

14. Cultural Ethics

Values from traditions and customs that shape behaviour, promoting respect for diversity while teaching universal values like fairness.

6. Factors Influencing Business Ethic

Business ethics is shaped by a mixture of internal and external factors. These influences decide how individuals and organizations behave, make decisions, and maintain integrity.

1. Organizational Culture

The shared values, beliefs, and traditions guiding employee actions. If honesty and transparency are emphasized, employees act ethically.

2. Leadership and Management

Leaders set the ethical tone for the company. Ethical leaders inspire trust and motivate the team through example.

3. Code of Conduct and Ethics Policies

Written policies that provide a roadmap for expected behaviour, reducing confusion and preventing misconduct.

4. Corporate Social Responsibility (CSR)

Makes businesses more socially aware, balancing profit with care for people and the environment.

5. Legal and Regulatory Framework

Laws act as minimum ethical standards. Truly ethical companies go beyond compliance.

6. Industry and Sector

Different industries face unique ethical challenges (e.g., data privacy in IT, drug safety in pharmaceuticals).

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7. Consumer and Stakeholder Expectations

Modern consumers expect honesty and social responsibility. Failing these expectations may lead to boycotts.

8. Globalization

Operating across countries means navigating different cultural, legal, and ethical expectations.

9. Economic Pressures

Financial stress and competitive pressure can push businesses to compromise ethics for profit.

10. Supply Chain and Vendor Relationships

Companies are judged by supplier conduct, making ethical supply chain management critical.

11. Social and Environmental Concerns

Growing awareness of pollution and inequality means businesses must act responsibly.

12. Technology and Data Ethics

Digital platforms create new challenges around data privacy, cybersecurity, and AI usage.

13. Media and Public Opinion

Negative media coverage can damage reputation rapidly, pushing businesses to maintain ethical standards.

14. Employee Morale and Engagement

Ethical workplaces boost loyalty, productivity, and reduce employee turnover.

15. Ethical Education and Training

Training employees on ethical issues strengthens decision-making and reduces misconduct.

16. Whistle-blower Protections

Strong protections encourage employees to report wrongdoing without fear.

17. Shareholder Activism

Many shareholders now demand sustainability and fair labour policies beyond profit.

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18. Government and Regulatory Bodies

Enforce legal and ethical boundaries through audits and penalties.

19. Crisis Management

How a company responds to ethical crises reveals its true values and integrity.

7. Objectives of Business Ethics

Business ethics aims to ensure not only profit but also fairness, justice, and responsibility in society.

1. Promoting Ethical Behaviour

Encourages moral conduct by promoting honesty, fairness, and responsibility in day-to-day activities.

2. Ensuring Fair Business Practices

Prevents exploitation of customers, employees, or suppliers through transparent and honest dealings.

3. Fostering Trust and Integrity

Builds credibility among stakeholders, resulting in loyal customers and committed employees.

4. Preventing Unethical Behaviour

Stops fraud, bribery, corruption, and misuse of power by setting strong ethical standards.

5. Protecting Stakeholder Interests

Ensures fair treatment of all stakeholders — customers, employees, investors, suppliers, and communities.

6. Enhancing Reputation and Brand Value

Ethical companies enjoy customer loyalty, attract investors, and build a positive public image.

7. Compliance with Laws and Regulations

Encourages businesses to go beyond legal minimums and act responsibly.

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8. Minimizing Risk

Ethical practices reduce legal, financial, and reputational risks.

9. Encouraging Social Responsibility

Promotes environmental protection, community development, and charitable activity.

10. Strengthening Employee Morale

Employees feel proud and motivated in ethical workplaces, reducing turnover.

11. Supporting Long-Term Success

Ethical businesses achieve stable, sustainable growth rather than short-lived gains.

12. Maintaining Competitive Advantage

Ethical companies win preference from consumers and investors in the modern market.

8. Ethical Dilemmas

Ethical dilemmas are situations where individuals or groups face conflicting moral principles, making it difficult to decide the right course of action. They often have no clear or universally accepted solution.

1. Medical Ethics

End-of-life decisions, resource allocation during crises, and informed consent create difficult dilemmas for healthcare workers and families.

2. Business Ethics

Whistleblowing vs. job security, conflicts of interest, and environmental impact vs. profitability are common business dilemmas.

3. Legal Ethics

Attorney-client privilege can conflict with public safety when a lawyer knows of a planned crime.

4. Journalism and Media Ethics

Privacy vs. public interest and objectivity vs. personal or political bias challenge media professionals.

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5. Environmental Ethics

Conservation vs. economic development — whether to preserve forests or allow industrial growth.

6. Political Ethics

Campaign finance dilemmas and whether to expose government corruption at personal risk.

7. Personal Ethics

Family vs. career and honesty vs. loyalty are dilemmas faced in everyday life.

8. Research Ethics

Ensuring informed consent, avoiding plagiarism, and maintaining publication integrity.

9. Whistleblowing

Whistleblowing is when an employee or member of an organization reports illegal, unethical, or harmful activities to higher authorities, the public, or the government. The person who does this is called a whistle-blower.

Role of Whistleblowing

- **Exposing Wrongdoing:** Brings hidden fraud, corruption, unsafe practices, or environmental damage to light to prevent harm.
- **Promoting Accountability:** Forces individuals and organizations to take responsibility and discourages further misconduct.
- **Protecting Public Interest:** Ensures public safety — e.g., reporting unsafe medical practices in hospitals.
- **Preventing Retaliation:** Laws protect whistle-blowers from firing, demotion, or harassment.
- **Legal and Regulatory Compliance:** Leads to investigations and corrections, bringing organizations back into legal compliance.
- **Corporate Ethics:** Promotes honesty and integrity, reducing unethical behaviour within organizations.

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Types of Whistleblowing

Type	Description	Example
Internal	Reported within the organization to HR or management	Reporting fraud to compliance team
External	Reported to outside authorities or media	Informing press about unsafe conditions
Personal	Affects the reporter's own rights or safety	Reporting workplace harassment
Impersonal	Affects others, not the reporter personally	Reporting river pollution
Open	Reporter reveals their identity	Senior employee openly reports corruption
Anonymous	Reporter hides their identity	Secretly informing government of tax evasion

10. Morality and Ethics

Morality and ethics are closely related — both deal with right and wrong. However, morality is more personal and based on individual beliefs, while ethics is collective and guided by rules accepted by society or professions.

Comparison: Morality v/s Ethics

Aspect	Morality	Ethics
Origin	Personal beliefs, culture, religion	Society, profession, organization
Nature	Personal and subjective	Collective and objective
Format	Informal, based on conscience	Formal, written codes and rules
Guidance	Internal (from within)	External (from rules/standards)
Perspective	Individual virtue and character	Social impact and responsibility
Enforcement	Self-imposed, no penalties	Often enforced through rules/law

Example: *A person may feel morally wrong to lie (morality), while a lawyer must also follow professional ethics to remain truthful in court (ethics). Together, they ensure fairness and harmony in personal life and society.*

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11. Questions Section

A. Short Answer Questions (2 Marks)

13. Define Ethics.
14. What is Business Ethics?
15. Distinguish between Morality and Ethics.
16. What is Whistleblowing?
17. Define Normative Ethics.
18. What is Corporate Social Responsibility (CSR)?
19. What is an Ethical Dilemma? Give one example.
20. List any two types of Whistleblowing.
21. What is Virtue Ethics?
22. Define Cultural Relativism.

B. Essay Type Questions (10 Marks)

23. Explain the various types of Ethics with suitable examples.
24. Discuss the importance of Ethics in both personal and professional life.
25. Explain the scope of Ethics in detail with relevant examples for each domain.
26. What are the major factors influencing Business Ethics? Explain any ten in detail.
27. Discuss the objectives of Business Ethics with examples.
28. What is Whistleblowing? Explain the types and importance of Whistleblowing in organizations.
29. Compare and contrast Morality and Ethics. How do they complement each other in guiding human behaviour?
30. Explain the role of Ethics in Business with real-world case studies.

C. Case Study / Higher Order Thinking (HOTS) Questions

Case Study 1: The Satyam Scandal

In 2009, Satyam Computer Services, one of India's top IT companies, was exposed for massive accounting fraud by its founder. The scandal destroyed the company overnight, wiped out investor wealth, and left thousands jobless.

Questions:

- What ethical principles were violated in the Satyam case?
- How could strong corporate governance have prevented this scandal?
- What role did whistleblowing play in exposing the fraud?

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Case Study 2: Johnson & Johnson Product Recall

In 1982, Johnson & Johnson voluntarily recalled 31 million bottles of Tylenol after contaminated products caused deaths. Despite massive financial loss, the decision saved lives and ultimately restored consumer trust.

Questions:

- What ethical decision was made by Johnson & Johnson's leadership?
- How does this case demonstrate the relationship between ethics and long-term business success?

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Web Resources

35. NPTEL Course on Business Ethics: <https://nptel.ac.in>
36. SWAYAM Online Learning Platform: <https://swayam.gov.in>
37. Corporate Governance Resources: <https://www.sebi.gov.in>
38. Business Ethics Reference: <https://www.businessethicsresources.com>

UNIT – II:

Ethics in Finance, Marketing and HRM

"The foundation of every business success is doing the right thing, always."

— Business Ethics Principle

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1. Insider Trading

Insider trading refers to the illegal act of buying or selling securities (such as stocks or bonds) using material, non-public information that gives an unfair advantage. In simple terms, it means trading in the stock market based on secret information about a company that the general public does not yet know.

Example: A company executive knows in advance that the company will announce a big merger that will raise stock prices. He buys shares before the news becomes public — that is insider trading.

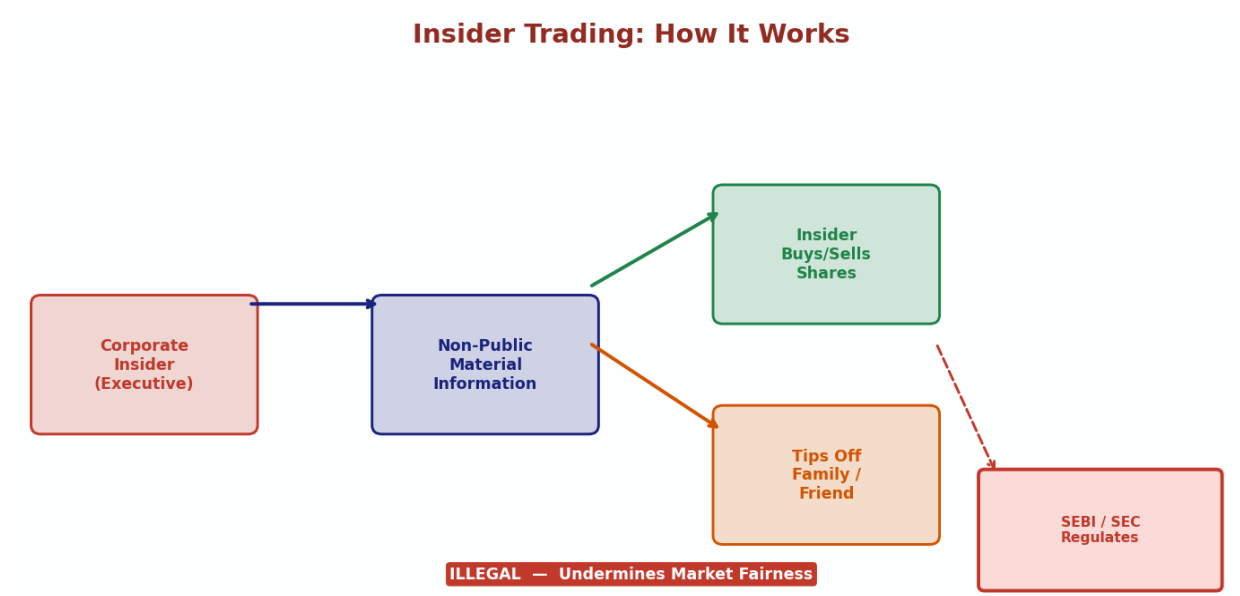


Fig 1.1 – How Insider Trading Works: Flow from insider to illegal gain

1.1 Why Insider Trading Is Illegal

1. **Unfair Advantage:** Creates an uneven playing field where insiders benefit at the cost of ordinary investors.
2. **Market Integrity:** Reduces trust in the fairness of financial markets. Investors lose confidence if the market is manipulated.
3. **Legal Regulations:** Regulated by the SEC and DOJ in the USA, and by SEBI (Securities and Exchange Board of India) in India.

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1.2 Forms of Insider Trading

Form	Description
Corporate Insiders	Executives, directors, or employees using confidential company information to trade.
Tipper-Tippee	When insiders share secret info with friends or family who then trade on it.
Professional Misuse	Lawyers, accountants, or consultants who misuse sensitive company data for trading.
Illegal Networks	Groups of people sharing and benefiting from non-public information.

1.3 Penalties for Insider Trading

- **Civil Penalties:** Heavy fines, repayment of profits (disgorgement), and restrictions from corporate positions.
- **Criminal Penalties:** Imprisonment for several years depending on the severity of the offence.
- **Professional Impact:** Individuals may be banned from serving as officers or directors of public companies.

1.4 Why Preventing Insider Trading Matters

- Protects small investors who do not have access to inside information.
- Ensures transparency and fair competition in markets.
- Maintains public trust in financial systems, which is essential for the economy.

2. Ethical Investments

Ethical investments (also known as Socially Responsible Investments – SRI, Sustainable Investments, or Impact Investments) are financial decisions that combine profitability with ethical, social, and environmental responsibility. Investors avoid harmful industries such as tobacco, gambling, weapons, or fossil fuels, and support companies that demonstrate responsibility, sustainability, and fairness.

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ESG Framework: Ethical Investment Pillars



ESG criteria guide investors to choose responsible, sustainable companies

Fig 2.1 – ESG Framework: The Three Pillars of Ethical Investment

2.1 Key Elements of Ethical Investments

4. **Social Responsibility:** Avoiding harmful industries and supporting companies that prioritize human rights, diversity, and fair labour practices.
5. **Environmental Sustainability:** Investing in renewable energy, waste reduction, eco-friendly transport, or clean technology projects.
6. **Governance & Ethical Leadership:** Choosing companies with transparent leadership, strong anti-corruption measures, and fair treatment of employees.
7. **Positive Impact:** Targeting projects that directly improve society, such as clean water, affordable housing, or education access.
8. **Community Development:** Supporting microfinance or local projects that uplift poor or underserved regions.
9. **ESG Screening:** Using Environmental, Social, and Governance (ESG) criteria to filter ethical companies from harmful ones.
10. **Engagement & Advocacy:** Actively encouraging invested companies to improve their ethical and sustainable practices.

2.2 Examples of Ethical Investments

- **Tesla & Renewable Energy Firms:** Investing in companies driving clean energy innovation and reducing dependence on fossil fuels.
- **Grameen Bank (Bangladesh):** A microfinance initiative that empowers poor communities through small loans.
- **Green Bonds:** Issued by governments and corporations to finance eco-friendly infrastructure such as solar plants or clean water systems.
- **Fair-Trade Businesses:** Companies ensuring farmers and workers get fair wages and safe working conditions.

Advantages of Ethical Investments

- Helps fight climate change by funding sustainable industries.
- Encourages corporate accountability and transparency.
- Aligns personal financial goals with individual values and beliefs.
- Builds a long-term, stable financial ecosystem that benefits both investors and society.

2.3 Future of Ethical Investing

With growing awareness about climate change, inequality, and corporate responsibility, ethical investing is becoming a mainstream trend worldwide. More funds and ETFs are focused on ESG standards. Governments are encouraging green finance and sustainability-linked bonds. Young investors — especially Gen Z and Millennials — prefer companies that are socially and environmentally responsible.

3. Ethics in the Marketplace

Ethics in the marketplace refers to the moral principles and standards that guide how individuals and organizations conduct themselves in trade, commerce, and financial activities. Ethical practices build trust, encourage fairness, and promote sustainability in business.

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Ethics in the Marketplace

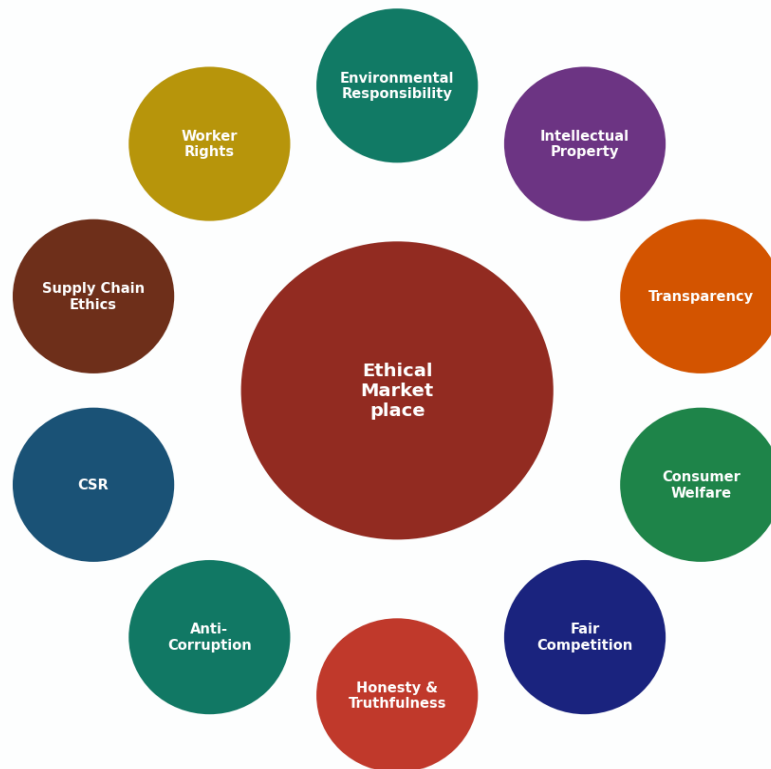


Fig 3.1 – Ten Key Dimensions of Ethics in the Marketplace

Key Aspects of Ethics in the Marketplace

1. Honesty and Truthfulness

Companies must be truthful in communication, advertising, and pricing. Patagonia has earned trust through honest reporting of its environmental impact. The Volkswagen 'Dieselgate' scandal showed how dishonesty destroys global reputation.

2. Fair Competition

Businesses should not engage in price-fixing, collusion, or monopolistic practices. Zomato and Swiggy compete by improving service and technology. Microsoft's 1990s monopoly case highlighted the damage of unfair dominance.

3. Consumer Welfare

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Businesses must provide safe, reliable, and high-quality products. Johnson & Johnson recalled Tylenol after discovering contamination — prioritising consumer safety above profits.

4. Transparency

Ethical businesses disclose accurate financial reports and product information. Unilever publishes detailed sustainability reports. The Enron scandal showed the catastrophic results of hiding financial losses.

5. Respect for Intellectual Property

Businesses must avoid copying patented ideas or designs. Apple invests heavily in securing patents. Counterfeit goods and pirated software cause losses to original creators.

6. Environmental Responsibility

IKEA has pledged to use renewable energy and sustainable materials by 2030. Coca-Cola has faced backlash for plastic pollution, showing the need for environmental responsibility.

7. Worker Rights and Welfare

Tata Group offers housing, healthcare, and education benefits to employees. The Bangladesh garment factory collapses highlight the dangers of neglecting worker safety.

8. Supply Chain Ethics

Starbucks supports farmers through fair-trade practices. Apple faced criticism over poor conditions in Foxconn factories, showing how supply chain ethics matter.

9. Corporate Social Responsibility (CSR)

Infosys Foundation has contributed to rural development, healthcare, and education in India. Google invests heavily in renewable energy and global social projects.

10. Anti-Corruption

Siemens, after a major bribery scandal, rebuilt its reputation by implementing strict compliance systems. Corruption in real estate and construction shows the ongoing need for ethical practices.

Advantages of Ethical Marketplace Practices

- Builds long-term trust with customers, investors, and communities.
- Reduces legal risks and regulatory penalties.
- Enhances brand value and competitive advantage.

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- Encourages innovation through fair and transparent competition.

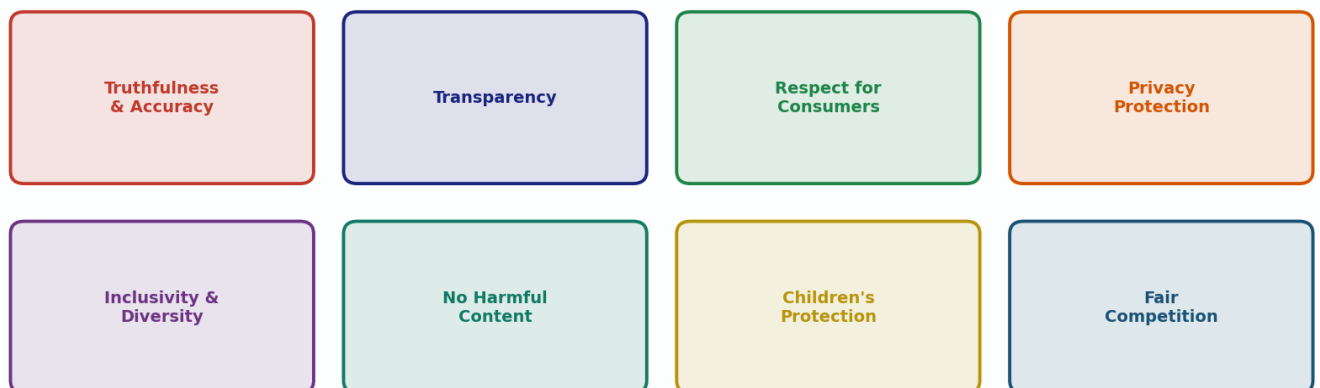
Disadvantages / Challenges

- Short-term costs may be higher when avoiding unethical shortcuts.
- Difficult to maintain uniform standards across global supply chains.
- Ethical standards can differ across cultures and legal systems.

4. Ethics in Advertising and Promotion

Ethics in advertising and promotion is essential to maintain consumer trust, brand credibility, and the overall integrity of the advertising industry. Ethical advertising ensures that businesses communicate truthfully, avoid manipulative practices, and respect consumer rights.

Key Principles of Ethics in Advertising



Ethical advertising builds trust, protects consumers, and strengthens brand credibility

Fig 4.1 – Eight Key Principles of Ethical Advertising

Key Principles of Ethics in Advertising

1. Truthfulness and Accuracy

Advertisements must present truthful and accurate information. Dove's 'Real Beauty' campaign earned consumer trust by accurately representing their products. Misleading claims damage long-term credibility.

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2. Transparency

Sponsored ads, paid endorsements, and affiliate promotions must be clearly disclosed. Social media influencers in India must use tags like '#Ad' or '#Sponsored' as required by law.

3. Respect for Consumers

Ethical advertising respects the dignity and intelligence of consumers. Campaigns promoting 'fair skin equals success' have been widely criticised for exploiting cultural insecurities.

4. Privacy

Advertisers must collect and use user data with proper consent and in compliance with data protection laws such as GDPR (Europe) or India's Digital Personal Data Protection Act.

5. Inclusivity and Diversity

Advertisements should avoid stereotypes and promote balanced representation. Tanishq has run campaigns highlighting interfaith marriages, showing cultural respect.

6. Competitive Practices

Advertisers must not make false claims or unfair comparisons about competitors. Pepsi and Coca-Cola have competed with humour without making outright false claims.

7. Environmental Responsibility

Advertisers must avoid 'green washing' — making false environmental claims. Adidas promotes shoes made from recycled ocean plastic as genuine eco-friendly innovation.

8. Subliminal Advertising

Using hidden messages or cues to influence consumers without their awareness is widely considered unethical and, in many cases, illegal.

9. Objectionable Content

Advertisements should avoid content that is offensive, obscene, or harmful to societal values. Ethical ads are creative yet socially responsible.

10. Endorsements and Testimonials

Transparent disclosure of paid endorsements is required. India's Advertising Standards Council of India (ASCI) requires influencers to reveal paid partnerships.

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11. Children and Advertising

Promotions aimed at children must be age-appropriate, truthful, and not manipulative. Ads for junk food must not exaggerate benefits or use emotional pressure on young audiences.

12. Harmful Products

Tobacco advertisements are banned in India; alcohol promotions are heavily regulated. Advertising for such products must include proper health warnings.

Impact of Unethical Advertising

- Regulatory penalties and legal action from consumer protection authorities.
- Loss of consumer trust and long-term brand damage.
- Social media backlash spreading quickly in the digital age.
- Competitors gaining advantage by maintaining ethical standards.

5. Ethics in Recruitment and Selection Process

Ethics in the recruitment and selection process are critical for ensuring fairness, equal opportunity, and respect for all candidates while upholding an organisation's reputation and compliance with legal regulations. Ethical recruitment practices help prevent discrimination, bias, and other unfair practices, attracting the best talent and building a strong, diverse workforce.

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Ethical Recruitment & Selection Process



Fig 5.1 – Ethical Recruitment Process: Step-by-Step Flow with Key Ethical Principles

Key Ethical Principles in Recruitment

1. Equal Opportunity and Non-Discrimination

The recruitment process must provide equal opportunities to all candidates regardless of race, gender, age, religion, disability, or sexual orientation. Using inclusive job descriptions and blind resume screening can help reduce bias.

2. Job Relevance

Selection criteria, job descriptions, and interview questions should always relate directly to the specific job requirements. Only role-relevant technical or behavioural questions should be asked.

3. Transparency

Candidates must be made aware of the selection criteria, assessment methods, and the steps involved in the hiring process. Clear timelines and expectations prevent confusion and claims of unfair practices.

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4. Confidentiality

Personal information about candidates — such as contact details, employment history, and medical conditions — must be handled with strict confidentiality accessible only to those directly involved in hiring.

5. Informed Consent

Candidates must give informed consent before background checks, reference checks, or other assessments are conducted. Candidates should also know how their data will be used and stored.

6. Accuracy of Information

Employers must provide truthful information about the job role, compensation, benefits, and company culture. Misrepresentation leads to dissatisfaction, mistrust, and high employee turnover.

7. Timely Communication

Providing updates on application status, interview schedules, and final decisions reflects respect for the candidate's time and effort.

8. Conflicts of Interest

Recruiters must avoid conflicts of interest. Personal relationships or biases that could influence hiring decisions must be disclosed. Favouritism undermines fairness and demotivates candidates.

9. Fair Assessment

Structured interviews, standardised tests, and diverse interview panels help reduce personal biases. Hiring managers must be trained to assess skills, experience, and potential objectively.

10. Reasonable Accommodation

Employers must make reasonable accommodations for candidates with disabilities — accessible interview locations, assistive technologies, or flexible scheduling.

11. Feedback and Closure

Providing constructive feedback to unsuccessful candidates maintains a positive employer brand. Candidates are more likely to reapply or recommend the organisation to others.

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12. Diversity and Inclusion

Organisations must actively encourage diverse candidates to apply and ensure hiring practices support equality. A diverse workforce brings creativity and innovation critical for growth.

Comparison Table: Ethical vs. Unethical Recruitment

Ethical Recruitment	Unethical Recruitment
Equal opportunity for all candidates	Discriminatory screening based on gender/religion
Transparent job descriptions	Vague or misleading job postings
Structured, bias-free interviews	Favouritism or nepotism in selection
Confidentiality of candidate data	Leaking personal information
Constructive feedback to all applicants	No response or communication with rejected candidates
Fair, accurate job offers	Misrepresenting role or compensation

6. Ethics in the Workplace

Ethics in the workplace refers to the moral principles and values that guide behaviour and decision-making of individuals and organisations. A strong ethical culture builds trust, accountability, and long-term success. In India, organisations like Tata Group, Infosys, and ITC demonstrate that ethical conduct can coexist with profitability and global recognition.

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Pillars of Workplace Ethics

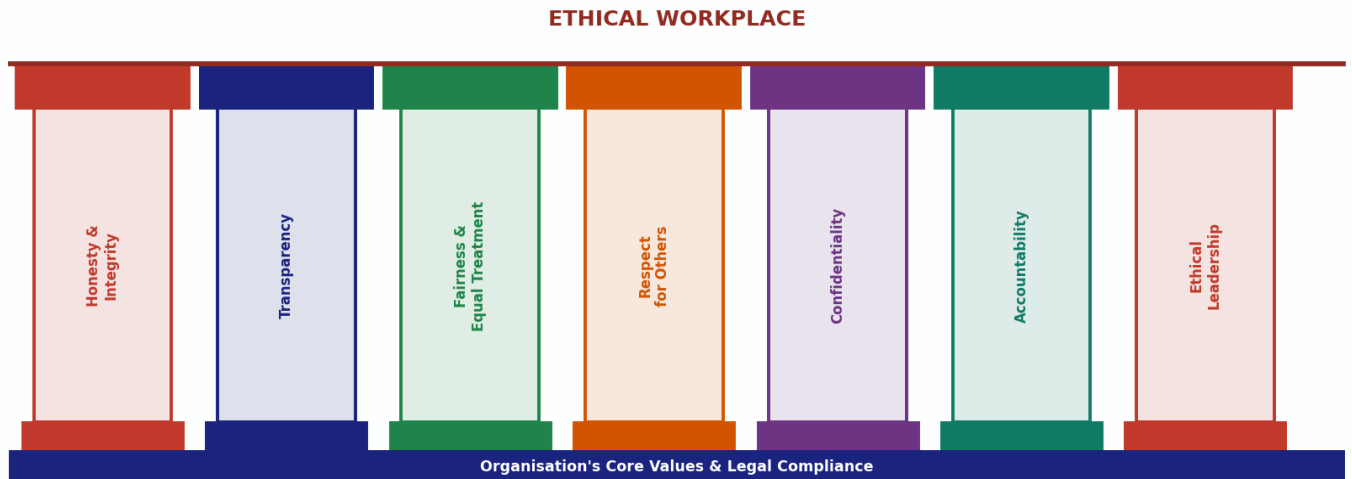


Fig 6.1 – Pillars of Workplace Ethics resting on Core Values & Legal Compliance

Key Principles of Workplace Ethics

1. Honesty and Integrity

Integrity ensures employees do the right thing even when no one is watching. Infosys, under Narayana Murthy, emphasised integrity as a core value, helping it build global trust.

2. Transparency

Organisations must be open about policies and decisions. Tata Steel's open communication with stakeholders has earned it strong credibility.

3. Fairness and Equal Treatment

Wipro follows strict anti-discrimination policies and promotes gender equality in hiring and promotions, ensuring merit is the only factor in professional growth.

4. Respect for Others

HCL Technologies implemented its 'Employees First' philosophy, ensuring employee voices are heard and respected, creating a positive and collaborative environment.

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5. Confidentiality

The Reserve Bank of India (RBI) maintains high standards of confidentiality regarding financial institutions and customer data.

6. Conflict of Interest

The Satyam Computers scandal (2009) showed how conflicts of interest and unethical financial practices can destroy a company's reputation.

7. Whistleblowing

India's Whistle Blowers Protection Act, 2014 was introduced after several corporate frauds. Whistle-blowers at ICICI Bank reported irregularities leading to internal investigations.

8. Compliance with Laws and Regulations

Hindustan Unilever Limited (HUL) has a strong compliance record, regularly updating operations to align with Indian labour and environmental laws.

9. Environmental Responsibility

ITC Limited has adopted sustainability as a core principle with water conservation, afforestation, and carbon neutrality initiatives.

10. Social Responsibility

CSR is legally mandated in India under the Companies Act, 2013. Reliance Industries invests heavily in rural development, healthcare, and education through the Reliance Foundation.

11. Diversity and Inclusion

TCS actively promotes diversity by hiring across genders, nationalities, and backgrounds, including support for differently-abled individuals.

12. Professional Development

Infosys Mysore Training Campus is one of the world's largest corporate training centres, ensuring young professionals receive world-class preparation.

13. Accountability

After the Punjab National Bank (PNB) fraud involving Nirav Modi, the bank implemented stricter accountability measures to prevent future failures.

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14. Ethical Leadership

Ratan Tata, former chairman of Tata Group, is a widely respected example of ethical leadership. His refusal to compromise ethics for profit has inspired many Indian organisations.

15. Feedback and Continuous Improvement

HDFC Bank frequently takes employee and customer feedback to improve its operations, ensuring ethical practices evolve with changing times.

Indian Case Studies: Ethics in the Workplace

Company	Ethical Practice	Outcome
Infosys	Integrity-first culture under Narayana Murthy	Global trust and reputation
Tata Group	Ethical leadership, philanthropy, CSR	India's most respected conglomerate
ITC Limited	Water conservation & carbon neutrality	One of the world's largest green companies
TCS	Diversity & inclusion across 150+ nationalities	Global talent pipeline
Satyam	Accounting fraud and conflict of interest (negative)	Collapse, loss of thousands of jobs
PNB	Lapses in accountability (Nirav Modi fraud - negative)	Stricter internal audit systems implemented

7. Questions Section

A. Short Answer Questions (2 Marks)

11. Define Insider Trading.
12. What is SEBI and its role in preventing insider trading?
13. What are Ethical Investments? Give one example.
14. Expand ESG. What do the three letters stand for?
15. What is 'green washing' in advertising?
16. Define 'Tipper-Tippee' insider trading.
17. What is the Advertising Standards Council of India (ASCI)?
18. List any two principles of ethics in the workplace.
19. What is meant by blind resume screening?

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20. State one ethical principle in the recruitment process.

B. Essay Type Questions (10 Marks)

21. Explain Insider Trading in detail — its forms, penalties, and why preventing it matters.
22. What are Ethical Investments? Explain the ESG framework with examples.
23. Discuss the key aspects of Ethics in the Marketplace with real-world examples.
24. Explain the principles of Ethics in Advertising and Promotion with relevant examples.
25. What are the ethical considerations in the Recruitment and Selection Process? Explain in detail.
26. Discuss the key principles of Ethics in the Workplace with Indian corporate examples.
27. Compare ethical and unethical practices in the marketplace using case studies.
28. How does ethical leadership shape the culture of an organisation? Explain with examples from Indian companies.

C. Case Study / HOTS Questions

Case Study 1: Satyam Computers Scandal (2009)

Ramalinga Raju, founder of Satyam Computers, admitted to inflating the company's accounts by over Rs. 7,000 crores. The fraud involved falsifying balance sheets, bank statements, and profit figures for years. When exposed, the company collapsed overnight, employees lost their jobs, and thousands of investors suffered massive losses. The Indian government had to intervene and eventually merge Satyam with Tech Mahindra.

Discussion Questions:

- What ethical principles were violated in the Satyam case?
- How could strong whistleblowing mechanisms have prevented this fraud?
- What role should corporate governance play in preventing such scandals?

Case Study 2: Volkswagen Diesel gate Scandal

Volkswagen installed special software in its diesel vehicles to cheat on emissions tests. The cars appeared to emit lower pollutants during testing but emitted far higher levels in real driving. When discovered, VW faced over \$30 billion in fines, recalls, and legal settlements worldwide, and its share price crashed significantly.

Discussion Questions:

- What advertising and marketplace ethics were violated by Volkswagen?
- How does this case illustrate the long-term cost of unethical business decisions?
- What steps should companies take to prevent such ethical failures?

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"The foundation of every business success is doing the right thing, always."

— Business Ethics Principle

UNIT – III: The Ethical Value System

"Ethics is knowing the difference between what you have a right to do and what is right to do."

— Potter Stewart

1. Universalism

Universalism is a philosophical and theological concept that suggests the existence of universal principles or truths applicable to all people, regardless of their cultural, religious, or individual differences. It promotes inclusivity, understanding, and a global perspective by emphasising the common ground that unites humanity rather than the differences that divide it.

Universalism: Four Key Dimensions

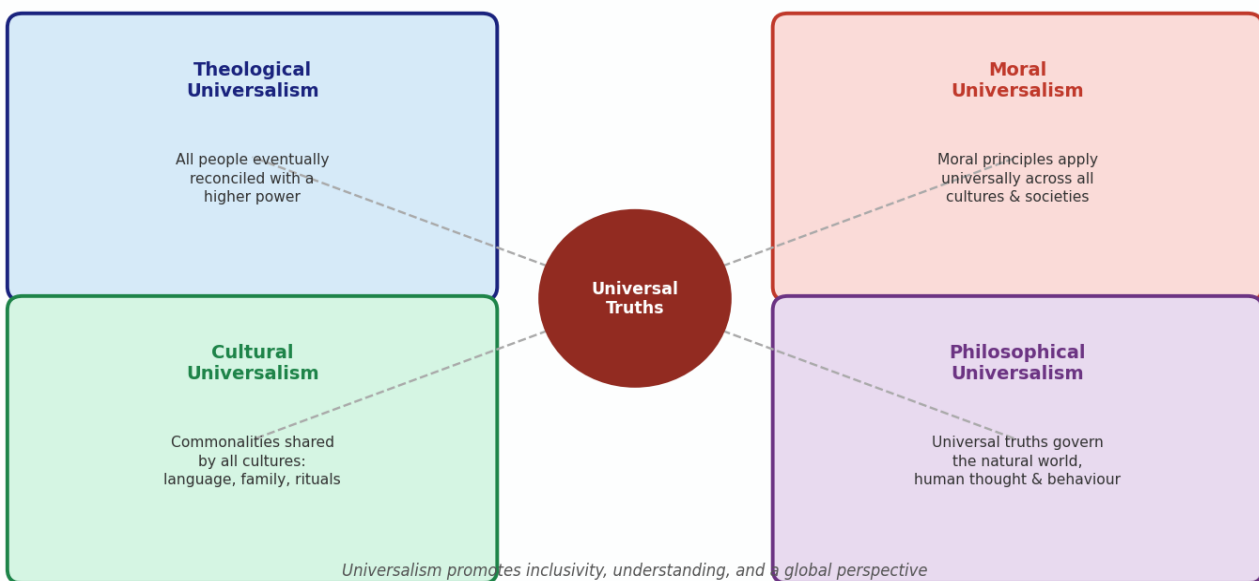


Fig 1.1 – The Four Dimensions of Universalism connecting to Universal Truths

1.1 Four Key Dimensions of Universalism

a) Theological Universalism

In religious contexts, it refers to the belief that all people will eventually be saved or reconciled with a higher power, regardless of their beliefs or actions. This stands in contrast to doctrines of exclusive salvation found in some religions.

Example: *The idea that a compassionate God ultimately saves all souls, not just members of one religion.*

b) Moral Universalism

Moral universalism holds that certain moral principles are fundamental and apply universally to all people, cultures, and situations. It argues that some actions are simply right or wrong regardless of cultural or societal context.

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Example: *The belief in the inherent value of human rights — the wrongness of murder or theft is considered universal, not culture-specific.*

c) Cultural Universalism

This refers to the existence of certain commonalities among all cultures. It highlights fundamental aspects that every culture shares despite their differences.

Example: *All cultures share elements such as language, family structures, rituals, art, and systems of morality, even though the specific forms differ.*

d) Philosophical Universalism

This pertains to the belief that universal truths or laws underlie and govern the natural world, human behaviour, and thought processes. It suggests that reason and logic can arrive at truths applicable to everyone.

Example: *The laws of logic and mathematics — such as the principle of non-contradiction — are considered universally valid across all cultures.*

Why Universalism Matters

- Promotes inclusivity by recognising shared humanity across cultural differences.
- Provides a foundation for universal human rights that transcend national boundaries.
- Supports global ethical frameworks used in international law and diplomacy.
- Encourages cross-cultural dialogue and understanding in a globalised world.

Advantages and Disadvantages of Universalism

Advantages	Disadvantages / Limitations
Provides consistent moral standards globally	May overlook cultural diversity and local context
Supports universal human rights frameworks	Can be seen as cultural imperialism
Enables cross-cultural ethical dialogue	Difficult to agree on truly universal principles
Prevents moral relativism that justifies harm	May conflict with deeply held religious beliefs

2. Utilitarianism

Utilitarianism is a consequentialist ethical theory developed and popularised by philosophers Jeremy Bentham and John Stuart Mill. It is based on the principle that the best action is one that maximises utility — generally defined as maximising happiness and minimising suffering for the greatest number of people.

Utilitarianism: The Greatest Happiness Principle

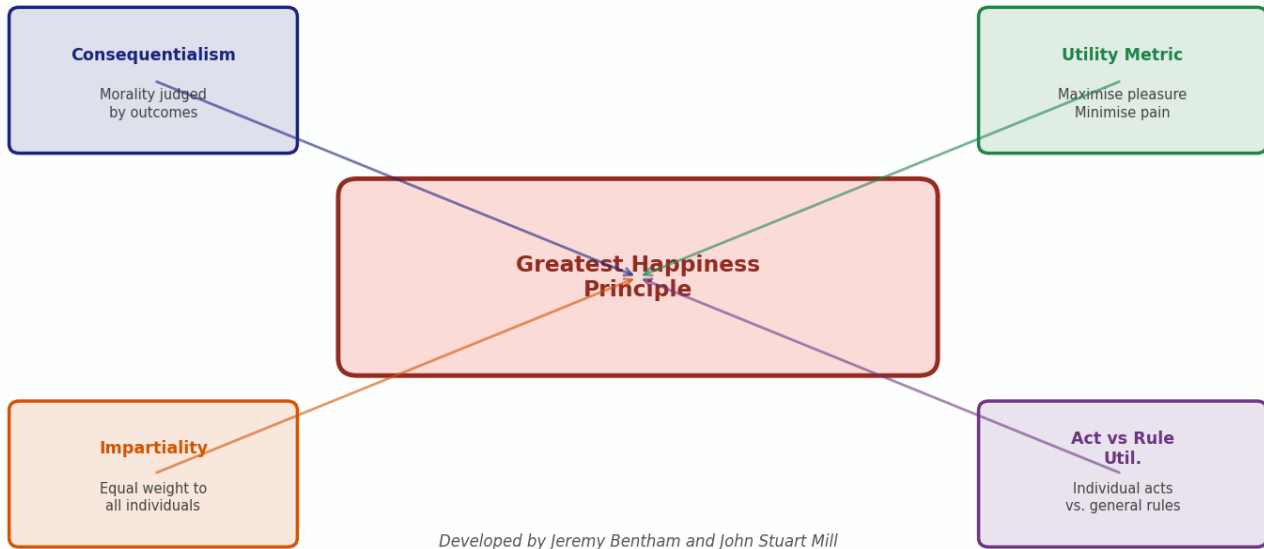


Fig 2.1 – Utilitarianism: The Greatest Happiness Principle and its four supporting concepts

2.1 Key Principles of Utilitarianism

a) The Greatest Happiness Principle

Actions are judged as morally right or wrong based on their consequences. An action is morally right if it leads to the greatest amount of happiness for the greatest number of people or sentient beings.

Example: A government spends its healthcare budget on treatments that help the most people, even if some rare conditions receive less funding.

b) Consequentialism

Utilitarianism is a consequentialist theory — it evaluates the morality of an action based on its outcomes or consequences, rather than on intentions or rules.

Example: Lying may be ethically acceptable in utilitarianism if it prevents serious harm to many people.

c) Utility as the Metric

Utility is the measure of net happiness or pleasure minus suffering or pain that results from an action. Maximising overall utility is the fundamental goal of utilitarian ethics.

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d) Impartiality and Universality

The moral value of all individuals is equal. Utilitarianism emphasises impartial consideration of the interests of all those affected by an action — it does not favour one person over another.

2.2 Types of Utilitarianism

Type	Focus	Example
Act Utilitarianism	Each action assessed separately for its consequences	Lying in one situation if it prevents more harm
Rule Utilitarianism	Follow rules that generally maximise utility overall	Always keep promises as a rule that benefits society

2.3 Criticisms of Utilitarianism

- Difficult to predict or measure all consequences of an action accurately.
- May conflict with individual rights — sacrificing one person's rights for collective good.
- Challenging to compare or quantify different types of happiness or suffering.
- Can potentially justify actions that are intuitively morally wrong if outcomes are beneficial.

Applications of Utilitarianism

- **Public Policy:** Governments use utilitarian reasoning to design policies that maximise social welfare — e.g., universal healthcare or compulsory education.
- **Business Ethics:** Companies weigh costs and benefits of decisions to maximise stakeholder welfare — e.g., product safety standards.
- **Environmental Ethics:** Calculating the net benefit of environmental policies to present and future generations.

3. Distributive Justice

Distributive justice is a concept within ethics and political philosophy that concerns the fair allocation of resources and goods in a society. It revolves around the principles guiding the fair distribution of benefits and burdens among members of a community.

Fig 3.1 – Four Major Theories of Distributive Justice

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3.1 Key Theories of Distributive Justice

a) Egalitarianism

This principle suggests that equality is the foundational aspect of justice. Resources and goods should be distributed equally among members of society, providing each individual with the same level of resources and opportunities.

Example: *Universal healthcare systems that provide equal medical access to all citizens regardless of income.*

b) Utilitarianism

Utilitarian theories of distributive justice prioritise the maximisation of overall welfare. Resources are distributed in a manner that maximises the overall happiness or well-being of society, even if this creates some inequalities.

Example: *Tax policy that collects more from high earners to fund programmes that benefit the majority.*

c) Rawlsian Justice (Justice as Fairness)

Proposed by philosopher John Rawls, his theory revolves around the concept of justice as fairness. His Difference Principle suggests that social and economic inequalities should be arranged so that they are to the greatest benefit of the least advantaged members of society. Rawls argued decisions should be made behind a 'veil of ignorance' — without knowing one's place in society.

Example: *Progressive taxation and welfare systems that particularly benefit the poorest sections of society, reflecting Rawls's difference principle.*

d) Libertarianism

This theory suggests that individuals have rights to their holdings and that any distribution is just as long as it occurs through voluntary exchanges and without force or fraud. It opposes forced redistribution of wealth.

Example: *Free market economies where individuals keep what they earn through voluntary trade and agreements.*

3.2 Comparison Table: Theories of Distributive Justice

Theory	Core Idea	Criterion	Example
Egalitarianism	Equal share for all	Equal distribution	Universal basic income
Utilitarianism	Maximise total welfare	Greatest good for most	Welfare programmes

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Rawlsian Justice	Benefit the least advantaged	Difference Principle	Progressive taxation
Libertarianism	Voluntary exchange	Property rights	Free market economy

3.3 Applications in Society

- **Taxation Systems:** Progressive taxes reflect both utilitarian and Rawlsian principles by redistributing wealth to support public services.
- **Welfare Programmes:** Social safety nets ensure that the least advantaged members of society receive support.
- **Healthcare:** Debates around universal versus private healthcare are rooted in distributive justice principles.
- **Education:** Equal access to quality education reflects egalitarian principles of distributive justice.

4. Social Contracts

A social contract is a theoretical concept used in political philosophy and ethics to explore the relationship between individuals and their governing authority. It represents an implicit agreement among members of a society that outlines the rights, duties, and responsibilities of individuals and the government.

Social Contract Theory: Key Philosophers



Social Contract theories underpin modern governance, constitutions, and citizen rights

Fig 4.1 – Social Contract Theory: Key Philosophers and Their Contributions

4.1 Key Elements of the Social Contract

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a) Mutual Consent

The social contract implies that individuals in a society consent to the rules, norms, and institutions governing their collective life. This agreement may be implicit rather than a literal signed document.

b) Rights and Obligations

Individuals give up certain freedoms in exchange for the protection and benefits offered by the state. Simultaneously, the government has obligations to protect the rights and welfare of its citizens.

Example: Citizens pay taxes (surrendering some freedom over their income) in exchange for security, infrastructure, and public services from the state.

c) Legitimacy of Government

The social contract theory provides a basis for the legitimacy of the government's authority. It suggests that the authority of the government is derived from the consent of the governed.

4.2 Three Great Social Contract Philosophers

Philosopher	Key Work	Core Idea	Legacy
Thomas Hobbes	Leviathan (1651)	State of nature is 'nasty, brutish, short'. Individuals surrender freedoms to a sovereign ruler for peace and order.	Foundation of absolute sovereignty and modern state theory
John Locke	Two Treatises (1689)	Government must protect natural rights — life, liberty, and property. People have the right to revolt if government fails these duties.	Influenced US Declaration of Independence
Jean-Jacques Rousseau	The Social Contract (1762)	General will of the people should govern. Individuals must surrender some	Inspired the French Revolution and democratic ideals

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		freedoms for the collective good. Championed direct democracy.	
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4.3 Relevance of Social Contract Today

- **Constitutional Democracies:** Modern constitutions reflect the social contract by defining rights, duties, and limits of government power.
- **Corporate Governance:** Businesses have an implicit social contract with society — operating ethically in exchange for legal rights and public trust.
- **Employee Relations:** Employment contracts are a form of social contract defining mutual obligations between employer and employee.
- **Global Governance:** International agreements like the UN Charter reflect a social contract among nations to maintain peace and cooperation.

5. Individual Freedom of Choice

Individual freedom of choice refers to the capacity of individuals to make decisions and take actions according to their preferences, desires, and beliefs without undue influence, coercion, or restriction from external forces. It is a fundamental aspect of personal autonomy and is considered a key component of human rights and ethical principles.

Individual Freedom of Choice: Key Dimensions

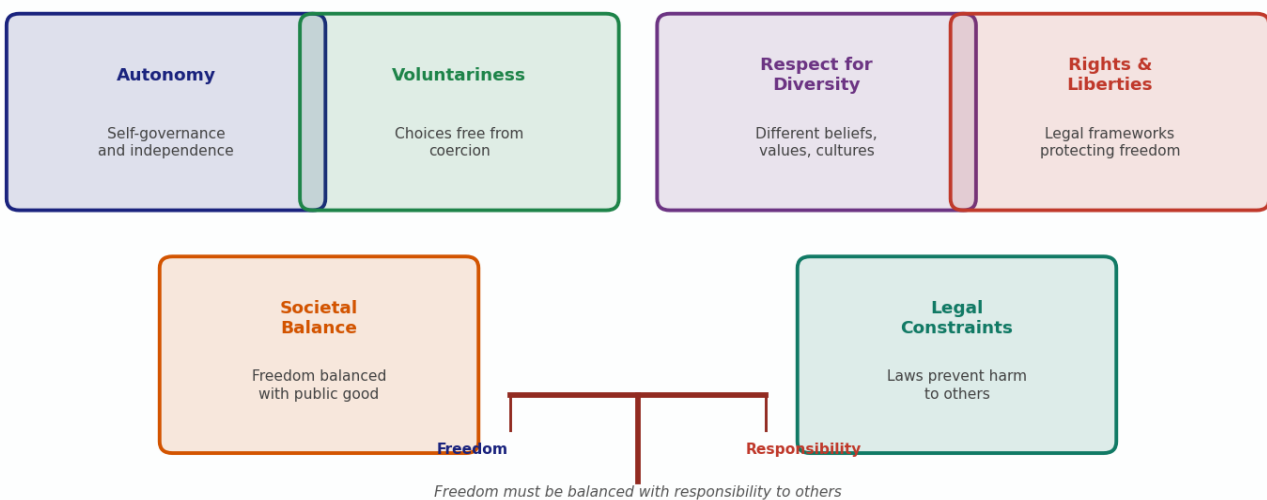


Fig 5.1 – Individual Freedom of Choice: Six Key Dimensions and the Balance with Responsibility

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5.1 Key Aspects of Individual Freedom of Choice

a) Autonomy

Autonomy involves the independence and self-governance of individuals. It allows people to make decisions and take actions based on their own values and desires without external interference.

Example: A person choosing their career path, religion, or lifestyle freely, without coercion from family, government, or society.

b) Voluntariness

Choices made by individuals should be made without external pressure or coercion. A truly free choice is one made willingly and without undue influence from others.

c) Respect for Diversity

Recognising and respecting that individuals have different beliefs, values, and desires is crucial to ensuring genuine freedom of choice. This includes respecting cultural, religious, and personal differences.

d) Rights and Liberties

Societies safeguard individual freedom of choice through legal and ethical frameworks. These include freedom of speech, freedom of religion, the right to privacy, and other fundamental liberties.

5.2 Limitations on Freedom of Choice

Individual freedom of choice is not absolute. It may be limited by several factors:

- **Rights of Others:** One's freedom of choice must not infringe upon the rights or well-being of others.
- **Legal Constraints:** Societies create laws and regulations to balance individual freedoms with the broader public good and to prevent harm.
- **Socioeconomic Conditions:** Poverty, lack of education, or limited opportunities can restrict the practical exercise of freedom of choice.
- **Cultural Norms:** Cultural expectations may create implicit pressure that limits genuinely free decision-making.

5.3 Freedom of Choice in Business Ethics

Context	Freedom Aspect	Ethical Consideration
Consumer Choice	Right to buy / reject products	Companies must not manipulate or deceive

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Employee Rights	Right to work / refuse unethical tasks	Whistleblowing protections needed
Business Decisions	Companies choose how to operate	Must not harm stakeholders or society
Investment Choices	Investors choose ethical portfolios	Ethical investing and ESG responsibility

6. Professional Codes

Professional codes are sets of ethical guidelines and standards established within specific fields or industries to govern the conduct and behaviour of professionals. These codes outline the moral and ethical responsibilities of individuals within a particular profession, guiding their behaviour in professional capacities.

Professional Codes: Principles & Professions



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Fig 6.1 – Professional Codes: Core Principles (inner ring) and Professions that follow them (outer ring)

6.1 Core Principles in a Professional Code

1. **Respect for Clients or Customers:** Treating all clients with dignity, fairness, and courtesy regardless of their background or status.
2. **Confidentiality and Privacy:** Protecting sensitive information entrusted to the professional by clients, employers, or the public.
3. **Honesty:** Being truthful and transparent in all professional communications and dealings.
4. **Integrity:** Adhering to moral and ethical principles consistently, even under pressure.
5. **Accountability:** Taking responsibility for one's professional actions and their consequences.
6. **Responsibility:** Fulfilling one's professional duties to clients, the public, and the profession itself.

6.2 Why Professional Codes Are Essential

Purpose	Explanation
Build Trust	Clients and the public trust professionals who follow clear ethical standards.
Promote Ethical Behaviour	Guides professionals when facing complex or difficult ethical decisions.
Enhance Reputation	Upholds the image and prestige of the entire profession.
Support Personal Growth	Encourages continuous reflection and improvement in professional conduct.
Encourage Accountability	Creates a framework for evaluating and addressing unethical behaviour.
Promote Sustainability	Ensures long-term viability of the profession and its positive societal role.
Foster Positive Culture	Builds a workplace culture of respect, fairness, and ethical conduct.

6.3 Professional Codes across Different Fields

Medical Profession

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The Hippocratic Oath is one of the most famous codes of ethics for physicians. Medical codes cover patient confidentiality, informed consent, duty of care, and the principle of 'do no harm'. Medical councils in India (MCI / NMC) regulate professional conduct.

Legal Profession

Lawyers are guided by codes set by bar associations. These cover client confidentiality, avoiding conflicts of interest, honesty with courts, and upholding the integrity of the legal system.

Engineering and Science

Engineers and scientists adhere to codes emphasising public safety, honesty in research, environmental responsibility, and the duty to avoid causing harm through their work.

Example: *The collapse of poorly engineered structures — such as bridges or buildings — demonstrates why safety-first engineering ethics are non-negotiable.*

Journalism

Journalists follow codes that emphasise truthfulness, accuracy, and unbiased reporting while avoiding conflicts of interest. Sensationalism or fabrication of stories violates press ethics.

Consequences of Violating Professional Codes

- Censure or formal reprimand from the professional body.
- Loss of professional licence or credentials.
- Legal action, fines, or criminal prosecution depending on severity.
- Irreparable damage to personal and professional reputation.
- Harm to clients, the public, or the profession's credibility.

7. Culture and Ethics

Culture and ethics are closely interconnected and mutually influential. Culture refers to the shared values, beliefs, customs, traditions, and practices of a particular group of people. Ethics involves principles and standards that determine what is morally right and wrong. Together, they shape how individuals and societies behave and make decisions.

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Culture and Ethics: Mutual Influence

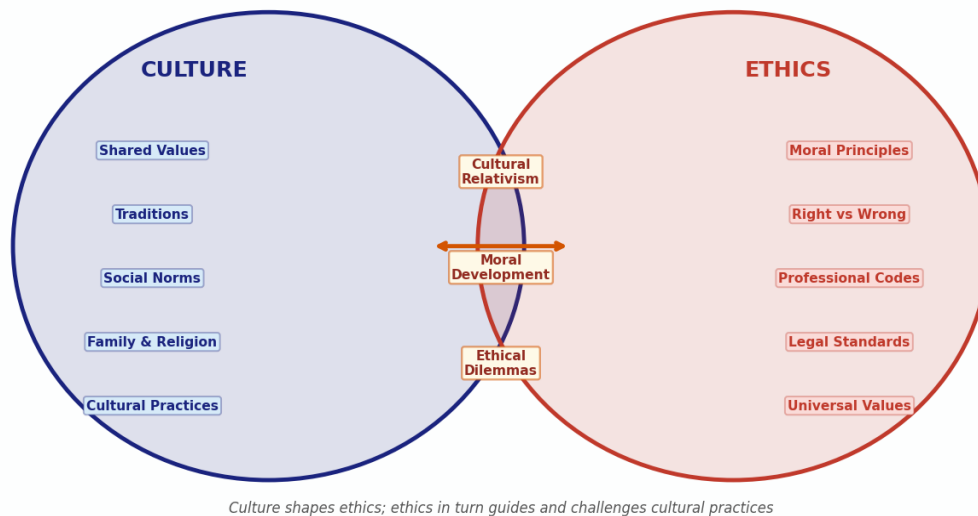


Fig 7.1 – Culture and Ethics: A Venn diagram showing mutual influence and shared zones

7.1 How Culture and Ethics Are Intertwined

a) Cultural Relativism

Cultural relativism is the idea that ethical standards are shaped by culture, and what is considered ethical varies from one culture to another. Cultural norms and values often influence the ethical standards that individuals within a culture adhere to.

Example: Practices such as arranged marriages are considered ethical in some cultures but are viewed critically in others.

b) Moral Development

Culture plays a significant role in shaping an individual's moral development. Children learn about right and wrong by observing the behaviours and values of their family, community, and culture. Ethical values are often passed down from one generation to the next through cultural transmission.

c) Norms and Values

Culture shapes the norms and values that guide behaviour within a society. Ethical behaviour is often seen as aligning with cultural norms. A culture that places a high value on honesty will emphasise the ethical importance of truth-telling.

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d) Cultural Practices and Ethical Dilemmas

Sometimes cultural practices or traditions conflict with widely accepted ethical principles. Individuals must navigate the tension between their cultural identity and their ethical obligations, leading to complex ethical dilemmas.

Example: *Female genital mutilation is a traditional practice in some cultures but is widely condemned on ethical and human rights grounds globally.*

e) Globalization

In an increasingly globalised world, different cultures and ethical systems come into contact and sometimes clash. This prompts discussions about whether certain ethical principles — particularly human rights — should transcend cultural boundaries.

f) Corporate and Organizational Culture

Within organisations, a distinct corporate culture influences the ethical behaviour of employees. Ethical corporate cultures emphasise honesty, transparency, and ethical decision-making, while toxic cultures may foster behaviour that prioritises profit over ethics.

Example: *Tata Group's culture of integrity and service to society stands in contrast to Enron's culture of deception and greed.*

g) Diversity and Inclusion

Cultures are becoming more diverse both within countries and in global interactions. Understanding and respecting cultural differences is an ethical imperative, promoting tolerance and inclusion in workplaces and communities.

8. Ethical Values in Different Cultures

Ethical values vary significantly across different cultures due to diverse histories, traditions, belief systems, and societal norms. These variations can be seen in how different cultures define moral conduct, expected behaviour, and the principles that guide decision-making.

Fig 8.1 – Ethical Values Across Cultures: Four Key Dimensions with Contrasting Perspectives

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8.1 Key Cultural Variations in Ethical Values

1. Individualism vs. Collectivism

In many Western cultures, individual rights, autonomy, and personal achievement are highly valued, with a strong emphasis on personal freedom and privacy. In contrast, many Eastern cultures — such as those in East Asia — place greater value on collective well-being, family harmony, and social interconnectedness.

Example: *In the USA, personal career ambition is celebrated. In Japan, group harmony and collective decision-making are prioritised in the workplace.*

2. Hierarchy and Respect for Authority

Some cultures place a high value on respect for authority, elders, and social hierarchy. In such cultures, adherence to hierarchical structures is considered an ethical value. Other cultures may prioritise egalitarian approaches with less emphasis on hierarchy.

Example: *In India and many Asian countries, respect for elders and senior authority figures is a deeply embedded cultural and ethical norm.*

3. Honesty and Integrity

The extent to which honesty is practised or expected may differ. In some cultures, avoiding direct confrontation or conflict may lead to acceptance of indirect communication or even white lies as a means to maintain social harmony.

Example: *In some East Asian cultures, saving face is important — directly pointing out someone's mistake publicly may be avoided to protect their dignity.*

4. Gender Roles and Values

Different cultures have varying perspectives on gender roles, family structures, and treatment of women. Ethical values related to gender equality, LGBTQ+ rights, and family dynamics can vary significantly across cultures.

5. Environmental Ethics

Views on the relationship between humans and the environment can differ across cultures. Some cultures — particularly indigenous communities — have long traditions of respecting and living in harmony with nature. Others may hold a more anthropocentric perspective.

Example: *Indigenous communities in the Amazon regard forests as sacred — cutting them is an ethical violation. In contrast, some industrial societies view forests primarily as economic resources.*

6. Religious and Spiritual Ethics

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Religious beliefs significantly influence ethical values in many cultures. Different religious traditions have their own moral codes that shape the behaviour and values of their adherents.

Hinduism	Buddhism	Christianity	Islam
Dharma (duty) Ahimsa (non-harm) Karma (action)	Compassion Middle Path Non-attachment	Love & forgiveness Justice & charity Golden Rule	Justice (Adl) Compassion (Rahma) Honesty (Amanah)

Navigating Cultural Ethical Differences

Understanding variations in ethical values is essential for fostering cultural understanding, promoting inclusivity, and addressing ethical challenges in a globalised world. It is crucial to:

- Recognise and respect cultural differences while acknowledging shared universal ethical principles.
- Distinguish between cultural practices that should be respected and those that violate fundamental human rights.
- Promote cross-cultural dialogue to find common ethical ground in international business and diplomacy.
- Avoid cultural imperialism — imposing one culture's ethical standards on another — while still upholding universal human dignity.

9. Culture and Individual Ethics

Culture significantly influences individual ethics. An individual's ethics — their personal principles and moral values — are shaped by the cultural environment in which they are raised and exist. However, individuals also have the capacity to critically evaluate and potentially challenge the ethical norms ingrained within their culture.

9.1 How Culture Influences Individual Ethics

a) Social Norms and Values

Culture establishes the societal norms and values that individuals are exposed to from a young age. These norms become internalised, shaping an individual's ethical beliefs and behaviours. A culture

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that values honesty will likely encourage individuals to develop ethical standards that prioritise truthfulness.

b) Family and Upbringing

Families play a crucial role in transmitting cultural values and ethical norms. An individual's ethics are often shaped by the values imparted by parents, relatives, and the immediate community during childhood.

Example: *A child raised in a family that values community service is more likely to develop strong prosocial ethical values.*

c) Education and Socialisation

Formal education and socialisation within a specific culture reinforce ethical norms and provide guidance on acceptable behaviour. Educational systems often embed cultural and ethical teachings that shape a student's moral compass.

d) Religion and Philosophy

Many cultures are influenced by religious or philosophical beliefs that offer moral guidance. An individual's ethical framework may be deeply shaped by the religious or philosophical teachings prevalent in their culture.

e) Cultural Practices and Traditions

Cultural practices and rituals often embody ethical values. Customs related to respect for elders, care for the environment, or community support may directly shape an individual's ethical standards.

f) Social Expectations and Role Models

Cultural influences shape the societal expectations individuals face. Role models — whether historical figures, community leaders, or influential personalities — can profoundly influence an individual's ethical beliefs and behaviour.

Example: *In India, Mahatma Gandhi's ethical principles of non-violence, honesty, and service have influenced generations of people across different cultural backgrounds.*

9.2 The Capacity for Individual Ethical Reflection

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While culture heavily influences individual ethics, individuals also have the capacity to critically evaluate and potentially challenge the ethical norms within their culture. Exposure to different cultures, diverse perspectives, education, and personal experiences can lead individuals to reassess or adapt their ethical beliefs.

Cultural Influence	Individual Response	Ethical Outcome
Cultural norm accepts bribery	Individual refuses on moral grounds	Personal integrity maintained
Culture ignores environmental harm	Individual adopts eco-friendly practices	Positive change modelled
Culture restricts women's roles	Individual advocates for gender equality	Cultural evolution triggered
Religion emphasises charity	Individual volunteers & donates	Prosocial behaviour reinforced

10. Questions Section

A. Short Answer Questions (2 Marks)

7. Define Universalism and state its four types.
8. What is Utilitarianism? Who proposed it?
9. Explain the Greatest Happiness Principle.
10. What is Distributive Justice?
11. Distinguish between Egalitarianism and Libertarianism.
12. What is a Social Contract? Name the three key philosophers.
13. What is the Rawlsian Difference Principle?
14. Define Individual Freedom of Choice.
15. What is a Professional Code of Ethics? Give one example.
16. Distinguish between Cultural Relativism and Moral Universalism.

B. Essay Type Questions (10 Marks)

17. Explain the concept of Universalism and its four key dimensions with suitable examples.

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18. Discuss the principles of Utilitarianism. What are its advantages and limitations as an ethical framework?
19. Explain the major theories of Distributive Justice with examples. How are they applied in society?
20. What is the Social Contract? Explain the contributions of Hobbes, Locke, and Rousseau to social contract theory.
21. Discuss the concept of Individual Freedom of Choice. What are its key aspects and limitations?
22. What are Professional Codes of Ethics? Explain their importance and give examples from different professions.
23. Explain the relationship between Culture and Ethics. How do cultural values influence ethical standards?
24. Discuss how ethical values vary across different cultures. How can cultural differences be navigated ethically in a globalised world?

C. Case Study / HOTS Questions

Case Study 1: The Trolley Problem – Utilitarianism in Action

A runaway trolley is heading towards five workers on a track. You can pull a lever to divert it to another track, where only one worker stands. From a utilitarian perspective, pulling the lever saves five lives at the cost of one — maximising overall utility. However, critics argue this involves actively causing harm to an innocent person.

Discussion Questions:

- How would act utilitarianism and rule utilitarianism approach this dilemma differently?
- What does Rawlsian justice say about such life-and-death decisions?
- Does individual freedom of choice play a role in the ethical analysis of this dilemma?

Case Study 2: Nike and Cultural Labour Ethics

Nike faced global criticism in the 1990s for using sweatshop labour in developing countries where wages were very low and working conditions were poor. The company argued these practices were legal in those countries and provided employment. Critics argued they violated universal ethical principles of fair treatment and worker dignity.

Discussion Questions:

- How does cultural relativism apply to Nike's defence of its labour practices?
- Does moral universalism provide grounds for condemning Nike's actions regardless of local laws?
- How should professional codes of conduct apply to multinational companies operating across cultures?

11. References

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"Ethics is knowing the difference between what you have a right to do and what is right to do."

— Potter Stewart

UNIT – IV:

Corporate Governance

"Good corporate governance is about intellectual honesty and not just sticking to rules and regulations."

1. Corporate Governance: Meaning and Overview

Corporate governance refers to the system of rules, practices, and processes by which companies are directed, controlled, and managed. It involves the relationships and responsibilities between a company's management, its board of directors, its shareholders, and other stakeholders. The main objectives are to ensure transparency, fairness, accountability, and ethical behaviour within an organisation, promoting the company's long-term success while considering all stakeholder interests.

Corporate Governance: Five Key Pillars

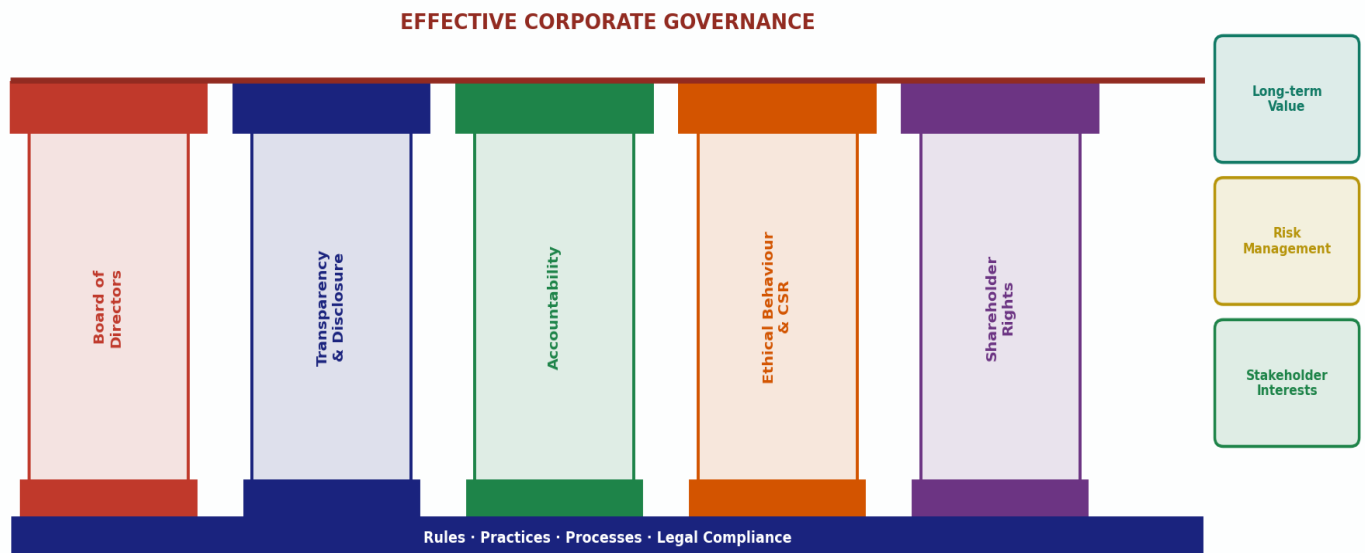


Fig 1.1 – The Five Pillars of Corporate Governance resting on Rules, Practices & Legal Compliance

1.1 Key Elements of Corporate Governance

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a) Board of Directors

The board is responsible for overseeing the company's operations, providing strategic guidance, and making major decisions. It ensures the company is managed in the best interest of shareholders and stakeholders, and sets the ethical tone at the top.

Example: Infosys's board established an independent Ethics Committee to review ethical concerns and ensure corporate accountability across all operations.

b) Transparency and Disclosure

Companies must provide accurate and timely information about their financial performance, strategies, risks, and governance structures to shareholders and the public. Transparent disclosure prevents information asymmetry and builds stakeholder trust.

Example: Tata Group voluntarily publishes detailed annual sustainability and governance reports that go beyond mandatory legal requirements.

c) Accountability

Corporate governance emphasises accountability at all levels of the organisation. Management must be accountable for their decisions and actions, and the board must be accountable to shareholders and other stakeholders.

d) Ethical Behaviour and CSR

Good governance encourages ethical practices and consideration of social and environmental impacts in all business decisions. This includes implementing Corporate Social Responsibility (CSR) initiatives that benefit wider society.

e) Shareholder Rights

Corporate governance frameworks protect and respect the rights of shareholders, ensuring their voices are heard in important company decisions such as board elections, dividend policies, and major strategic changes.

Key Terminologies in Corporate Governance

Term	Definition
Corporate Governance	System of rules, practices and processes directing and controlling a company
Board of Directors	Group of elected representatives overseeing company management
Fiduciary Duty	Legal obligation to act in the best interest of shareholders

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Stakeholders	All parties with an interest in the company's operations and outcomes
Transparency	Openness in disclosing information to shareholders and the public
Accountability	Obligation to accept responsibility for actions and decisions
CSR	Company's responsibility to contribute positively to society and environment

2. Role and Importance of Corporate Governance

Corporate governance plays a crucial role in the proper functioning of businesses and financial markets. Strong governance practices benefit companies, investors, employees, customers, and the broader economy. Its importance can be understood from multiple perspectives.

Importance of Corporate Governance

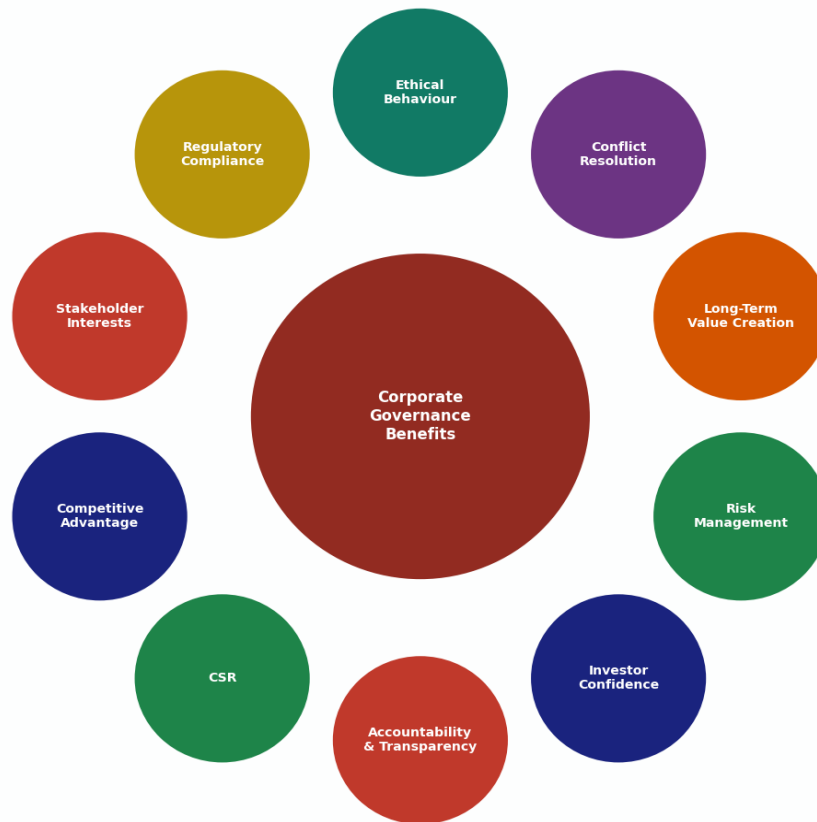


Fig 2.1 – Ten Key Benefits of Corporate Governance radiating from a central hub

1. Accountability and Transparency

Corporate governance ensures that companies are accountable for their actions and financial performance. Transparency in financial reporting and decision-making builds trust among shareholders, investors, and the public. Without it, information asymmetry can lead to market failures and investor losses.

Example: *Satyam Computers' collapse in 2009 demonstrated how lack of transparency and accountability can destroy an entire organisation overnight.*

2. Investor Confidence

Strong corporate governance practices boost investor confidence. When investors believe a company is being run in a transparent and ethical manner, they are more likely to invest and provide capital, which is essential for growth and expansion.

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Example: *Companies listed on the BSE that comply with SEBI's Corporate Governance Code attract higher foreign institutional investment.*

3. Risk Management

Effective corporate governance helps identify and manage risks including financial, operational, legal, and reputational risks. This reduces the likelihood of corporate scandals or financial crises that can harm a company and its stakeholders.

Example: *HDFC Bank's robust governance framework allowed it to navigate the 2008 global financial crisis with minimal damage compared to less-governed peers.*

4. Long-Term Value Creation

Good governance focuses on the long-term success of the company rather than short-term gains. This approach leads to sustainable growth and value creation, benefiting shareholders and other stakeholders over time.

Example: *Tata Group's century-long growth demonstrates how ethical governance creates enduring value across generations.*

5. Conflict Resolution

Corporate governance structures provide mechanisms for resolving conflicts of interest, whether involving management, shareholders, or other stakeholders. This protects the rights of minority shareholders and prevents abusive behaviour by controlling parties.

Example: *Independent directors on boards serve as neutral arbiters in conflicts between majority and minority shareholders.*

6. Ethical Behaviour

Good corporate governance promotes ethical behaviour within the organisation, maintaining the company's reputation and avoiding legal and ethical violations. An ethical culture starts with governance structures that reward integrity.

Example: *ITC's governance framework explicitly links executive compensation to ethical conduct and sustainability targets.*

7. Competitiveness

Companies with strong corporate governance are more competitive. They attract and retain talent, form strategic partnerships, and adapt to changing market conditions more effectively than poorly governed competitors.

Example: *Companies ranked highly in governance indices like the S&P ESG Index consistently outperform market averages in the long run.*

8. Regulatory Compliance

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Compliance with corporate governance regulations and standards avoids legal repercussions and fines, and helps companies stay aligned with market expectations and industry norms. In India, SEBI mandates governance requirements for listed companies.

Example: *Companies that comply proactively with Companies Act 2013 requirements avoid costly penalties and regulatory investigations.*

9. Stakeholder Interests

Corporate governance recognises the interests of various stakeholders including employees, customers, suppliers, and local communities. Balancing these interests leads to better relationships and more sustainable business practices.

Example: *Tata Steel's commitment to the Jamshedpur community — including hospitals, schools, and public utilities — reflects stakeholder-centred governance.*

10. Corporate Social Responsibility

Governance frameworks often incorporate environmental and social responsibilities, encouraging companies to adopt sustainable and responsible business practices beyond simple profit maximisation.

Example: *Under India's Companies Act 2013, companies above a certain size must spend 2% of their net profits on CSR activities — governance mandating social good.*

3. Roles of Directors

Directors play a vital role in the governance and management of a company. Their primary responsibility is to act in the best interests of the company and its shareholders, while upholding the principles of good corporate governance. Directors set the strategic direction, ensure compliance, and foster an ethical organisational culture.

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Role of Directors in Corporate Governance

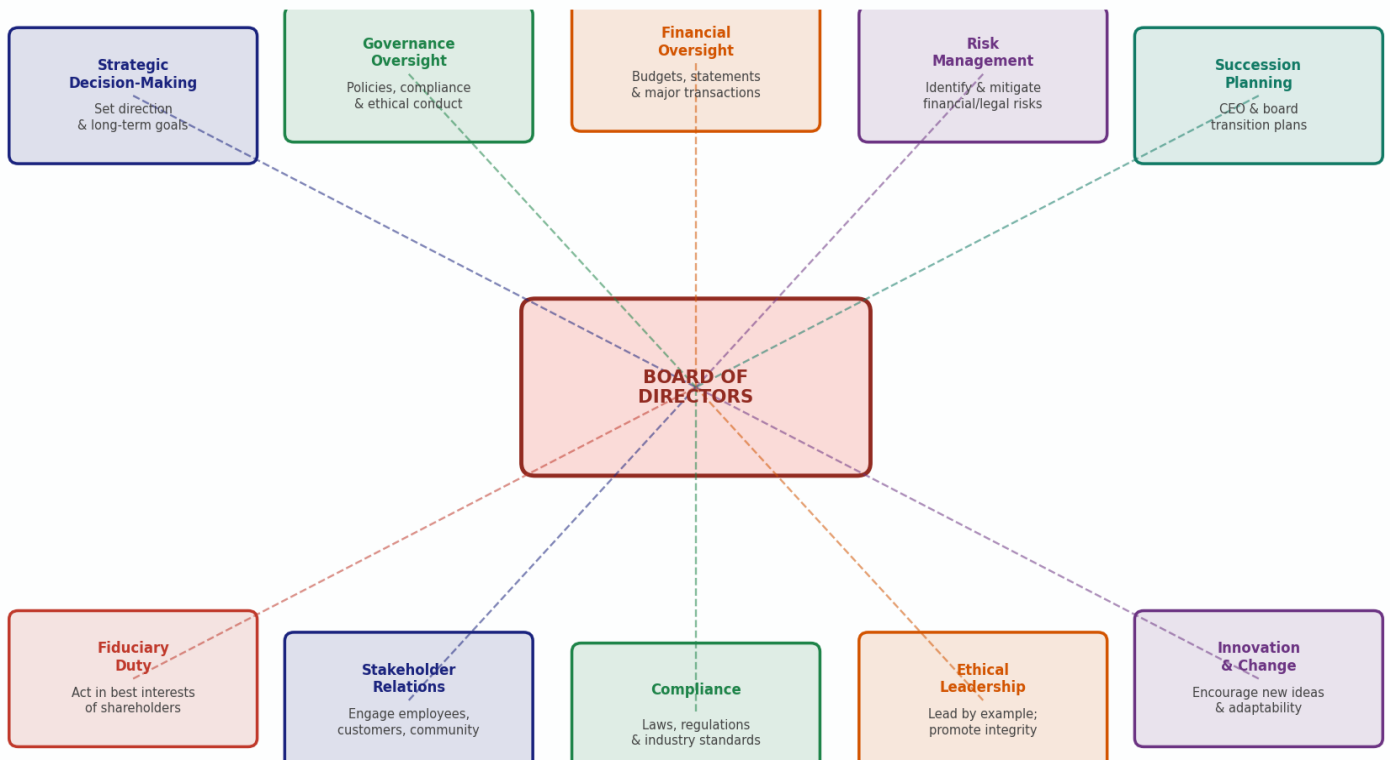


Fig 3.1 – The Role of Directors: Ten Key Responsibilities radiating from the Board

3.1 Key Roles and Responsibilities of Directors

1. Strategic Decision-Making

Directors set the company's strategic direction and long-term objectives. They participate in formulating the business strategy, goals, and plans, ensuring alignment between the company's vision and its operational activities.

2. Governance Oversight

Directors ensure the company adheres to sound corporate governance practices, compliance with laws and regulations, and ethical conduct. They establish governance policies and monitor their effective implementation.

3. Fiduciary Duty

Directors have a fiduciary duty to act in the best interests of the company and its shareholders. Every decision must prioritise the financial health and long-term success of the company over personal interests.

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4. Financial Oversight

Directors oversee the company's financial affairs, including approving budgets, reviewing financial statements, and sanctioning major financial transactions. They monitor financial performance and ensure the accuracy of all financial reporting.

5. Appointment and Oversight of Management

Directors hire, evaluate, and if necessary replace top executives such as the CEO. They provide guidance and support to the management team, ensuring it operates in line with the company's approved strategy and goals.

6. Risk Management

Directors identify and manage risks to the company including financial, operational, legal, and reputational risks. They develop risk mitigation strategies and ensure appropriate risk monitoring systems are in place.

7. Stakeholder Relations

Directors maintain positive relationships with shareholders, employees, customers, suppliers, and the community. They must consider the diverse interests of these groups in all major decisions.

8. Compliance

Directors ensure the company complies with all relevant laws, regulations, and industry standards. They establish policies and procedures for compliance and monitor the company's adherence to these rules.

9. Ethical Leadership

Directors set the tone for ethical behaviour within the organisation. They must lead by example, promoting a culture of integrity, transparency, and ethical conduct throughout all levels of the company.

10. Succession Planning

Directors are responsible for planning executive and board succession, ensuring a smooth leadership transition when key individuals leave their roles. This protects continuity and long-term organisational stability.

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11. Innovation and Change

Directors must be open to new ideas and innovation, and be adaptive to changes in the business environment. They should encourage innovation that drives the company's growth and competitive advantage.

12. Conflict Resolution

Directors may be called upon to mediate and resolve conflicts within the company — particularly disputes between management and shareholders, or among board members themselves.

Types of Directors

Type	Role	Key Responsibility
Executive Director	Full-time; involved in day-to-day management	Operational decisions and strategy execution
Non-Executive Director	Part-time; not involved in daily operations	Independent oversight and governance check
Independent Director	No material relationship with the company	Impartial decision-making; protect minority shareholders
Nominee Director	Appointed by specific shareholders or lenders	Represent interests of nominating entity

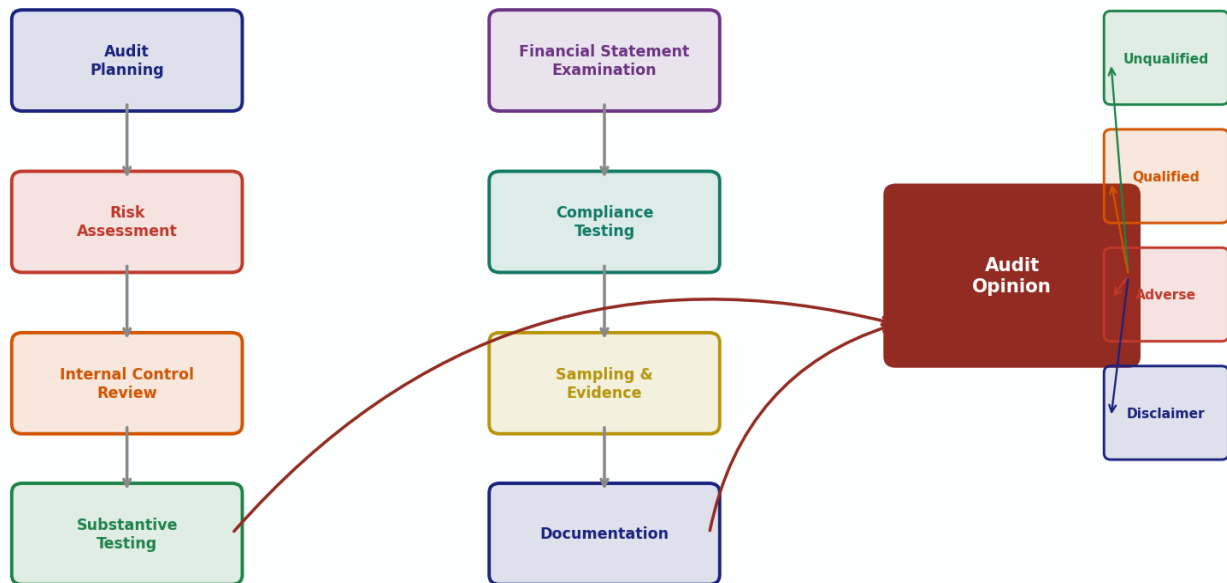
4. Role of Auditors

Auditors play a critical role in ensuring the accuracy and reliability of financial information in organisations. Their primary responsibility is to independently examine and verify a company's financial statements, internal controls, and accounting practices. They are the independent watchdogs of financial integrity, enhancing the reliability of information on which investors and stakeholders depend.

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Role of Auditors: Audit Process Flow



Auditors enhance reliability, transparency and accountability of financial information

Fig 4.1 – The Audit Process Flow: From Planning through to the four types of Audit Opinion

4.1 Key Roles and Responsibilities of Auditors

1. Financial Statement Examination

Auditors review and audit financial statements including the balance sheet, income statement, cash flow statement, and notes. They ensure the financial information accurately represents the company's financial position and performance.

2. Independence and Objectivity

Auditors must maintain independence and objectivity in their work. They must not have any financial or personal interests that could compromise their ability to provide an unbiased assessment — this is fundamental to the audit's credibility.

3. Compliance Testing

Auditors assess the company's compliance with accounting standards, laws, and regulations. They verify that financial statements adhere to Generally Accepted Accounting Principles (GAAP) or the relevant accounting framework such as Indian AS or IFRS.

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4. Internal Control Evaluation

Auditors evaluate the company's internal controls and accounting procedures to identify weaknesses or deficiencies. They provide recommendations for improvements to prevent and detect financial errors and fraud.

5. Risk Assessment

Auditors assess the financial and operational risks facing the organisation, identifying areas where fraud or financial misstatements are more likely to occur. This guides the focus and depth of the audit.

6. Audit Planning

Auditors develop an audit plan outlining the scope, objectives, and procedures of the audit. This plan guides the audit process and ensures all critical areas are adequately examined within the allotted time and budget.

7. Substantive Testing

Auditors perform substantive testing by examining financial transactions and account balances in detail. This helps detect errors, irregularities, or fraud that may not be visible at a summary level.

8. Sampling

In large organisations, auditors use statistical sampling methods to select a representative portion of transactions for testing, as it is impractical to examine every single transaction individually.

9. Communication

Auditors communicate their findings to management and, if applicable, to the board of directors and the audit committee. They issue a formal audit report providing their opinion on the fairness of the financial statements.

10. Ethical Considerations

Auditors must adhere to the highest ethical standards and professional conduct. They must avoid conflicts of interest and maintain the integrity of their findings, even under pressure from management.

11. Documentation

Auditors maintain detailed records of all audit procedures, findings, and supporting documentation. This evidence base supports their conclusions and provides a record for regulatory review if required.

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4.2 Types of Audit Opinion

Opinion Type	Meaning	Implication
Unqualified (Clean)	Financial statements are free from material misstatements	Most positive outcome; company financial reporting is sound
Qualified	Some issues exist but do not invalidate the overall statements	Investors should investigate specific concerns raised
Adverse	Financial statements are unreliable or misleading	Serious warning; major restatement may be needed
Disclaimer of Opinion	Auditor could not complete the audit due to insufficient information	Raises red flags about information access or company transparency

Advantages of Independent Auditing

- Enhances the reliability and credibility of financial information for all stakeholders.
- Deters fraud and financial misrepresentation through the threat of detection.
- Provides assurance to investors, lenders, and regulators about the health of the company.
- Identifies internal control weaknesses, helping companies improve their processes.
- Supports regulatory compliance and helps companies avoid fines and legal action.

5. Role of Shareholders and Stakeholders

Shareholders and stakeholders play distinct but interconnected roles in an organisation. Shareholders are the legal owners of the company who invest capital and expect financial returns. Stakeholders represent a broader range of parties — including employees, customers, suppliers, communities, and regulators — whose interests extend beyond financial returns to ethical, social, and environmental concerns.

Fig 5.1 – Shareholders vs Stakeholders: Contrasting yet Complementary Roles in Corporate Governance

5.1 Role of Shareholders

Ownership and Investment

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Shareholders are the owners of the company. They invest capital in the form of equity (shares) and hold ownership stakes in the organisation. In return, shareholders expect financial returns through dividends and capital appreciation.

Voting Rights

Shareholders typically have the right to vote on important matters such as the election of the board of directors, approval of major corporate decisions, and changes to the company's bylaws and governance structures.

Profit Maximisation

Shareholders often prioritise profit maximisation and the growth of the company's stock value. They expect management and the board to make decisions that enhance shareholder value over time.

Risk and Reward

Shareholders assume financial risk, as the value of their investment fluctuates with the company's performance. In return, they have the potential to benefit significantly from the company's success.

Monitoring Management

Shareholders have a vested interest in monitoring the actions of the company's management and board. They can hold the company accountable through voting, shareholder activism, and engagement with independent directors.

5.2 Role of Stakeholders

Diverse Interests

Stakeholders represent a broader range of interests beyond financial returns. They include employees, customers, suppliers, local communities, NGOs, regulators, and even the natural environment. Their concerns span many aspects of a company's operations.

Ethical and Social Responsibility

Stakeholders often emphasise ethical and social responsibility in business operations. They may advocate for fair labour practices, environmental sustainability, community engagement, and ethical conduct alongside financial performance.

Long-Term Viability

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Stakeholders are concerned with the long-term viability and sustainability of the company. Unlike some shareholders focused on short-term gains, stakeholders advocate for practices that ensure continued success without compromising others' interests.

Engagement and Collaboration

Stakeholders engage with companies through feedback, consultations, community forums, and collaboration on CSR initiatives. Their input influences company policies, practices, and strategic priorities.

Risk Mitigation

Stakeholders often raise concerns about reputational, environmental, and social risks. Addressing these concerns proactively helps companies mitigate risks and improve their long-term image and licence to operate.

Regulatory and Legal Compliance

Stakeholders advocate for companies to comply with laws, regulations, industry standards, and best practices. This helps companies avoid legal problems, regulatory sanctions, and reputational damage.

5.3 Comparison: Shareholders vs. Stakeholders

Aspect	Shareholders	Stakeholders
Primary Interest	Financial returns and share value	Varied: social, ethical, environmental, financial
Time Horizon	Often short to medium term	Long-term sustainability focus
Decision Power	Formal voting rights on key decisions	Influence through advocacy, pressure and dialogue
Risk Exposure	Financial risk from share value fluctuations	Operational, reputational, social, environmental risk
Examples	Individual investors, mutual funds, promoters	Employees, customers, NGOs, government, communities

Balancing Shareholder and Stakeholder Interests

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Companies often need to balance the interests of both shareholders and stakeholders to achieve sustainable and responsible corporate behaviour while delivering value. This balance is a fundamental challenge of modern corporate governance. Approaches include:

- **Stakeholder Mapping:** Identifying and prioritising all stakeholders and understanding their interests and influence.
- **CSR Programmes:** Structured initiatives that deliver value to stakeholders while supporting the company's brand and licence to operate.
- **Integrated Reporting:** Publishing reports that address financial performance alongside social, environmental, and governance outcomes.
- **Board Representation:** Including employee or community representatives on the board to ensure diverse stakeholder voices are heard.

6. E-Governance in India

E-governance in India refers to the use of Information Technology (IT) and digital tools to improve the delivery of government services, enhance government processes, and increase transparency and efficiency in administrative operations. India has made significant strides in e-governance, moving from paper-based, time-consuming processes to fast, transparent digital systems that empower citizens.

Fig 6.1 – Key E-Governance Initiatives in India with the Five Goals of E-Governance

6.1 Key E-Governance Initiatives in India

1. Digital India Campaign (2015)

Launched by the Government of India in 2015, the Digital India initiative aims to transform India into a digitally empowered society and knowledge economy. It focuses on three core pillars: digital infrastructure as a utility for every citizen, governance and services on demand, and digital empowerment of citizens.

Example: *Under Digital India, village-level Common Service Centres (CSCs) bring government services like income certificates, ration cards, and utility bill payments to rural citizens without requiring them to travel to district offices.*

2. National e-Governance Plan (NeGP) 2006

The NeGP was introduced to improve the delivery of government services to citizens and businesses using Information and Communication Technology (ICT). It includes various Mission Mode Projects

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(MMPs) such as Common Services Centres (CSCs), e-District, e-Courts, and e-Procurement systems.

Example: *The e-Procurement MMP allows government tenders to be published and awarded online, increasing transparency, reducing corruption, and enabling fair competition among vendors.*

3. Aadhaar – Unique Identification System

The Aadhaar project provides every resident in India with a unique 12-digit identification number based on biometric and demographic data. It enables efficient, transparent, and targeted delivery of government benefits and services, eliminating duplicate or ghost beneficiaries.

Example: *Direct Benefit Transfer (DBT) using Aadhaar ensures that LPG subsidies, scholarships, and MGNREGA wages reach beneficiaries directly in their bank accounts, eliminating middlemen and corruption.*

4. Digital Services and Government Portals

Several government services are now available online through official portals. Income tax filing, land records, passport applications, utility bill payments, birth/death certificates, and driving licences have all been digitised for citizen convenience.

Example: *The DigiLocker platform allows citizens to store and access official documents like degree certificates, vehicle registration, and PAN cards digitally, eliminating the need for physical copies.*

5. UMANG – Unified Mobile Application for New-age Governance

UMANG offers a single mobile platform for accessing a wide range of government services across central and state governments. It consolidates services from multiple ministries and departments into one user-friendly app.

Example: *Through UMANG, citizens can check their EPF balance, pay electricity bills, access CBSE results, and apply for Aadhaar updates from a single mobile application.*

6. UPI and Digital Payments

The Unified Payments Interface (UPI) was launched by NPCI to facilitate instant, real-time interbank transactions. The government has promoted digital payments and financial technology to facilitate cashless transactions, financial inclusion, and economic transparency.

Example: *India processed over 10 billion UPI transactions per month in 2023, making it one of the world's most successful digital payment systems, significantly reducing cash dependency.*

7. Smart Cities Mission

The Smart Cities Mission aims to use technology and e-governance to enhance quality of life and infrastructure in selected cities. It provides better urban services through integrated command and control centres, smart traffic management, digital citizen services, and data-driven urban planning.

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Example: Pune's Smart City project uses IoT sensors for real-time solid waste monitoring, smart street lighting, and integrated transport management, improving city efficiency and citizen quality of life.

8. Open Government Data – data.gov.in

The Government of India has made thousands of datasets publicly available through the Open Government Data Platform. This initiative promotes transparency, enables research and innovation, and allows citizens and businesses to make data-driven decisions.

Example: Start-up's and researchers use open government datasets on agriculture, health, weather, and transport to build applications and conduct policy research for the public benefit.

6.2 Benefits of E-Governance

Benefit	Description	Example
Accessibility	Services available 24/7 from anywhere	Online passport renewal without visiting office
Efficiency	Faster processing; less paperwork	ITR filing in minutes vs weeks with paper
Transparency	Digital trail reduces corruption	e-Procurement reduces tender manipulation
Inclusivity	Services reach rural and remote populations	CSCs serve over 6 lakh villages in India
Accountability	Government actions recorded and traceable	GST portal tracks all business transactions
Cost Reduction	Lower operational costs for government and citizens	Digital land records save time and travel costs

6.3 Challenges in E-Governance

- **Digital Literacy:** A significant portion of India's rural population lacks the digital literacy to use e-governance services effectively.
- **Infrastructure Gaps:** Inconsistent internet connectivity and electricity supply in remote areas limits e-governance reach.
- **Data Privacy and Security:** Managing sensitive citizen data securely and protecting it from cyber-attacks is an ongoing challenge.
- **Language Barriers:** Most e-governance portals are primarily in English or Hindi, limiting access for speakers of regional languages.
- **Digital Divide:** Socioeconomic disparities mean that not all citizens have equal access to smartphones or computers.

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E-Governance and Corporate Governance: The Connection

E-governance in India directly supports corporate governance by creating digital regulatory frameworks that promote transparency and accountability in the business world. SEBI's online filing systems, MCA21 for company registrations, and the GST network all use e-governance principles to make corporate compliance more transparent, efficient, and tamper-resistant.

7. Questions Section

A. Short Answer Questions (2 Marks)

1. Define Corporate Governance.
2. State any four key elements of Corporate Governance.
3. What is meant by Fiduciary Duty of Directors?
4. What is the role of the Board of Directors in Corporate Governance?
5. What is an Audit Opinion? Name the four types.
6. Distinguish between Shareholders and Stakeholders.
7. What is E-Governance? Give one example.
8. What is the Digital India Campaign? When was it launched?
9. What is Aadhaar and what is its role in e-governance?
10. What is UPI? How does it support e-governance in India?

B. Essay Type Questions (10 Marks)

11. Explain the meaning and key elements of Corporate Governance. Why is it important for businesses and financial markets?
12. Discuss the role and importance of Corporate Governance from the perspective of transparency, investor confidence, and long-term value creation.
13. Explain the roles and responsibilities of Directors in a company. Differentiate between the types of directors.
14. What is the role of Auditors in Corporate Governance? Explain the audit process and types of audit opinions.
15. Discuss the roles of Shareholders and Stakeholders in an organisation. How should companies balance their conflicting interests?
16. What is E-Governance? Explain the key e-governance initiatives in India with examples.
17. Discuss the benefits and challenges of E-Governance in India. How does digital governance support corporate accountability?

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18. Compare Corporate Governance practices in India with global standards. What reforms are needed?

C. Case Study / HOTS Questions

Case Study 1: The Satyam Computers Scandal – Corporate Governance Failure

In January 2009, Ramalinga Raju, the founder and Chairman of Satyam Computer Services, confessed to inflating the company's cash and bank balances by over Rs. 7,000 crores over several years. The board of directors, auditors (PricewaterhouseCoopers), and independent directors all failed to detect or prevent the massive fraud. The company had passed all routine audits and was compliant on paper with governance requirements.

Discussion Questions:

- Which corporate governance mechanisms failed in the Satyam case? Explain with reference to the roles of directors and auditors.
- How could independent directors have prevented this fraud if they had exercised their fiduciary duty properly?
- What improvements to corporate governance and auditing standards did India implement after the Satyam scandal?

Case Study 2: Digital India – E-Governance Success Story

The Jan Dhan-Aadhaar-Mobile (JAM) trinity has been one of India's most successful e-governance initiatives. By linking Aadhaar-based identity, Jan Dhan bank accounts, and mobile numbers, the government was able to directly transfer benefits to over 500 million citizens during the COVID-19 pandemic, preventing leakage and corruption. In 2020 alone, over Rs. 68,820 crores were transferred directly to women Jan Dhan account holders.

Discussion Questions:

- How does the JAM trinity reflect the core principles of e-governance — transparency, efficiency, and inclusivity?
- What are the privacy and data protection concerns raised by the Aadhaar-based identification system?
- How can e-governance principles used in public administration be applied to improve corporate governance in private companies?

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"Good corporate governance is about intellectual honesty and not just sticking to rules and regulations."

— Mervyn King

UNIT – V:

Global Issues in Corporate Governance

"Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation."

1. Global Issues in Corporate Governance

As corporations increasingly operate across national boundaries, corporate governance has become a global concern. Issues that were once confined to individual companies or countries now have international dimensions. Weak governance in one part of the world can trigger financial contagion globally, as seen in the 2008 financial crisis. Addressing these issues requires coordinated international regulatory frameworks, ethical leadership, and robust institutional mechanisms.

Fig 1.1 – Ten Key Global Issues in Corporate Governance across two thematic rows

1.1 Major Global Corporate Governance Issues

1. Board Accountability

Independent boards around the world have repeatedly failed to prevent major corporate scandals. In many cases, boards were either dominated by insiders, lacked the expertise to challenge management, or were simply complicit. Ensuring genuine board independence, diversity, and accountability is a persistent global governance challenge.

Example: *Enron's board in the USA waived its own Code of Ethics to allow off-balance-sheet transactions — a failure of board accountability that contributed to one of history's largest bankruptcies.*

2. Executive Compensation Abuses

Excessive executive pay that is not linked to company performance has attracted global criticism. Golden parachutes, inflated stock options, and bonuses awarded even during poor performance undermine the principle that management should act in shareholders' interests rather than their own.

Example: *In 2008–09, several major banks in the USA and UK paid billions in executive bonuses even while accepting government bailouts — triggering global public outrage and regulatory reform.*

3. Transparency and Disclosure Failures

Inadequate financial reporting hides risks from investors and regulators. Off-balance-sheet financing, complex derivatives, and creative accounting techniques can obscure a company's true financial position, leading to systemic risks in global financial markets.

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Example: *Lehman Brothers' use of 'Repo 105' transactions allowed it to temporarily remove \$50 billion in liabilities from its balance sheet, misleading investors about its financial health before its 2008 collapse.*

4. Shareholder Activism

Institutional investors and activist shareholders globally are demanding greater transparency, better governance, and long-term value creation. This growing movement challenges complacent boards and management teams to act more responsibly towards all stakeholders.

Example: *In 2021, a small activist hedge fund, Engine No. 1, successfully replaced three ExxonMobil board directors to push the company towards a more sustainable energy strategy — a landmark moment in shareholder activism.*

5. Corruption and Bribery

Cross-border corruption remains one of the most significant obstacles to good corporate governance worldwide. Bribery of government officials, kickbacks in procurement, and facilitation payments distort markets, undermine fair competition, and harm citizens in developing nations most severely.

Example: *The Siemens bribery scandal of 2008 involved payments of over \$1.4 billion in bribes to government officials across multiple countries — resulting in fines exceeding \$1.6 billion and sweeping governance reforms.*

6. ESG Reporting and Sustainability

There is growing global pressure from investors, regulators, and civil society for companies to report on Environmental, Social, and Governance (ESG) factors. The lack of standardised ESG reporting frameworks creates inconsistency and makes comparisons difficult across companies and jurisdictions.

Example: *The European Union's Corporate Sustainability Reporting Directive (CSRD) mandates detailed ESG reporting for large companies — a standard that influences multinational companies operating in India as well.*

7. Cyber security Governance

As companies become more digital, cyber security has emerged as a board-level governance responsibility. Many boards lack the technical expertise to oversee cyber risks effectively, creating dangerous governance gaps that can result in massive data breaches, financial losses, and reputational damage.

Example: *The 2017 Equifax data breach exposed the personal data of 147 million people. Investigations found that the company's board had failed to adequately oversee cyber security risks — leading to hundreds of millions in fines.*

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8. Cross-Border Regulatory Compliance

Multinational corporations must navigate varying governance laws across different countries. What is legally permissible in one jurisdiction may be prohibited in another, creating complex compliance challenges and opportunities for regulatory arbitrage — where companies exploit weaker regulations in certain countries.

Example: *Tax avoidance by technology multinationals like Apple and Google using Ireland-based structures highlighted how cross-border regulatory differences can be exploited, prompting the OECD's global minimum corporate tax proposals.*

9. Minority Shareholder Rights

In many emerging markets, including India, controlling shareholders or promoter families hold majority stakes and can make decisions that disadvantage minority shareholders. Protecting minority shareholders from abuse is a critical governance challenge globally.

Example: *In India, the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations 2015 were specifically introduced to strengthen minority shareholder protections in listed companies.*

10. Regulatory Divergence

Inconsistent governance standards across countries make global corporate governance complex. Companies listed in multiple jurisdictions must comply with different rules simultaneously, and global harmonisation of standards remains an ongoing challenge for international regulatory bodies.

Example: *The UK Corporate Governance Code, the US Sarbanes-Oxley Act, and India's SEBI LODR Regulations all have different requirements — creating compliance complexity for companies listed across multiple exchanges.*

2. Nature of Corporate Scams

Corporate scams, also known as corporate frauds or white-collar crimes, involve deceptive and unethical practices within a corporate environment. These scams can take various forms and may target a company's financial assets, stakeholders, or the general public. Corporate fraud results in significant financial losses, reputational damage, legal consequences, and erosion of trust in corporate institutions and financial markets.

Fig 2.1 – Taxonomy of Corporate Scams: 14 types branching from the central Corporate Scams node

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2.1 Types and Nature of Corporate Scams

1. Accounting Fraud

Manipulating financial statements to make a company's financial health appear better than it actually is. Techniques include inflating revenues, understating expenses, hiding liabilities, or manipulating earnings figures to meet analyst expectations or secure loans.

Example: *Satyam Computers (India, 2009): Chairman Ramalinga Raju inflated cash balances by ₹7,136 crores over several years, fabricating bank statements and interest accruals to deceive auditors, investors, and regulators.*

2. Embezzlement

The misappropriation or theft of funds, assets, or property by employees or insiders who have been entrusted with those assets. Embezzlement often involves trusted employees with legitimate access to company funds exploiting that access for personal gain.

Example: *A finance manager at a mid-sized Indian company siphoned off ₹40 crores over five years by creating fictitious vendor invoices and routing payments to personal accounts.*

3. Insider Trading

Illegal trading of a company's securities based on non-public, material information. Insider trading undermines market integrity, creates an uneven playing field for ordinary investors, and violates the fundamental principle of fair markets.

Example: *In 2015, SEBI penalised several individuals connected to Reliance Industries for alleged insider trading related to a subsidiary's delisting — a high-profile case that highlighted the importance of Chinese walls in listed companies.*

4. Ponzi Schemes

A fraudulent investment scheme in which returns to earlier investors are paid using the capital of new investors rather than actual profits. Ponzi schemes inevitably collapse when new investor inflows cannot sustain promised returns.

Example: *The Bernie Madoff Ponzi scheme in the USA defrauded investors of \$65 billion over decades before collapsing in 2008 — the largest Ponzi scheme in history. In India, similar chit fund frauds like the Saradha scam defrauded millions of small investors.*

5. Kickbacks and Bribery

Offering or accepting money, goods, or favours to influence business decisions such as awarding contracts, making favourable regulatory decisions, or gaining market access. Bribery distorts fair competition and undermines public institutions.

Example: *The 2G Spectrum Scam in India (2008) involved allegations of under-pricing spectrum licences in exchange for bribes, causing an estimated loss of ₹1.76 lakh crores to the government exchequer.*

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6. Corporate Espionage

Illegally obtaining and using a company's confidential information or trade secrets for competitive advantage or malicious purposes. This may involve hacking, planting moles, or paying insiders to leak proprietary data.

Example: *In 2023, an Apple employee was charged with stealing autonomous vehicle trade secrets and attempting to share them with a Chinese company — a case that underscored the global threat of corporate espionage in the technology sector.*

7. Market Manipulation

Unlawful activities designed to artificially influence the price of a company's securities for personal gain. Examples include pump-and-dump schemes (artificially inflating a stock price then selling) and spreading false information to move prices.

Example: *SEBI regularly penalises entities for conducting pump-and-dump schemes on penny stocks listed on Indian exchanges, often orchestrated through coordinated social media campaigns and message groups.*

8. Executive Compensation Abuses

Manipulating executive compensation through excessive stock options, bonuses, or golden parachutes that do not align with company performance or shareholder interests. This transfers wealth from shareholders to executives without corresponding value creation.

Example: *In 2002, the WorldCom CEO Bernard Ebbers received hundreds of millions in undisclosed loans from the company — later found to be part of the largest accounting fraud in US history at the time.*

9. Tax Evasion

Deliberate efforts to underreport income, overstate deductions, or engage in other illegal tax practices to reduce a company's tax liability. Tax evasion differs from legal tax avoidance and constitutes a criminal offence in most jurisdictions.

Example: *The Panama Papers (2016) and Pandora Papers (2021) exposed thousands of companies and individuals — including several Indian entities — using offshore shell companies to evade taxes and hide wealth from regulators.*

10. Identity Theft and Data Breaches

Theft or misuse of personal and financial information of customers, employees, or other stakeholders — often through cyber-attacks. Data breaches put individuals at risk of financial fraud and can expose companies to enormous legal liability.

Example: *The 2018 Aadhaar data breach exposed the personal information of over 1.1 billion Indians, raising serious questions about data security in government-managed identity systems.*

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11. Environmental and Regulatory Violations

Falsifying records, avoiding compliance with environmental laws, or engaging in other regulatory non-compliance that causes environmental damage or legal repercussions. Companies may underreport pollution levels or fabricate compliance certifications.

Example: *The Volkswagen Dieselgate scandal (2015) involved the company installing illegal software in millions of diesel vehicles to cheat emission tests — defrauding regulators, customers, and the public across 11 countries.*

12. Shell Companies and Offshore Accounts

Using complex corporate structures and offshore accounts to hide assets, evade taxes, or launder money. Shell companies have no genuine business operations and exist solely to obscure the identity of the true owners of assets or funds.

Example: *The IL&FS crisis in India (2018) involved a complex web of over 300 subsidiary entities, many of which were used to obscure financial transactions and cross-default risks from regulators and investors.*

13. Phantom Employees and Ghost Payrolls

Creating fictitious employees or inflating payrolls to siphon off company funds for personal gain. This form of fraud is common in companies with weak HR controls and limited segregation of duties in payroll processing.

Example: *An investigation into a state government department in India found hundreds of 'ghost employees' on payrolls — non-existent workers whose salaries were diverted to the accounts of corrupt officials.*

14. Consumer Fraud

Deceptive practices aimed at consumers, including false advertising, product misrepresentation, predatory lending, and misleading claims. Consumer fraud harms individual consumers and damages trust in corporate brands and market institutions.

Example: *In 2019, FMCG companies in India were penalised by the Competition Commission of India (CCI) for misleading pricing practices and deceptive trade promotions that disadvantaged consumers.*

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Preventing Corporate Scams: Detection & Prevention Framework

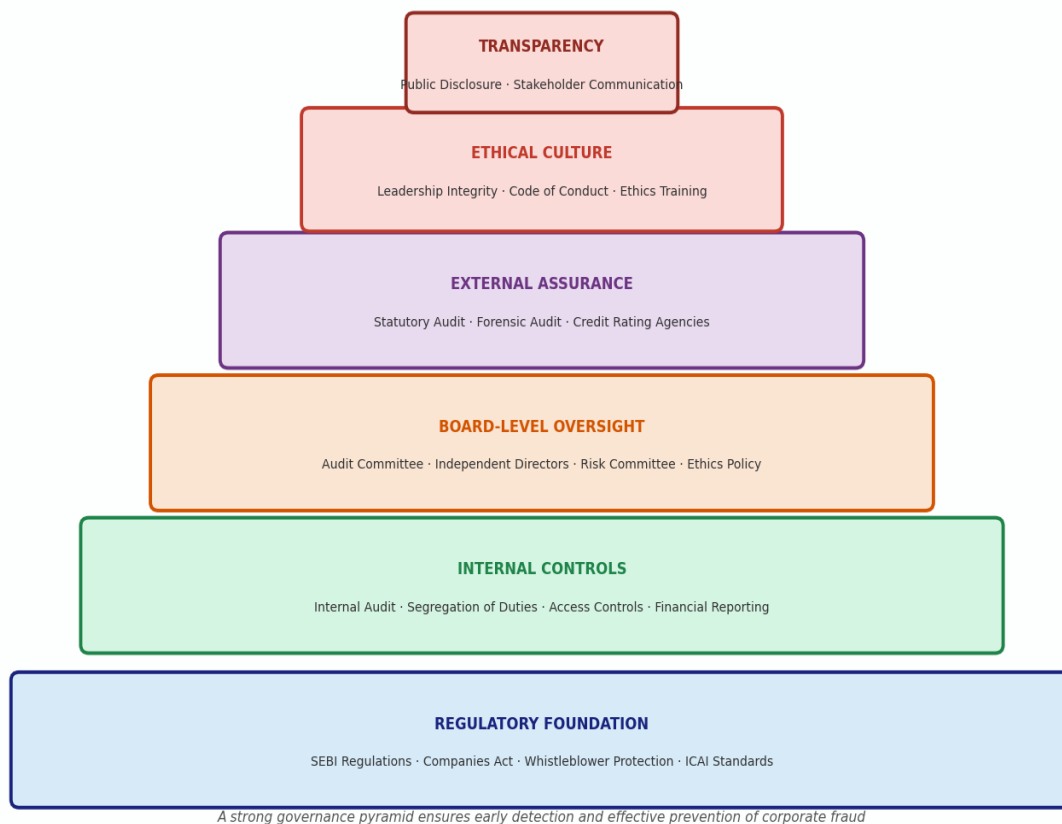


Fig 2.2 – Preventing Corporate Scams: The Six-Layer Governance Pyramid from Foundation to Transparency

2.2 Consequences of Corporate Scams

Dimension	Consequence	Real-World Example
Financial	Massive investor losses; company bankruptcy	Satyam: shareholders lost billions overnight
Reputational	Permanent damage to brand and institutional trust	Arthur Andersen dissolved after Enron audit failure
Legal	Criminal prosecution, fines, imprisonment of executives	Ramalinga Raju sentenced to 7 years rigorous imprisonment
Market	Collapse of investor confidence; market crashes	Harshad Mehta scam triggered Indian stock market crash in 1992
Regulatory	New laws and stricter oversight introduced	Satyam led to revised SEBI governance norms in India
Social	Job losses, pension fund wipe-outs, community harm	Enron collapse left 20,000 employees without jobs or pensions

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3. Committees in India

In India, various committees and commissions have been formed by the government to study, analyse, and make recommendations on specific issues or sectors. These committees play a significant role in shaping policies, making decisions, and addressing challenges across different fields. They consist of experts, bureaucrats, and domain stakeholders whose reports guide legislative and executive action.

Fig 3.1 – Key Committees and Commissions in India across Policy, Finance, and Social Reform domains

3.1 Key Committees and Their Roles

1. Planning Commission

Formed to formulate five-year plans for economic development and social welfare in post-independence India. It coordinated development planning across states and central ministries, allocating resources and setting national development targets. It was replaced by NITI Aayog in 2015.

Example: *India's Green Revolution was partly planned and funded through Five-Year Plan allocations recommended by the Planning Commission.*

2. NITI Aayog (National Institution for Transforming India)

Established in January 2015 to replace the Planning Commission, NITI Aayog is a policy think tank that provides strategic direction on economic and social issues. Unlike the Planning Commission, it does not allocate funds directly but acts as a consultative and advisory body promoting cooperative federalism.

Example: *NITI Aayog's 'India @75' vision document and the National Education Policy 2020 were both shaped through NITI Aayog-led consultations.*

3. Justice Verma Committee

Formed in December 2012 following the Nirbhaya gang rape incident in Delhi, the Justice Verma Committee was tasked with recommending amendments to criminal laws to address sexual violence against women. Its report, submitted in 30 days, recommended sweeping reforms including faster trials, stricter penalties, and better support for survivors.

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Example: *The Criminal Law (Amendment) Act 2013, which introduced new offences like stalking and voyeurism and stiffened penalties for rape, was directly based on Justice Verma Committee recommendations.*

4. Tandon Committee

Formed in the 1970s under P. L. Tandon, this committee examined the structure of India's financial system and proposed the rationalisation of bank lending norms, credit systems, and working capital financing. It also supported the case for bank nationalisation to better direct credit to priority sectors.

Example: *The Tandon Committee's Maximum Permissible Bank Finance (MPBF) norms became the standard framework for commercial lending in India for decades.*

5. Rangarajan Commission

Chaired by Dr. C. Rangarajan, this commission focused on financial sector reforms in the early 1990s, recommending liberalisation of the banking sector, reduction of statutory liquidity ratio requirements, and greater operational autonomy for public sector banks as part of India's economic reforms programme.

Example: *The Rangarajan Commission's recommendations contributed to the opening of private sector banking licences in 1993, leading to the entry of HDFC Bank, ICICI Bank, and Axis Bank.*

6. RBI Committees

The Reserve Bank of India regularly forms specialised committees to review specific areas including banking regulation, monetary policy frameworks, financial sector development, and payment systems. These committees provide expert guidance on complex technical and policy matters.

Example: *The Narasimham Committee (I & II) on financial sector reforms recommended major banking sector restructuring, capital adequacy norms, and the creation of Asset Reconstruction Companies — transforming Indian banking.*

7. Vijay Kelkar Committee

The Vijay Kelkar Committee focused on fiscal consolidation and recommended economic reforms including rationalisation of subsidies, direct benefit transfers, and improvements to India's tax structure. It provided a roadmap for reducing fiscal deficits sustainably.

Example: *The Kelkar Committee's recommendation for a Goods and Services Tax (GST) as a unified national consumption tax was a precursor to the eventual implementation of GST in India in 2017.*

8. Shanta Kumar Committee

Formed to study the restructuring of the Food Corporation of India (FCI) and agricultural reforms, the committee recommended reducing the scale of government food procurement, targeting food subsidies more effectively, and improving warehouse infrastructure to reduce grain wastage.

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Example: *The committee recommended reducing the scope of MSP-based procurement and direct cash transfers to farmers — recommendations that continue to shape debates on agricultural policy.*

9. Committee on Electoral Reforms

Various committees have been formed over the years to recommend improvements in the electoral process, including technology adoption for voting, campaign finance transparency, anti-defection laws, and the regulation of political parties' finances.

Example: *The Election Commission's adoption of Electronic Voting Machines (EVMs) and Voter Verifiable Paper Audit Trails (VVPATs) was backed by electoral reform committee recommendations.*

10. Corporate Governance Committees (SEBI)

SEBI has formed several committees specifically on corporate governance, including the Kumar Mangalam Birla Committee (1999), Narayana Murthy Committee (2003), and Uday Kotak Committee (2017). Each committee has progressively strengthened governance standards for listed companies in India.

Example: *The Uday Kotak Committee's recommendations led to mandatory separation of the Chairman and MD/CEO roles, enhanced independent director requirements, and stricter related-party transaction disclosures under SEBI LODR.*

3.2 Role and Importance of Committees

These committees serve as essential mechanisms of deliberative governance in India. Their importance can be summarised as follows:

- **Expert Analysis:** Committees bring together domain experts, retired officials, and industry practitioners to analyse complex policy challenges that generalist bureaucrats may lack the depth to address alone.
- **Stakeholder Consultation:** Committees often conduct public hearings, solicit written submissions, and engage diverse stakeholders before making recommendations — lending democratic legitimacy to policy proposals.
- **Legislative Input:** Many significant Indian laws and regulatory reforms — from banking legislation to criminal law amendments — trace their origins directly to committee recommendations.
- **Accountability Mechanism:** Committees provide a transparent and documented trail of the reasoning behind major policy decisions, enabling future evaluation and accountability.
- **Crisis Response:** High-profile incidents like Nirbhaya or the Satyam scandal trigger rapid committee formation, allowing the government to respond with evidence-based reform rather than purely reactive legislation.

4. Information Security and Threats

Information security refers to the practice of protecting information and data from unauthorised access, disclosure, alteration, or destruction. It involves a set of strategies, policies, technologies, and procedures designed to safeguard sensitive information from various threats and risks. In today's digital world — where businesses, governments, and individuals generate and depend on vast quantities of data — information security is an essential corporate governance responsibility.

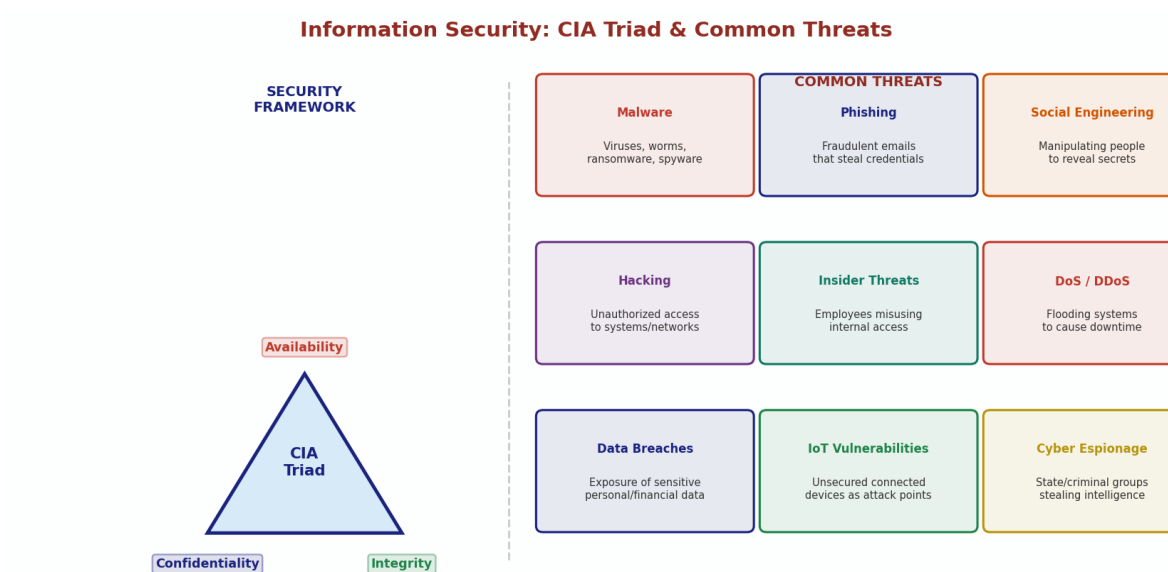


Fig 4.1 – Information Security: The CIA Triad Framework (left) and Nine Common Threat Categories (right)

4.1 The CIA Triad – Core Framework of Information Security

Principle	Meaning	Example of Violation
Confidentiality	Ensuring information is accessible only to authorised individuals	Hacker steals customer credit card database
Integrity	Ensuring information is accurate and has not been tampered with	Attacker modifies financial records or transaction data
Availability	Ensuring information and systems are accessible when needed	DDoS attack shuts down a bank's online services

4.2 Common Information Security Threats

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1. Malware

Malicious software such as viruses, worms, Trojans, ransomware, and spyware can infect computer systems, steal data, encrypt files for ransom, or disrupt entire organisational operations. Ransomware attacks on hospitals and critical infrastructure have become a major global threat.

Example: *The 2017 WannaCry ransomware attack infected over 200,000 computers across 150 countries, crippling the UK's National Health Service and costing billions in damages globally.*

2. Phishing

Phishing attacks involve fraudulent emails, websites, or messages that trick individuals into revealing sensitive information such as passwords, credit card details, or organisational credentials. Spear-phishing targets specific individuals with personalised deceptive messages.

Example: *In 2016, a phishing email to a Clinton campaign official led to the leak of thousands of emails — demonstrating how phishing can have far-reaching consequences beyond financial damage.*

3. Social Engineering

Cybercriminals manipulate individuals or employees psychologically into disclosing confidential information or performing actions that compromise security. Social engineering exploits human trust rather than technical vulnerabilities, making it difficult to defend against through technology alone.

Example: *Attackers posing as IT helpdesk staff convinced employees at major corporations to reset passwords and grant remote access, enabling significant data theft without any technical hacking.*

4. Hacking

Unauthorised individuals attempt to gain access to computer systems or networks to steal, alter, or damage data. Hackers may exploit software vulnerabilities, weak passwords, or misconfigured systems to breach organisational defences.

Example: *The 2021 Colonial Pipeline hack in the USA forced the shutdown of the country's largest fuel pipeline for five days, causing fuel shortages along the US East Coast and demonstrating critical infrastructure vulnerability.*

5. Insider Threats

Current or former employees, contractors, or business partners may misuse their authorised access to data — intentionally or unintentionally causing security breaches. Insider threats are particularly dangerous because they originate from within the organisation's trusted perimeter.

Example: *Edward Snowden's 2013 leak of classified NSA surveillance programmes is the most famous example of an insider threat with enormous global consequences for public policy and corporate data governance.*

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6. Denial of Service (DoS) and DDoS Attacks

Attackers flood a network, system, or service with excessive traffic, making it unavailable to legitimate users. Distributed Denial of Service (DDoS) attacks use thousands of compromised computers to amplify the attack, overwhelming even large organisations.

Example: *In 2022, several Indian government websites including those of the Ministry of Health and airport authorities were targeted by DDoS attacks from hacktivist groups — temporarily disrupting access to public services.*

7. Data Theft and Breaches

Unauthorised access to databases and data repositories leads to the theft or exposure of sensitive information such as personal, financial, or healthcare records. Data breaches can expose millions of individuals to identity theft and financial fraud.

Example: *The 2021 data breach at Air India exposed the personal data of 4.5 million passengers including passport details, credit card information, and travel records stored in a third-party system.*

8. IoT and Connected Device Vulnerabilities

Internet of Things (IoT) devices — including smart cameras, industrial sensors, and medical devices — often have weak security configurations, creating entry points for attackers to penetrate larger organisational networks.

Example: *In 2021, a hacker accessed a water treatment plant in Florida through an unsecured remote access system and briefly changed chemical dosage levels — a chilling example of IoT vulnerability in critical infrastructure.*

9. Cyber Espionage

State-sponsored or criminal groups conduct cyber espionage activities to gain intelligence, steal proprietary information, or disrupt critical infrastructure. This represents a growing corporate governance risk for companies holding valuable intellectual property or operating in strategic sectors.

Example: *Chinese state-sponsored hackers were accused of stealing COVID-19 vaccine research from pharmaceutical companies in multiple countries — representing a major corporate and national security threat.*

10. Weak Passwords and Unpatched Software

Poor password practices and failure to update software and systems leave organisations vulnerable to known exploits. Many major breaches exploit vulnerabilities that had available patches but were not applied due to poor IT governance.

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Example: *The 2017 Equifax breach that exposed 147 million people's data exploited a known vulnerability in the Apache Struts framework for which a patch had been available for two months before the breach.*

4.3 Information Security and Corporate Governance

Information security is no longer merely a technical matter — it is a strategic corporate governance responsibility. Boards of directors must ensure adequate cyber security oversight, budget allocation, risk assessment, and incident response planning. SEBI, RBI, and other Indian regulators have increasingly mandated cyber security frameworks for listed companies and financial institutions.

- **Board Responsibility:** Boards must include cyber security expertise and receive regular reports on the organisation's security posture and key threats.
- **Risk Disclosure:** Listed companies must disclose material cyber security risks and significant breaches to shareholders and regulators under SEBI regulations.
- **Vendor Management:** Third-party vendors who handle company data must also comply with the organisation's information security standards — as most breaches now originate from supply chain vulnerabilities.
- **Regulatory Compliance:** Companies must comply with India's IT Act 2000, IT (Amendment) Act 2008, and the Personal Data Protection framework in managing and securing data.

5. Combating Cybercrime

Combating cybercrime requires a multi-faceted approach involving individuals, organisations, and governments working in coordination. As cybercriminals become more sophisticated and operate across international boundaries, defences must similarly evolve and collaborate. No single measure is sufficient — effective cyber defence requires layered, integrated strategies at every level from individual behaviour to international law enforcement cooperation.

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Combating Cybercrime: Multi-Layered Defence Strategy

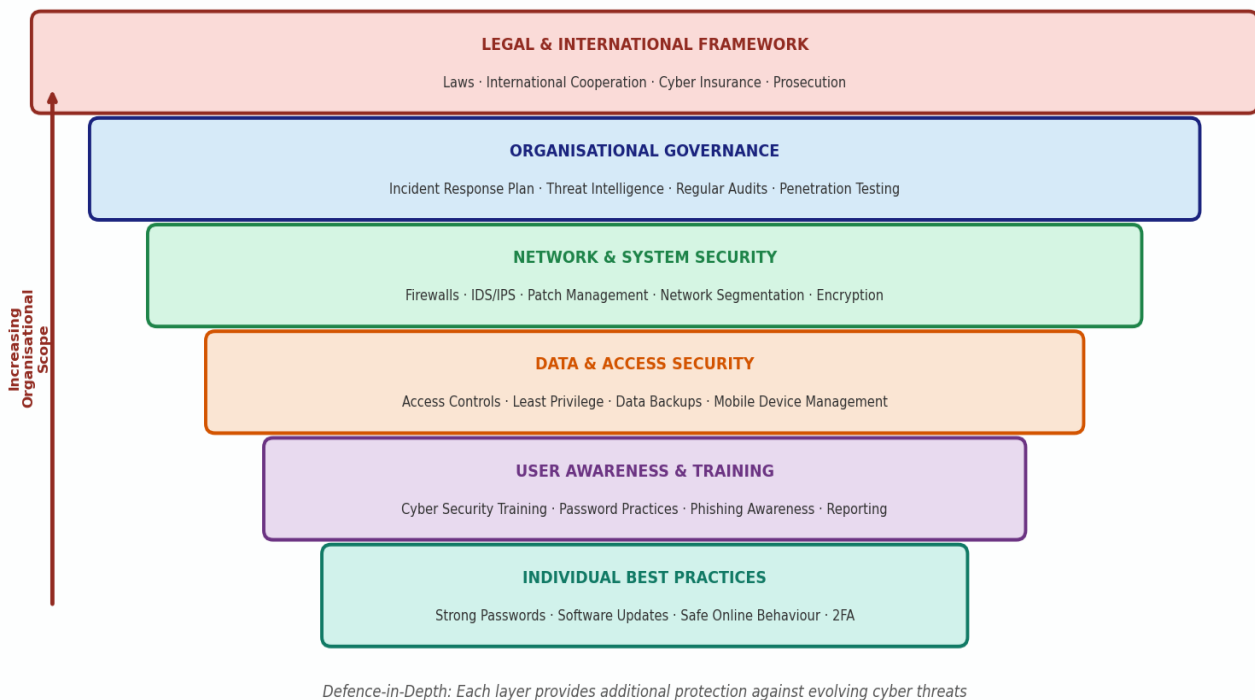


Fig 5.1 – Multi-Layered Cyber Defence Strategy: Six Concentric Layers from Individual Practice to Legal Framework

5.1 Key Strategies for Combating Cybercrime

Layer 1: Education and Awareness

Promoting cyber security awareness and training for individuals and employees is the first line of defence. Most successful cyber-attacks exploit human error rather than purely technical vulnerabilities. Training programmes should cover recognising phishing, social engineering, safe password practices, and incident reporting procedures.

- **Employee Training:** Regular cyber security training sessions covering current threat landscapes and safe digital behaviours.
- **Phishing Simulations:** Conducting simulated phishing exercises to test and improve employee awareness.
- **Cyber Hygiene:** Promoting strong password policies, multi-factor authentication, and regular software updates across all staff.
-

Layer 2: Technical Security Measures

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Implementing robust technical cyber security measures provides the technical backbone of any organisation's cyber defence. These measures must be continuously updated to keep pace with evolving threats.

- **Firewalls and IDS/IPS:** Deploy network firewalls and intrusion detection/prevention systems to monitor and filter malicious traffic.
- **Encryption:** Encrypt sensitive data both in transit (using TLS/SSL) and at rest to prevent unauthorised access to intercepted data.
- **Antivirus and EDR:** Use endpoint detection and response solutions to identify and neutralise malware on organisational devices.
- **Multi-Factor Authentication (MFA):** Require multiple forms of verification for access to sensitive systems — significantly reducing the risk from compromised passwords.

Layer 3: Incident Response Planning

Every organisation must have a documented incident response plan that outlines the exact steps to take when a security breach occurs. A well-tested incident response plan minimises damage, accelerates recovery, and ensures legal and regulatory obligations are met promptly.

- **Response Playbooks:** Detailed step-by-step playbooks for common attack scenarios — ransom ware, data breach, DDoS.
- **Regular Testing:** Conducting table top exercises and live simulations to test the plan's effectiveness and team readiness.
- **Communication Protocols:** Pre-defined protocols for notifying regulators, customers, and the media in the event of a significant breach.

Layer 4: Access Control and Data Protection

Implementing the principle of least privilege — where users have only the minimum access required to perform their job functions — dramatically reduces the potential damage from insider threats and compromised accounts.

- **Least Privilege Access:** Grant users only the permissions they need for their specific roles — review and revoke excess permissions regularly.
- **Data Classification:** Classify data by sensitivity level and apply appropriate access controls and handling procedures accordingly.
- **Data Backups:** Maintain regular, tested, offline backups of critical data to enable recovery from ransom ware or data loss incidents.

Layer 5: Network Security and Patch Management

Keeping all software, operating systems, and firmware up to date with security patches is one of the most effective — and most neglected — cyber security measures. Many major breaches exploit known vulnerabilities for which patches were available but not applied.

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- **Patch Management:** Implement automated patch management systems to ensure timely updates across all devices and software.
- **Network Segmentation:** Divide networks into segments to limit lateral movement by attackers who have breached one area of the network.
- **Penetration Testing:** Conduct regular third-party penetration tests to proactively identify and remediate security weaknesses.

Layer 6: Legal Framework, International Cooperation, and Governance

Cybercrime is a global problem that cannot be solved by any single organisation or country alone. Effective legal frameworks, international cooperation, and corporate governance obligations are essential components of a comprehensive cyber defence strategy.

- **IT Act Compliance:** Ensure compliance with India's IT Act 2000 and IT (Amendment) Act 2008, which define cybercrimes and associated penalties.
- **CERT-In Reporting:** Report significant cyber security incidents to India's Computer Emergency Response Team (CERT-In) as required by regulations.
- **International Cooperation:** Engage with international law enforcement bodies like Interpol and bilateral cybercrime cooperation agreements to pursue cross-border cybercriminals.
- **Cyber Insurance:** Consider cyber insurance to mitigate financial losses from breaches — also incentivises better security practices.

5.2 Cybercrime Prevention: Individual vs. Organisational Responsibilities

Area	Individual Responsibility	Organisational Responsibility
Passwords	Use strong, unique passwords; enable 2FA	Enforce password policies; implement SSO solutions
Software Updates	Keep personal devices updated	Automated enterprise-wide patch management
Data Handling	Do not share sensitive info over insecure channels	Data classification, encryption, and DLP systems
Phishing	Verify sender identity; do not click suspicious links	Email filtering, DMARC, regular phishing simulations
Incident Report	Report suspicious activity to IT immediately	Clear reporting channels; incident response team
Training	Attend cyber security training programmes	Mandatory, regular, updated awareness training

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India's Cybercrime Legal Framework

- **IT Act 2000:** India's primary legislation governing cybercrimes, defining offences including hacking, data theft, publishing obscene material online, and cyber terrorism.
- **IT (Amendment) Act 2008:** Strengthened the IT Act by introducing new offences including identity theft, cyber terrorism, and tightened penalties for existing offences.
- **CERT-In:** India's Computer Emergency Response Team — the national nodal agency for responding to cyber security incidents and issuing security guidelines.
- **PDPB / DPDP Act:** India's Personal Data Protection framework imposing obligations on organisations handling personal data, with significant penalties for data breaches.
- **RBI Cyber security Framework:** RBI mandates all commercial banks and payment system operators to implement a robust cyber security framework and report significant cyber incidents.

6. Questions Section

A. Short Answer Questions (2 Marks)

1. What is a corporate scam? Give two examples.
2. Define accounting fraud and give one example.
3. What is insider trading? Why is it illegal?
4. What is a Ponzi scheme? Give one real-world example.
5. What is NITI Aayog? How does it differ from the Planning Commission?
6. State the purpose of the Justice Verma Committee.
7. What is information security? Define the CIA Triad.
8. What is phishing? How can it be prevented?
9. What is a DDoS attack? Give an example of its impact.
10. What is CERT-In? What is its role in combating cybercrime in India?

B. Essay Type Questions (10 Marks)

11. Explain the nature and types of corporate scams. What are their consequences for stakeholders and financial markets?
12. Discuss the global issues in corporate governance. How do these issues affect multinational corporations?
13. Explain the role and importance of committees in India. Discuss any five committees with their objectives and contributions.
14. What is information security? Explain the CIA Triad and discuss the common threats to information security with examples.

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15. Discuss the multi-layered strategy for combating cybercrime. What are the responsibilities of individuals, organisations, and governments?
16. Explain India's legal framework for cyber security. How do the IT Act and CERT-In help combat cybercrime in India?
17. Write a detailed note on major corporate scams in India. What governance lessons can be learned from them?
18. Discuss the global challenges in combating cybercrime, including cross-border cooperation and the role of international organisations.

C. Case Study / HOTS Questions

Case Study 1: The Harshad Mehta Securities Scam – India's Biggest Market Manipulation

In 1992, stockbroker Harshad Mehta orchestrated a massive securities fraud that manipulated the Bombay Stock Exchange to unprecedented heights before crashing. Mehta exploited loopholes in the banking system — using inter-bank transactions called 'ready forward deals' — to divert funds from banks into the stock market. Over ₹5,000 crores were siphoned from the banking system, creating an artificial stock market bubble. When the scam was exposed by journalist Sucheta Dalal, the market crashed by over 40%, wiping out crores of ordinary investors' savings. Mehta was subsequently charged with 72 criminal offences and 600 civil suits.

Discussion Questions:

- Which types of corporate scam (from Section 2) were involved in the Harshad Mehta case? Explain each.
- What governance failures in the banking system and regulatory oversight enabled this scam to occur?
- What reforms did SEBI introduce after the Harshad Mehta scam to prevent similar market manipulation in India?

Case Study 2: Ransom ware Attack on AIIMS Delhi (2022)

In November 2022, the All India Institute of Medical Sciences (AIIMS) Delhi — India's premier public hospital — suffered a devastating ransom ware attack that crippled its digital systems for nearly two weeks. Patient data of approximately 3–4 crore individuals was potentially compromised. Hospital servers were encrypted by attackers demanding a ransom. Critical services including emergency ward management, laboratory systems, billing, and patient records reverted to manual paper-based processes. CERT-In and the Indian Cyber Crime Coordination Centre (I4C) led the response. The attack was attributed to a foreign state-sponsored group and highlighted critical gaps in India's public sector cyber security infrastructure.

Discussion Questions:

- Which information security threats (from Section 4) were exploited in the AIIMS attack? How could each have been mitigated?

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- Evaluate AIIMS's apparent cyber security posture against the six-layer cyber defence model discussed in Section 5.
- What board-level and policy-level governance changes should Indian public institutions implement to prevent similar attacks in future?

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“Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation.”

— N. R. Narayana Murthy