SREENIVASA INSTITUTE OF TECHNOLOGY
AND MANAGEMENT STUDIES
(AUTONOMOUS) CHITTOOR

Lecture Notes

BUSINESS ETHICS & CORPORATE GOVERNANCE

DIGITAL BUSINESS MODELS & ELECTRONIC COMMERCE

BRANCH/YEAR/SEMESTER: CSE & AI/IV/VII
REGULATION: R23
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1. To make the student understand the principles of business ethics
2. To enable them in knowing about the ethics in management
3. To facilitate the student' role in corporate culture
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<tr><td colspan="2">Course Outcomes</td><td colspan="4">POs</td></tr>
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CO4	Apply the knowledge of professional ethics and technical ethics.	PO6, PO8, PO9, PO10, PO12
CO5	Analyze corporate law, ethics, codes and principles; evaluate corporate governance and corporate scams.	PO6, PO8, PO10, PO12
Text Book		
1. Murthy, C.S.V. — *Business Ethics and Corporate Governance*, Himalaya Publishing House, July 2017. 2. Bholanath Dutta, S.K. Podder — *Corporation Governance*, Vrinda Publications, June 2010		
References books		
1. Dr. K. Nirmala, KarunakaraReaddy — *Business Ethics and Corporate Governance*, Himalaya Publishing House. 2. H.R. Machiraju — *Corporate Governance*, Himalaya Publishing House, 2013. 3. K. Venkataramana — *Corporate Governance*, SHBP. 4. N.M. Khandelwal — *Indian Ethos and Values for Manager*.		
Reference Webiste		
1. https://onlinecourses.nptel.ac.in/noc21_mg46/ 2. https://archive.nptel.ac.in/courses/110/105/110105138/ 3. https://onlinecourses.nptel.ac.in/noc21_mg54/ 4. https://onlinecourses.nptel.ac.in/noc22_mg54/ 5. https://archive.nptel.ac.in/courses/109/106/109106117/		

CO/PO Mapping (Detailed; High:3; Medium:2; Low:1;

CO\PO	PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PO9	PO10	PO11	PO12
CO1	-	-	-	-	-	2	-	3	2	2	-	3
CO2	-	-	-	-	-	2	-	3	2	2	-	3
CO3	-	-	-	-	-	2	-	3	2	2	-	3
CO4	-	-	-	-	-	2	-	3	2	2	-	3
CO5	-	-	-	-	-	2	-	3	-	2	-	3
CO	**-**	**-**	**-**	**-**	**-**	**2**	**-**	**3**	**2**	**2**	**-**	**3**

UNIT – I

INTRODUCTION TO ETHICS

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

Unit Overview

This unit introduces the fundamental concepts of ethics and their significance in personal, professional, and business contexts. It explains the meaning, nature, scope, and importance of ethics, value systems, loyalty, ethical behaviour, business ethics, Corporate Social Responsibility (CSR), issues in management, and crisis management. Students will understand how ethical principles guide responsible decision-making and sustainable organizational success.

Key Terminologies

Term	Meaning
Ethics	Moral principles that govern a person's or group's behaviour and distinguish right from wrong.
Morality	Personal, internalised beliefs about good and bad conduct.
Business Ethics	The application of ethical principles and standards to business policies, institutions, and behaviour.
Integrity	Consistent adherence to moral and ethical principles, even without external supervision.
Value System	The ordered set of principles and standards that a person or organisation uses to judge what is important and worthwhile.

Learning Objectives

After completing this unit, students will be able to:

1. Understand the meaning, nature and scope of ethics.
2. Explain the significance of ethics in business organizations.
3. Describe value systems and ethical behaviour.
4. Identify factors influencing business ethics.
5. Analyze Corporate Social Responsibility and crisis management from an ethical perspective.

Learning Outcome

On completion of this unit, students will be able to attain **CO1: Understand the ethics and different types of ethics.** and, in line with Bloom's Taxonomy, will be able to:

- Define ethics, morality, and value systems, and distinguish between them.
- Explain the nature, scope, and significance of ethics in personal and professional life.
- Identify the factors that influence business ethics and the contradictions managers must resolve.

- Evaluate corporate CSR initiatives and crisis responses using ethical principles.

Importance of Studying this Unit

Ethics forms the foundation of responsible management and sustainable business practices. Understanding ethical principles enables future managers and engineers to make fair decisions, maintain stakeholder trust, reduce organizational risks, and contribute positively to society. This unit develops moral reasoning essential for professional excellence.

Ethics

Ethics is the branch of philosophy that studies the principles of right and wrong human conduct. It examines the values — honesty, fairness, justice, and responsibility — that guide how individuals and organisations ought to behave, particularly when faced with difficult choices.

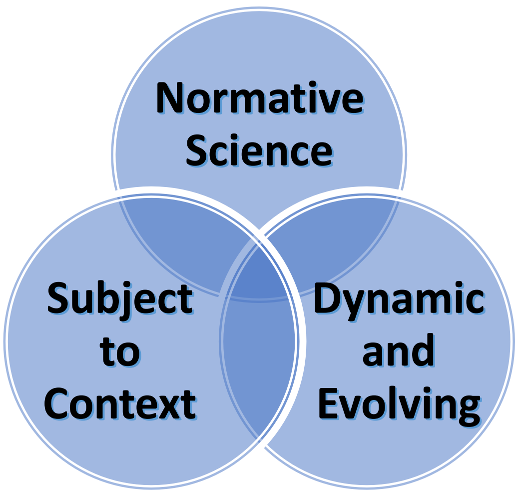
Definition of Ethics

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*

Nature of Ethics

Ethics isn't a fixed, physical science like chemistry—it deals with human behaviour and choices. Its nature is characterized by several key traits:



- **Normative Science:** It doesn't just describe *how* people actually behave; it defines how people *ought* to behave.
- **Dynamic and Evolving:** What is considered ethical can shift over time as societies progress (e.g., historical views on labour laws or data privacy).
- **Subject to Context:** While some principles are near-universal (like honesty), the application of ethics often depends on the situation, culture, and profession.

Scope of Ethics

The scope of ethics is incredibly broad, touching almost every facet of human life. It is generally divided into four main areas:

Area	Focus	Example
Meta-Ethics	The origin and meaning of ethical concepts.	Where do moral values come from? Are they objective or socially constructed?
Normative Ethics	Setting up moral standards or rules to guide conduct.	The Golden Rule: "Treat others as you want to be edited."
Applied Ethics	Applying ethical theories to real-world, specific controversies.	Bioethics, environmental ethics, and AI governance.
Descriptive Ethics	Simply observing and describing what people or cultures believe is right/wrong.	Studying how different cultures view corporate hierarchy.

Why Ethics are 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.

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.*

Loyalty and Ethical Behaviour

The relationship between loyalty and ethical behaviour is one of the most fascinating—and frequently tested—areas of practical ethics.

Loyalty is a strong feeling of support, allegiance, or duty to a person, group, or cause (like an employer, family member, or country).

The Ethical Conflict of Loyalty

Loyalty is generally viewed as a virtue, but it is **conditional**. True ethical behaviour requires that loyalty never blindly supersede moral integrity. When loyalty forces you to cover up wrongdoing, it ceases to be an ethical virtue and becomes complicity.

The Blind Loyalty Trap: Choosing allegiance to an individual or organization over a universal moral principle (like honesty or justice).

Where Loyalty Meets Ethical Behaviour

1. **Whistleblowing:** This is the ultimate intersection. When an employee discovers their company is dumping toxic waste or committing fraud, their *loyalty to the public good* overrides their *loyalty to the employer*.
2. **Constructive Dissent:** Ethical loyalty doesn't mean agreeing with everything a leader or organization does. It means having the courage to point out ethical missteps *because* you care about the long-term integrity of the group.
3. **Professional Codes:** Many fields (law, medicine, engineering) have explicit codes ensuring that a professional's primary loyalty belongs to the safety and rights of the client or public, rather than personal gain or corporate pressure.

Ultimately, ethical behaviour is the foundation upon which healthy loyalty is built. Loyalty without ethics is dangerous; ethics without loyalty can sometimes feel cold—but when aligned, they create deeply principled individuals and cultures.

Value Systems

Meaning

A **value system** is a set of beliefs, principles, and standards that guide an individual's behaviour, decisions, and actions. It helps people distinguish between right and wrong and influences how they interact with others in personal, social, and professional life.

Definition: A value system is an organized collection of values that shapes an individual's attitudes, judgments, and decision-making.

Characteristics

- Guides human behaviour and decision-making.
- Develops through family, education, culture, and society.
- Influences attitudes and relationships.
- Promotes ethical and responsible conduct.
- Remains relatively stable but can evolve with experience.

Sources

- **Family:** Teaches honesty, respect, and responsibility.
- **Education:** Develops discipline, teamwork, and leadership.
- **Society and Culture:** Shapes social norms and traditions.
- **Religion:** Promotes compassion, integrity, and morality.
- **Media and Technology:** Influences attitudes and lifestyles.

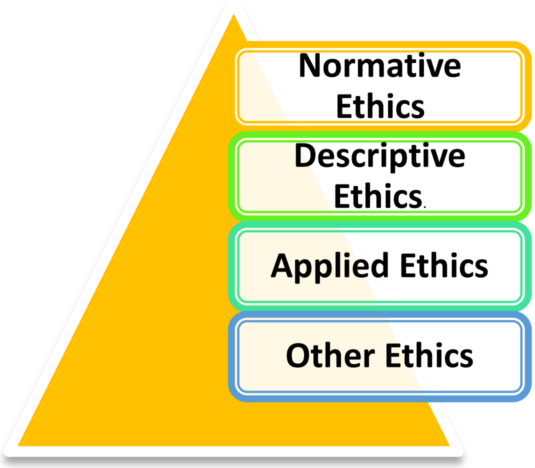
Importance

- Helps in making ethical decisions.
- Builds good character and integrity.
- Strengthens personal and professional relationships.
- Promotes trust, responsibility, and accountability.
- Contributes to organizational success and social harmony.

Example

A student who refuses to cheat in an examination despite having the opportunity demonstrates a strong value system based on **honesty** and **integrity**.

Types of Ethics



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

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.*

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.*

Applied Ethics

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

- **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.

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.*

Business Ethics

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.

Characteristics of Business Ethics

- **Business-oriented:** concerned specifically with commercial decisions and stakeholder relationships.
- **Normative in nature:** prescribes how business ought to be conducted, not merely how it is conducted.
- **Relative yet principled:** practices vary by industry and culture, but core principles such as honesty and fairness remain constant.
- **Based on moral and social values:** draws on the broader ethical and cultural values of the society in which a business operates.
- **Requires voluntary compliance:** business ethics goes beyond what the law strictly requires.

Factors Influencing Business Ethics

- **Organisational culture and leadership:** the tone set by top management strongly shapes everyday ethical conduct.
- **Codes of conduct and policies:** written standards reduce ambiguity about expected behaviour.

- **Legal and regulatory framework:** law sets the minimum ethical floor businesses must meet.
- **Economic pressure and competition:** financial stress can tempt firms to cut ethical corners.
- **Globalisation:** operating across countries means reconciling different cultural and legal expectations.
- **Stakeholder and consumer expectations:** increasingly informed customers and investors reward ethical firms and punish unethical ones.
- **Technology:** raises new ethical questions around data privacy, AI, and automation.

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.

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 / Benifits	Disadvantages / Challenges
Builds trust with customers, investors, and employees.	May reduce short-term profits due to ethical cost constraints.
Enhances brand reputation and market standing.	Can conflict with competitive or market pressures.
Prevents scandals, fraud, and financial losses.	Difficult to enforce uniformly across global operations.
Motivates employees and reduces staff turnover.	May create dilemmas when legal standards differ across countries.

Ethical Practices in Management

Ethical practices in management refer to the application of moral principles and values in managerial decisions and organizational activities. They ensure that managers act with honesty, fairness, integrity, and responsibility while dealing with employees, customers, shareholders, and society.

Key Ethical Practices

- **Integrity:** Being honest and truthful in all business dealings.
- **Fairness:** Treating all employees and stakeholders equally without discrimination.
- **Accountability:** Taking responsibility for decisions and actions.
- **Transparency:** Maintaining openness in communication and decision-making.
- **Respect:** Valuing the rights, dignity, and opinions of others.
- **Confidentiality:** Protecting sensitive organizational information.
- **Compliance:** Following laws, regulations, and company policies.
- **Social Responsibility:** Contributing to society and protecting the environment.

Importance of Ethical Practices

- Builds trust and credibility.
- Improves organizational reputation.
- Enhances employee morale and commitment.
- Increases customer satisfaction and loyalty.
- Reduces legal and ethical risks.
- Promotes sustainable business growth.

Benefits of Ethical Management

- Better decision-making
- Positive work culture
- Strong stakeholder relationships
- Increased employee productivity
- Long-term organizational success

Example

Tata Group is widely recognized for its ethical business practices, emphasizing integrity, transparency, employee welfare, and corporate social responsibility (CSR).

Corporate Social Responsibility (CSR)

Corporate Social Responsibility is the commitment of a business to operate ethically and contribute to economic development while improving the quality of life of employees, customers, local communities, and society as a whole.

Objectives of CSR

- Contribute to social and economic development.
- Protect the environment.
- Improve the quality of life of stakeholders.
- Build a positive corporate image.
- Promote sustainable business practices.

Importance of CSR

- Enhances the organization's reputation.
- Builds customer trust and loyalty.
- Improves employee motivation and retention.
- Strengthens relationships with stakeholders.
- Supports sustainable development.
- Ensures compliance with legal and ethical responsibilities.

Areas of CSR

- **Environmental Responsibility:** Reducing pollution, conserving energy, and promoting sustainability.
- **Employee Welfare:** Providing fair wages, safe working conditions, and employee development.
- **Community Development:** Supporting education, healthcare, sanitation, and rural development.
- **Customer Responsibility:** Offering quality products, fair pricing, and honest advertising.
- **Ethical Business Practices:** Maintaining transparency, fairness, and integrity in business operations.

Benefits of CSR

- ✓ Improves brand image and goodwill.
- ✓ Increases customer satisfaction.
- ✓ Attracts investors and business partners.

- ✓ Enhances employee engagement.
- ✓ Contributes to long-term business success.

Challenges of CSR

- High implementation costs.
- Balancing profit objectives with social responsibilities.
- Measuring the impact of CSR initiatives.
- Lack of awareness and stakeholder participation.

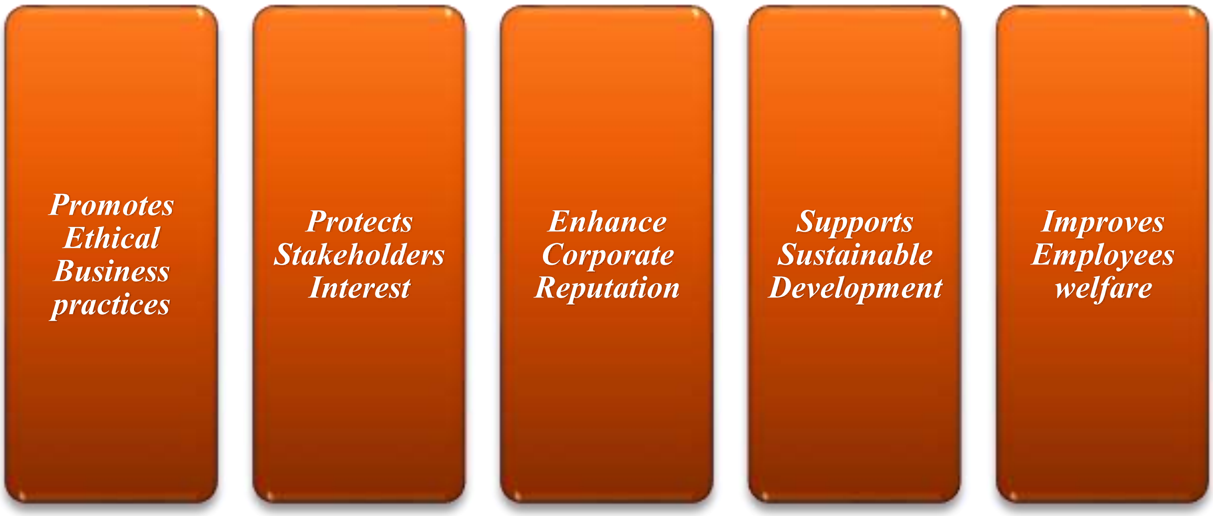
Example

Tata Group supports education, healthcare, environmental conservation, and rural development through various CSR initiatives, demonstrating its commitment to social responsibility.

Role of Corporate Social Responsibility (CSR) in Business Ethics

Corporate Social Responsibility (CSR) plays a significant role in promoting ethical business practices by ensuring that organizations operate responsibly and contribute positively to society. It helps businesses balance profit-making with social and environmental responsibilities.

Roles of CSR in Business Ethics



1. **Promotes Ethical Business Practices**
   - Encourages honesty, integrity, transparency, and fairness in business operations.

2. **Protects Stakeholder Interests**
    - Ensures the well-being of employees, customers, shareholders, suppliers, and the community.
3. **Enhances Corporate Reputation**
    - Builds trust and goodwill among customers, investors, and society through responsible business conduct.
4. **Supports Sustainable Development**
    - Encourages the responsible use of resources and environmental conservation for future generations.
5. **Improves Employee Welfare**
    - Promotes safe working conditions, fair wages, equal opportunities, and employee development.

Issues in Management:

Major Issues of Management

1. Conflict of Interest

Occurs when managers prioritize personal interests over the interests of the organization or stakeholders.

2. Corruption and Bribery

Accepting or offering bribes, fraud, and other unethical practices that violate business ethics.

3. Lack of Transparency

Failure to provide accurate and timely information to stakeholders, leading to mistrust.

4. Unethical Decision-Making

Making decisions that focus only on profits while ignoring ethical values and social responsibilities.

5. Employee Discrimination

Unfair treatment based on gender, caste, religion, race, or other personal characteristics.

6. Misuse of Company Resources

Using organizational funds, assets, or confidential information for personal benefit.

7. Weak Corporate Governance

Poor board oversight, lack of accountability, and ineffective internal controls.

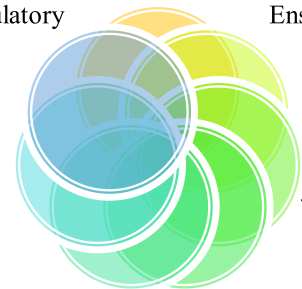
8. Environmental Negligence

Ignoring environmental responsibilities by causing pollution or wasting natural resources.

9. Data Privacy and Confidentiality

Failure to protect customer, employee, and organizational information from misuse or unauthorized access.

Measures to Overcome These Issues



Crisis Management

Crisis Management is the process of identifying, preparing for, responding to, and recovering from unexpected events that may threaten an organization's operations, reputation, employees, or stakeholders.

Objectives of Crisis Management

- Minimize the impact of a crisis.
- Protect employees, customers, and organizational assets.
- Ensure business continuity.
- Maintain the organization's reputation.
- Restore normal operations quickly.

Types of Crises

- **Natural Crises:** Floods, earthquakes, pandemics, etc.
- **Financial Crises:** Bankruptcy, financial losses, economic downturns.
- **Technological Crises:** Cyberattacks, system failures, data breaches.
- **Operational Crises:** Equipment failures, accidents, supply chain disruptions.

- **Reputational Crises:** Negative publicity, unethical practices, product failures.

Steps in Crisis Management

1. **Crisis Identification:** Recognize potential threats.
2. **Preparedness:** Develop crisis management plans and train employees.
3. **Response:** Take immediate action to control the situation.
4. **Communication:** Provide timely and accurate information to stakeholders.
5. **Recovery:** Restore normal operations and evaluate the response.

Importance of Crisis Management

- Reduces financial and operational losses.
- Protects the organization's reputation.
- Ensures employee and customer safety.
- Maintains stakeholder confidence.
- Supports quick recovery and business continuity.

Benefits of Crisis Management

- Faster decision-making during emergencies.
- Better risk management.
- Improved organizational resilience.
- Stronger public trust.
- Reduced legal and financial consequences.

Example

During the **COVID-19 pandemic**, many organizations adopted remote working, digital communication, and health safety measures to ensure business continuity and protect employees.

Questions Section

2 Marks Questions

No.	Question	Bloom's Level
1	Define ethics and morality. How do they differ?	L2 – Understand
2	State the scope of ethics in a management context.	L1 – Remember
3	Define a value system and list any two types of values.	L1 – Remember
4	Define loyalty in an organisational context.	L1 – Remember
5	Define Corporate Social Responsibility (CSR).	L1 – Remember
6	List any four factors influencing business ethics.	L1 – Remember
7	Define crisis management.	L1 – Remember
8	Distinguish between normative ethics and descriptive ethics.	L2 – Understand

10 Marks Questions

No.	Question	Bloom's Level
1	Explain the meaning, nature, and scope of ethics with suitable examples.	L2 – Understand
2	Discuss the different types of ethics and their relevance to business.	L2 – Understand
3	Explain the concept of value systems and their role in ethical decision-making.	L2 – Understand
4	Discuss the characteristics of business ethics and the factors that influence it in organisations.	L2 – Understand
5	Explain the concept of Corporate Social Responsibility (CSR) and examine its advantages and limitations with suitable examples.	L2 – Understand
6	Explain the principles of ethical crisis management with a real-world example.	L2 – Understand

No.	***Question***	***Bloom's Level***
7	*Analyse the contradictions managers face between competing ethical obligations and propose suitable strategies to resolve them.*	*L4 – Analyze*

High Oder Thinking Question

No.	***Question***	***Bloom's Level***
1	*A regional manager discovers that meeting this quarter's sales target requires reporting revenue that has not yet actually been collected. Analyse the manager's ethical options using ethical decision-making principles and recommend the most appropriate course of action.*	*L4 – Analyze*
2	*Design a one-page ethical crisis communication checklist that a mid-sized company could use during a product-safety incident.*	*L6 – Create*
3	*Evaluate the ethical trade-offs faced by an Indian textile company in choosing between a cheaper overseas supplier with a poor labour-safety record and a costlier local supplier with strong compliance. Justify the most ethical course of action.*	*L5 – Evaluate*

Case Study 1: Johnson & Johnson's Tylenol Recall

In 1982, seven people died after consuming Tylenol capsules that had been tampered with after leaving the factory. Johnson & Johnson immediately recalled 31 million bottles nationwide, at a cost exceeding $100 million, and introduced tamper-proof packaging before relaunching the product.

Discussion Questions:

- Which principles of ethical crisis management did Johnson & Johnson demonstrate?
- How does this case illustrate the relationship between loyalty to shareholders and duty to consumers?
- What might have happened to consumer trust had the company delayed disclosure?

Case Study 2: The Satyam Scandal and Crisis of Values

In 2009, Satyam Computer Services' chairman admitted to inflating the company's accounts by over ₹7,000 crores. The scandal is widely attributed to a corporate value system that prioritised growth and image over honesty.

Discussion Questions:

- Which value-system failures contributed to the Satyam scandal?
- How could stronger organisational values have prevented this outcome?
- What crisis management principles were violated in the years before the scandal was exposed?

References

Standard Reference Books

1. Murthy, C.S.V. — *Business Ethics and Corporate Governance*, Himalaya Publishing House, 2017, Ch. 1–2.
2. Velasquez, M.G. — *Business Ethics: Concepts and Cases*, 7th Ed., Pearson Education, 2014, Ch. 1.
3. Dr. K. Nirmala, KarunakaraReaddy — *Business Ethics and Corporate Governance*, Himalaya Publishing House.

Web Resources

1. NPTEL — Business Ethics and Corporate Governance: https://onlinecourses.nptel.ac.in/noc21_mg46/
2. NPTEL Archive — Business Ethics: https://archive.nptel.ac.in/courses/110/105/1101051

UNIT – II
ETHICS IN MANAGEMENT

"The ethics of business are not so different from the ethics of everyday life."

— Warren Buffett

Unit Overview

This unit explains ethical practices across major functional areas of management including production, finance, human resource management, and marketing. It introduces ethical value systems such as Universalism, Utilitarianism, Distributive Justice, Social Contracts, and Individual Freedom of Choice. Students also study professional ethics, technical ethics, and the influence of culture on ethical decision-making.

Key Terminologies

Term	Meaning
Universalism	Ethical principles applicable to everyone.
Utilitarianism	Greatest good for the greatest number.
Distributive Justice	Fair distribution of benefits and burdens.
Social Contract	Mutual obligations between individuals and society.
Professional Ethics	Ethical standards followed within professions.
Technical Ethics	Ethics related to engineering and technology.
Cultural Ethics	Ethical behaviour influenced by culture.
Insider Trading	Illegal trading using confidential information.
Whistle Blower	Person reporting unethical practices.
ESG	Environmental, Social and Governance standards.

Learning Objectives

After completing this unit, students will be able to:

1. Explain ethical issues in functional management.
2. Understand major ethical theories.
3. Analyze cultural influences on ethics.
4. Differentiate professional and technical ethics.
5. Apply ethical frameworks in managerial decision making.

Learning Outcome

On completion of this unit, students will be able to attain **CO3: Understand the role of ethics in management.** and, in line with Bloom's Taxonomy, will be able to:

- Explain how ethical considerations apply within production, finance, HR, and marketing functions.
- Compare major ethical value frameworks — universalism, utilitarianism, distributive justice, social contract theory.
- Analyse how culture shapes both organisational and individual ethical standards.
- Distinguish professional ethics from technical ethics and apply both to workplace scenarios.

Importance of Studying this Unit

Every managerial function involves ethical decisions. Understanding ethical frameworks enables professionals to balance profitability with social responsibility while maintaining legal compliance and public trust.

Ethics in Production

Ethics in production refers to the moral principles followed while producing goods and services. It ensures that products are safe, of good quality, environmentally friendly, and produced without exploiting workers or consumers.

Objectives

- Produce safe and quality products
- Ensure fair treatment of employees
- Protect the enviroment
- Comply with legal and ethical standards

Ethical Practices in production

- Maintaining high product quality
- Using quality raw materials
- Ensuring workplace safety
- Preventing pollution and reducing waste
- Fair wages and humane working conditions
- Honest product labelling

Issues

- Poor Quality Products
- Use of Hazardous materials
- Enivronmental Pollution
- Exploitation of Workers
- Misleading product information
- Unsafe manufacturing practices

Importance

- Builds customer trust
- Enhances Company reputation
- Reduces legal risks
- Promotes sustainable developement

Ethics in Finance

Meaning

Ethics in finance involves honesty, transparency, fairness, and accountability in all financial decisions and transactions.

Objectives

Ensure accurate financial reporting.
Prevent fraud and corruption.
Protect investors' interests.
Maintain public confidence.

Ethical Practices in finance

Accurate accounting records.
Transparent financial statements.
Timely payment of taxes.
Fair investment decisions.
Preventing insider trading.
Responsible use of company funds.
Following auditing standards.

Issues

Financial fraud.
Tax evasion.
Insider trading.
Money laundering.
Manipulation of financial statements.
Bribery and corruption.

Importance

Builds investor confidence.
Improves financial stability.
Ensures legal compliance.
Enhances corporate image.
Supports long-term growth.

Ethics in Human Resource Management (HRM)

Meaning

Ethics in HRM means treating employees fairly, respectfully, and without discrimination throughout their employment.

Objectives	Ensure equal employment opportunities. Maintain fairness in HR policies. Protect employee rights. Create a positive work environment.
Ethical Practices in HRM	Fair recruitment and selection. Equal pay for equal work. No discrimination based on gender, caste, religion, or race. Employee health and safety. Confidential handling of employee information. Fair performance appraisal. Training and career development.
Issues	Workplace discrimination. Sexual harassment. Unfair promotions. Favouritism and nepotism. Violation of employee privacy. Wrongful termination.
Importance	Increases employee satisfaction. Improves productivity. Reduces conflicts. Enhances employee loyalty. Builds a positive organizational culture.

Ethics in Marketing Management

Meaning

Ethics in marketing refers to conducting marketing activities honestly, fairly, and responsibly while protecting consumer interests.

Objectives

- Build customer trust.
- Provide truthful information.
- Protect consumer rights.
- Ensure fair competition.

Ethical Practices in Marketing

- Truthful advertising.
- Fair pricing.
- Honest product labelling.
- Respecting customer privacy.
- High product quality.
- Prompt customer service.
- Avoiding misleading promotions.

Issues

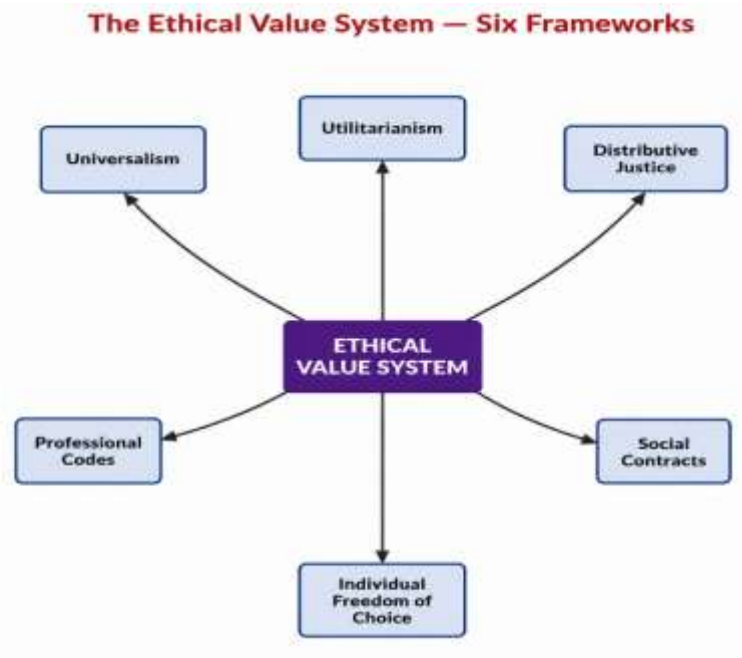
- False advertising.
- Hidden charges.
- Price discrimination.
- Selling harmful products.
- Misleading packaging.

Importance

- Builds long-term customer relationships.
- Increases brand loyalty.
- Improves business reputation.
- Prevents legal penalties.
- Creates sustainable business growth.

The Ethical Value System

Beyond functional ethics, management decisions are often guided by broader philosophical frameworks that help evaluate what is right when interests conflict. Together these are referred to as the ethical value system.



Universalism

Universalism holds that certain moral principles apply to all people, regardless of culture or context. It includes theological universalism (shared spiritual truths), moral universalism (certain acts, such as murder, are wrong everywhere), cultural universalism (common elements across all cultures, such as family and language), and philosophical universalism (universally valid laws of reason and logic).

- **Advantage:** provides a consistent global standard for human rights and ethical business conduct.
- **Limitation:** can be criticised as culturally insensitive or as a form of imposing one culture's standards on another.

Utilitarianism

Developed by Jeremy Bentham and John Stuart Mill, utilitarianism judges an action's morality by its consequences — the right action is the one that produces the greatest happiness (or least harm) for the greatest number of people. **Act utilitarianism** evaluates each action individually; **rule utilitarianism** follows general rules that tend to maximise welfare.

- **Advantage:** offers a practical, outcome-based method for weighing costs and benefits — widely used in public policy and cost-benefit business decisions.

- **Limitation:** difficult to measure happiness precisely, and it can justify sacrificing a minority's rights if it benefits the majority.

Distributive Justice

Distributive justice concerns the fair allocation of resources, benefits, and burdens within a society or organisation.

Theory	Core Idea	Example
Egalitarianism	Resources should be shared equally	Universal basic income proposals
Utilitarian justice	Maximise total welfare, even with some inequality	Tax-funded public programmes
Rawlsian justice ("veil of ignorance")	Inequality is acceptable only if it benefits the least advantaged	Progressive taxation
Libertarianism	Just outcomes result from voluntary exchange, not enforced redistribution	Free-market transactions

Social Contracts

Social contract theory views the relationship between individuals and institutions (the state, or by extension a company) as an implicit agreement: individuals accept certain obligations in exchange for protection and benefits. **Thomas Hobbes** argued that people surrender freedoms to a sovereign for peace and order; **John Locke** argued government must protect natural rights of life, liberty, and property, or lose legitimacy; **Jean-Jacques Rousseau** argued that legitimate authority rests on the "general will" of the people. In business, employment contracts and a company's implicit social license to operate reflect the same logic — an organisation earns its right to operate by honouring obligations to employees and society.

Individual Freedom of Choice

This principle recognises the right of individuals — employees, consumers, and investors — to make decisions according to their own values without coercion, subject to reasonable limits set by law and the rights of others.

Context	Freedom Aspect	Ethical Consideration
Consumer choice	Right to buy or reject a product	Companies must not manipulate or deceive

Context	Freedom Aspect	Ethical Consideration
Employee rights	Right to work, or to refuse unethical tasks	Whistle-blower protection is essential
Investment choice	Right to choose ethical portfolios	Enables ESG and socially responsible investing

Professional Codes

Professional codes are formal sets of ethical standards adopted by a profession or industry body to guide the conduct of its members — for example, codes issued by medical councils, bar associations, and engineering institutions. Core principles common to most professional codes include honesty, confidentiality, integrity, competence, and accountability. Violating a professional code can lead to censure, loss of licence, or legal action.

Culture and Ethics

Ethics is not a universal, fixed code — it is deeply shaped by the culture, traditions, religion, and social norms of the society in which it develops. What is considered "right" or "wrong" in one culture may be viewed differently in another. As businesses operate globally, understanding this cultural dimension of ethics becomes essential for managers, especially in multinational and cross-border operations.

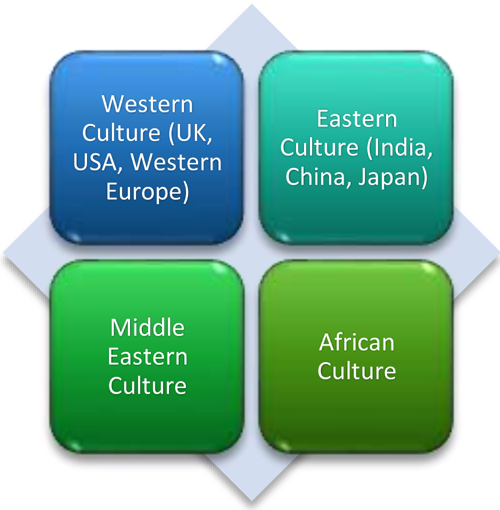
Culture can be defined as the shared values, beliefs, customs, and behaviours that characterize a group or society and are passed from one generation to the next.

Ethics, in this context, refers to the moral principles that guide what is considered acceptable or unacceptable conduct within that cultural framework.

Relationship Between Culture and Ethics

Aspect	Explanation
Source of values	Culture provides the foundation from which ethical standards emerge (religion, family, tradition, law)
Behavioural norms	Culture dictates acceptable behaviour in business dealings — gift-giving, negotiation styles, hierarchy
Moral reasoning	Different cultures emphasize different ethical reasoning — duty-based (deontological) vs. outcome-based (consequentialist) approaches
Enforcement	Ethical norms in some cultures are enforced through law; in others through social/community pressure

Ethical Values in Different Cultures



a) Western Cultures (USA, UK, Western Europe)

- Emphasis on individual rights, freedom, and personal responsibility
- Strong reliance on formal laws, contracts, and regulatory frameworks
- Ethical decision-making often rooted in rule-based/rights-based thinking
- Transparency and shareholder accountability are highly valued in business ethics

b) Eastern Cultures (India, China, Japan)

- Emphasis on collectivism, community welfare, and relationships (guanxi in China, "relationship-based trust" in India)
- Respect for hierarchy, elders, and authority strongly influences ethical conduct
- Business ethics often intertwined with family and social obligations

- In India, ethics is influenced by concepts like *Dharma* (duty) and *Karma* (consequences of action)

c) Middle Eastern Cultures

- Ethics closely tied to religious principles (Islamic business ethics — fairness, honesty, prohibition of exploitation/Riba or interest)
- Strong emphasis on trust, word-of-honour agreements, and hospitality in business dealings

d) African Cultures

- Ethics often rooted in communal philosophy (e.g., *Ubuntu* — "I am because we are")
- Business decisions weigh community impact heavily, not just individual/organizational gain

Key Insight: These variations show that a business practice considered "ethical" in one culture (e.g., gift-giving to build relationships) may be viewed as "unethical" or even illegal (bribery) in another. This is why multinational companies need **cross-cultural ethical sensitivity**.

Culture and Individual Ethics

Individual ethics — a person's personal moral compass — is significantly shaped by the culture they are raised and socialized in. This happens through several channels:

a) Family and Upbringing

- Moral values are first learned at home; family instils a sense of right and wrong based on cultural and religious teachings

b) Religion

- Most cultures' ethical frameworks are historically rooted in religious teachings (e.g., honesty, non-violence, charity), which shape individual conscience even in secular contexts

c) Education and Socialization

- Schools, peer groups, and community institutions reinforce cultural ethical norms, shaping how individuals judge fairness, loyalty, and responsibility

d) Language and Symbols

- Cultural language and symbols carry embedded moral meaning (e.g., concepts like "saving face" in East Asian cultures shape ethical behaviour around honesty and confrontation)

e) Legal and Political Systems

- The degree to which a society is rule-based versus relationship-based affects how individuals internalize ethical obligations (formal compliance vs. informal trust-based ethics)

Professional Ethics

Definition: Professional ethics refers to the set of moral principles and standards of conduct that govern the behaviour of individuals within a particular profession, ensuring integrity, competence, and accountability in their work.

Core Principles of Professional Ethics

Principle	Explanation
Integrity	Being honest and consistent in professional dealings, even under pressure
Competence	Maintaining the skill and knowledge required to perform duties responsibly
Confidentiality	Protecting sensitive client, employer, or organizational information
Objectivity	Making decisions free from bias, conflict of interest, or undue influence
Accountability	Taking responsibility for one's professional actions and their consequences
Respect for others	Treating colleagues, clients, and the public fairly and with dignity
Compliance with law	Adhering to legal and regulatory standards relevant to the profession

Importance of Professional Ethics

1. Builds trust between professionals and clients/employers/society
2. Protects public interest, especially in professions like medicine, law, engineering, and finance
3. Enhances the reputation and credibility of the profession as a whole
4. Reduces conflicts of interest and unethical practices (e.g., fraud, negligence)
5. Provides a framework for resolving ethical dilemmas in ambiguous situations

Professional Codes of Conduct
Most professions establish formal codes of ethics through professional bodies, such as:

- **ICAI (Institute of Chartered Accountants of India)** – for accountants
- **Bar Council of India** – for lawyers
- **Medical Council of India (now NMC)** – for doctors
- **Institution of Engineers (India)** – for engineers

These codes typically outline expected conduct, disciplinary mechanisms, and consequences for violations.

Technical Ethics (Engineering Ethics)

Definition: Technical ethics refers to the system of moral principles that apply to the practice of engineering and technology development, guiding professionals in making decisions that affect safety, welfare, and the environment.

Why Technical Ethics is Distinct
Unlike general professional ethics, technical ethics deals with situations where:

- Decisions have direct **safety implications** (structural failures, software bugs, product defects)
- Professionals hold **specialized technical knowledge** that the public cannot independently verify
- The impact of unethical decisions can be **large-scale and irreversible** (e.g., environmental damage, mass casualties, data breaches)

Core Principles of Technical Ethics

Principle	Explanation
Public safety first	Engineers/technologists must prioritize the safety, health, and welfare of the public above all else
Honesty in reporting	Accurately reporting test results, risks, and limitations of a product/system

Competence boundaries	Only undertaking work within one's area of technical expertise
Whistleblowing duty	Reporting unsafe practices or defective products, even against organizational pressure
Environmental responsibility	Considering ecological impact of technical decisions and designs
Data and privacy ethics	Responsible handling of user data, especially in IT/software systems
Avoiding conflicts of interest	Not allowing personal/financial gain to compromise technical judgment

Common Ethical Dilemmas in Technical Fields

1. **Safety vs. Cost** – Should a company delay a product launch to fix a safety flaw, risking financial loss?
2. **Confidentiality vs. Public Interest** – Should an engineer disclose a defect that the employer wants kept confidential?
3. **Whistleblowing** – Should an employee report unsafe practices, risking their job?
4. **Intellectual Property** – Using proprietary knowledge from a previous employer in a new role
5. **AI and Automation Ethics** – Responsible development of AI systems to avoid bias, job displacement, and misuse.

Question Section

2 Marks Questions

S.No.	***Question***	***Bloom's Level***
1	*List any two ethical issues each in production and marketing management.*	*Remember (L1)*
2	*Define insider trading and explain why it is illegal.*	*Understand (L2)*
3	*Define Utilitarianism and identify its two types.*	*Remember (L1)*
4	*Define Distributive Justice and name any two theories.*	*Remember (L1)*
5	*Identify the three key social contract philosophers.*	*Remember (L1)*
6	*Define a professional code of ethics.*	*Remember (L1)*
7	*Differentiate between professional ethics and technical ethics.*	*Understand (L2)*
8	*Define cultural relativism.*	*Remember (L1)*

10 Marks Questions

S.No.	***Question***	***Bloom's Level***
1	*Discuss the ethical issues that arise in the functional areas of production, finance, HR, and marketing management.*	*Understand (L2)*
2	*Explain Universalism and Utilitarianism as ethical value frameworks, highlighting their advantages and limitations.*	*Understand (L2)*
3	*Explain the major theories of Distributive Justice with suitable examples of their application.*	*Understand (L2)*
4	*Discuss Social Contract Theory and examine its relevance to modern corporate governance and employment relationships.*	*Analyze (L4)*
5	*Explain the concept of Individual Freedom of Choice in business ethics and examine its limitations.*	*Analyze (L4)*
6	*Analyze how culture influences both organizational and individual ethics with suitable examples.*	*Analyze (L4)*
7	*Compare professional ethics and technical ethics with examples from engineering or IT practice.*	*Analyze (L4)*

High Order Thinking Questions

S.No.	***Question***	***Bloom's Level***
1	*A finance manager is asked to delay recognising a known loss until after a loan renewal is approved. Analyze this situation using utilitarian and distributive justice reasoning.*	*Analyze (L4)*
2	*Design a technical ethics checklist that an IT team could use before releasing a new consumer data-collection feature.*	*Create (L6)*
3	*Compare how a Western multinational and a culturally traditional local partner might resolve a disagreement over acceptable gift-giving practices during a business negotiation.*	*Analyze (L4)*

Case Study 1: The Trolley Problem — Utilitarianism in Practice

A runaway trolley is heading toward five workers on a track. Pulling a lever diverts it to a side track where only one worker stands. A strict utilitarian calculation favours pulling the lever to save five lives at the cost of one.

Discussion Questions:

- How would act utilitarianism and rule utilitarianism approach this dilemma differently?
- What would a Rawlsian justice perspective say about actively sacrificing one person for the benefit of others?
- Does the principle of individual freedom of choice have any bearing on this dilemma?

Case Study 2: Data Scientist and Algorithmic Bias

A data science team discovers that a hiring-recommendation algorithm developed by their company systematically disadvantages candidates from certain demographic groups, though this was not intentional. Fixing the issue will delay the product's launch by three months.

Discussion Questions:

- How does the principle of technical ethics apply to this situation?
- What professional-ethics obligations does the data science team have toward the company versus the public?
- Using a distributive-justice lens, evaluate the fairness implications of delaying the launch versus shipping the biased algorithm.

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Standard Reference Books

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3. N.M. Khandelwal — *Indian Ethos and Values for Manager*.

Web Resources

1. NPTEL — Business Ethics and Corporate Governance: https://onlinecourses.nptel.ac.in/noc22_mg54/
2. IEEE Code of Ethics: https://www.ieee.org/about/corporate/governance/p7-8.html

UNIT – III
CORPORATE CULTURE

"Culture eats strategy for breakfast."

— Peter Drucker

Unit Overview

This unit focuses on corporate culture and its influence on organizational performance. It explains the meaning, characteristics, significance, key elements, shared values, beliefs, norms, rituals, symbols, organizational language, types of corporate culture, leadership styles, transformational leadership, and strategies for managing corporate culture change.

Key Terminologies

Term	Meaning
Corporate Culture	Shared values and beliefs guiding employee behaviour.
Organizational Values	Core principles of an organization.
Beliefs	Accepted organizational assumptions.
Norms	Expected standards of behaviour.
Rituals	Regular organizational activities and ceremonies.
Symbols	Logos, dress code and visual representations.
Hierarchical Culture	Structured organization with formal authority.
Market Culture	Performance and competition-oriented culture.
Leadership	Ability to influence organizational members.
Transformational Leadership	Leadership inspiring innovation and positive change.

Learning Objectives

After studying this unit, students will be able to:

1. Understand corporate culture and its importance.
2. Explain the elements of organizational culture.
3. Differentiate various types of corporate culture.
4. Analyze leadership styles influencing culture.
5. Explain strategies for managing culture change.

Expected Outcome

On completion of this unit, students will be able to attain **CO2: Understand business ethics and ethical practices in management (extended to organisational culture).** and, in line with Bloom's Taxonomy, will be able to:

- Define corporate culture and explain its nature and significance.
- Identify and describe the key elements of corporate culture — values, beliefs, norms, rituals, symbols, and language.
- Distinguish hierarchical and market-driven cultures, and other culture types, with their strengths and weaknesses.
- Explain how leadership style, particularly transformational leadership, shapes and changes organisational culture.

Importance of Studying this Unit

Corporate culture determines employee behaviour, innovation, teamwork, productivity, and organizational success. Understanding culture helps future managers build ethical, collaborative, and high-performing organizations capable of adapting to changing business environments.

Corporate culture refers to the shared values, beliefs, attitudes, and practices that shape the behaviour of employees within an organization. It defines **"how things are done"** in a company and influences employee behaviour, decision-making, communication, and overall organizational performance.

A strong corporate culture promotes ethical behaviour, teamwork, innovation, and customer satisfaction, while a weak culture may lead to conflicts, low morale, and unethical practice

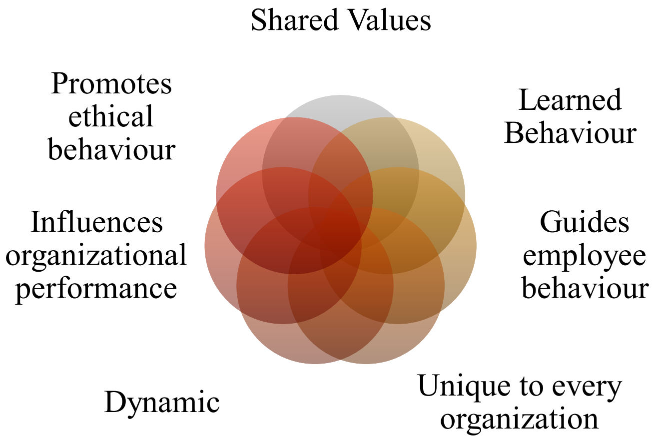
Meaning of Corporate Culture

Corporate culture is the system of shared values, beliefs, norms, and behaviours that guides the actions of employees and management in an organization. It creates the organization's identity and influences its work environment.

Definition of Corporate Culture

"Corporate culture is a pattern of shared basic assumptions learned by a group as it solves its problems of external adaptation and internal integration." - **Edgar H. Schein**

Nature (Characteristics) of Corporate Culture



1. **Shared Values**

Employees follow common beliefs and organizational values.

2. **Learned Behaviour**

New employees learn the culture through training and experience.

3. **Guides Employee Behaviour**

Influences decision-making and workplace conduct.

4. **Unique to Every Organization**

Every organization has its own culture.

5. **Dynamic**

Culture changes over time according to business needs and environmental changes.

6. **Influences Organizational Performance**

A positive culture improves productivity and employee satisfaction.

7. **Promotes Ethical Behaviour**

Encourages honesty, integrity, accountability, and teamwork.

8. **Provides Organizational Identity**

Distinguishes one organization from another.

Significance (Importance) of Corporate Culture

1. Improves Employee Performance

Employees work more effectively in a positive work environment.

2. Promotes Ethical Behaviour

Encourages honesty, integrity, fairness, and accountability.

3. Enhances Employee Motivation

Employees feel valued and motivated to achieve organizational goals.

4. Builds Teamwork

Creates cooperation and coordination among employees.

5. Improves Customer Satisfaction

Employees provide better service, increasing customer trust and loyalty.

6. Supports Organizational Growth

A strong culture contributes to long-term success and competitiveness.

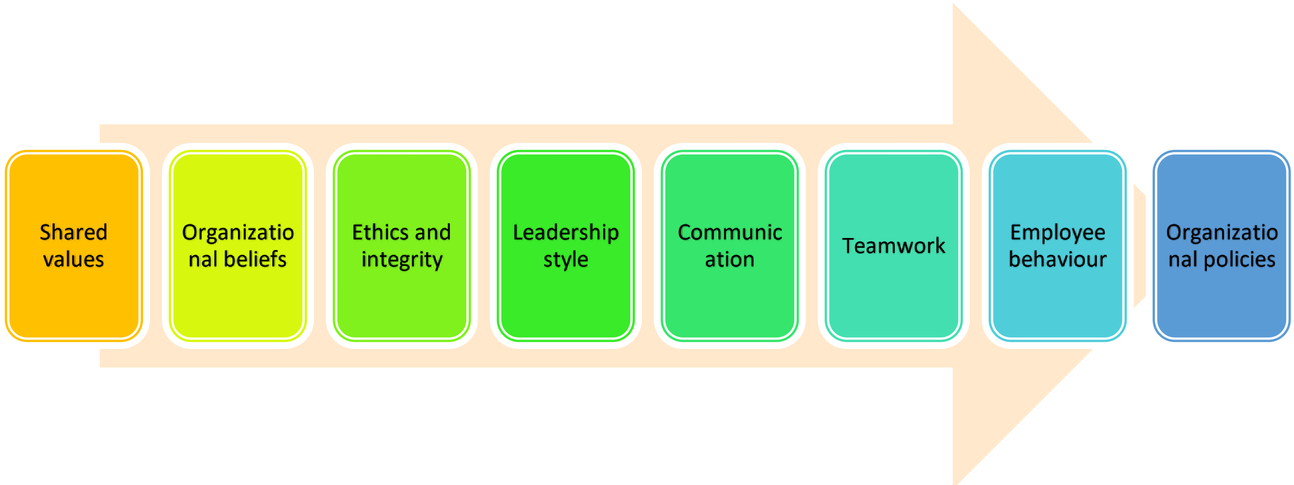
7. Reduces Workplace Conflicts

Clear values and expectations minimize misunderstandings.

8. Attracts and Retains Talent

A healthy work culture helps recruit and retain skilled employees.

Elements of Corporate Culture



Benefits of a Strong Corporate Culture

- Higher employee satisfaction
- Better productivity
- Ethical decision-making
- Improved organizational reputation
- Increased customer loyalty
- Greater innovation
- Reduced employee turnover
- Sustainable business growth

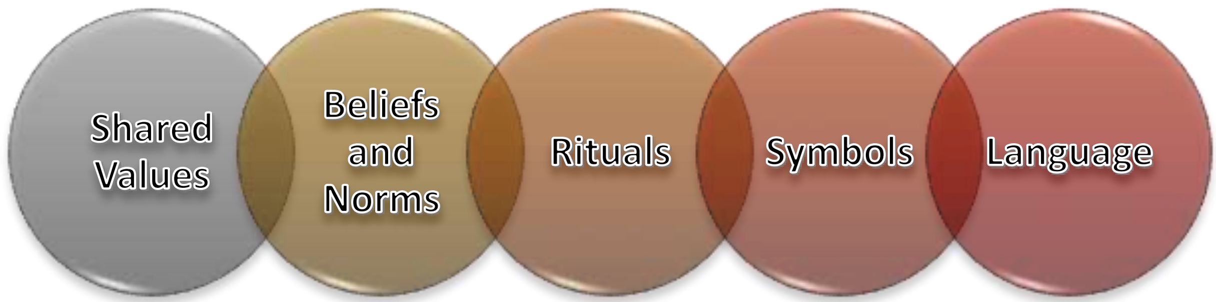
Difference between Strong and Weak Corporate Culture

Strong Corporate Culture	Weak Corporate Culture
Clear values and goals	Unclear values and goals
High employee commitment	Low employee commitment
Ethical behaviour	Unethical practices are more common
Better teamwork	Poor coordination
High productivity	Low productivity
Strong organizational reputation	Weak organizational image

Key Elements of Corporate Culture

The key elements of corporate culture are the fundamental components that shape the behaviour, attitudes, and work practices of employees. These elements help create a unique identity for an organization and influence how employees interact with one another and with stakeholders.

The major elements of corporate culture are:



1. Shared Values

Meaning

Shared values are the common principles and ideals accepted by all members of an organization. They guide employee behaviour and decision-making.

Examples

- Honesty
- Integrity
- Teamwork
- Customer satisfaction
- Innovation
- Respect
- Quality

Importance

- Creates unity among employees.
- Guides ethical decision-making.
- Builds trust and commitment.
- Supports organizational goals.

2. Beliefs and Norms

Meaning

Beliefs are the ideas that employees consider to be true, while norms are the accepted rules and standards of behaviour within an organization.

Beliefs

Beliefs influence how employees think and make decisions.

Examples:

- Customers should always be treated with respect.
- Quality is everyone's responsibility.
- Employees should work as a team.

Norms

Norms are informal rules that guide acceptable workplace behaviour.

Examples:

- Being punctual.
- Respecting colleagues.
- Following workplace discipline.
- Maintaining professional communication.

Importance

- Promotes discipline.
- Encourages ethical behaviour.
- Reduces workplace conflicts.
- Creates a positive work environment.

3. Rituals

Meaning

Rituals are regular activities, ceremonies, or traditions that reinforce an organization's values and culture.

Examples

- Employee award ceremonies.
- Annual day celebrations.
- Team meetings.
- Welcome programs for new employees.
- Celebrating organizational achievements.

Importance

- Strengthens organizational identity.
- Increases employee motivation.
- Builds teamwork.
- Improves employee engagement.

4. Symbols

Meaning

Symbols are visual representations that express an organization's identity and values.

Examples

- Company logo.
- Uniforms.
- Office design.
- Brand colours.
- Mission statement displayed in the workplace.

Importance

- Creates a strong organizational identity.
- Builds brand recognition.
- Develops employee pride.
- Enhances company image.

5. Language

Meaning

Language refers to the words, phrases, communication style, slogans, and terminology commonly used within an organization.

Examples

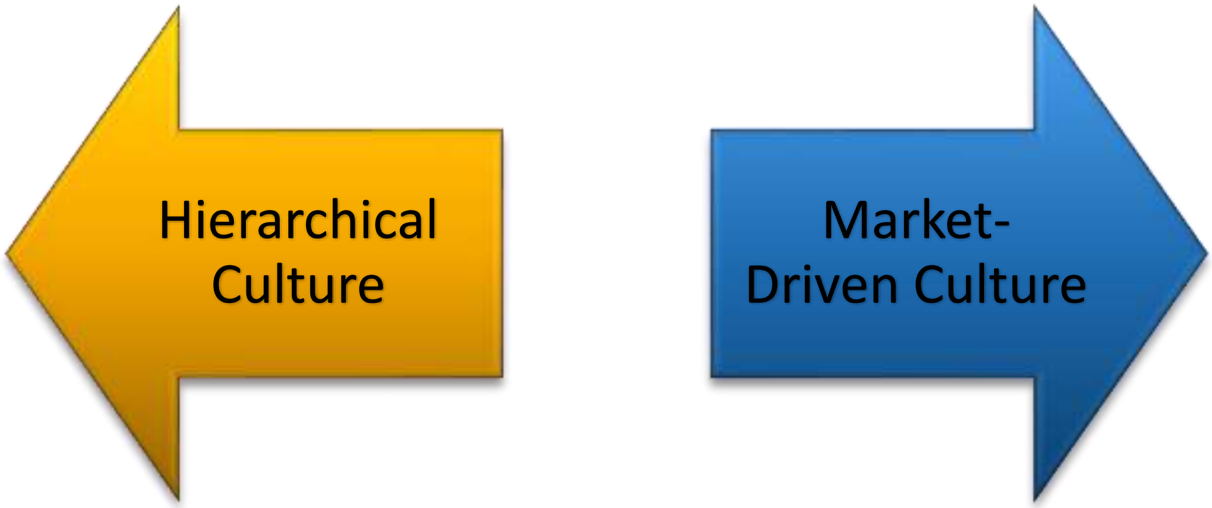
- Company slogans.
- Technical terms.
- Mission and vision statements.
- Professional communication style.
- Organizational abbreviations.

Importance

- Improves communication.
- Strengthens organizational culture.
- Promotes teamwork.
- Helps employees understand company values.

Types of Corporate Culture

Two important types of corporate culture are:



1. Hierarchical Culture

Meaning

Hierarchical culture is an organizational culture that emphasizes **formal structure, clear authority, rules, procedures, and discipline**. Employees follow a defined chain of command, and decisions are usually made by top management.

Characteristics

- Clear organizational hierarchy.
- Well-defined roles and responsibilities.
- Strict rules and procedures.
- Centralized decision-making.
- Focus on discipline and control.
- Stability and consistency in operations.

Advantages	**Disadvantages**
Clear reporting relationships.	Slow decision-making.
Better coordination and discipline.	Limited employee creativity.
Consistent decision-making.	Less flexibility.
Efficient management of large organizations.	Communication may be slow.
Reduces confusion about responsibilities.	Employees may feel less empowered.

Examples

- Government organizations.
- Banks.
- Military organizations.
- Public sector enterprises.
- Large manufacturing companies.

2. Market-Driven Culture

Meaning

Market-driven culture is an organizational culture that focuses on **achieving business goals, customer satisfaction, competition, and profitability**. Employees are encouraged to achieve high performance and meet market demands.

Characteristics

- Customer-oriented approach.
- Focus on results and performance.
- Competitive work environment.
- Innovation and continuous improvement.
- Goal-oriented decision-making.
- Accountability for performance.

Advantages	**Disadvantages**
Improves customer satisfaction.	High work pressure.
Increases profitability.	Intense competition among employees.
Encourages innovation.	Work-life balance may be affected.
Enhances employee performance.	Greater stress due to performance targets.

Examples

- Sales organizations.
- Retail companies.
- E-commerce companies.
- Marketing firms.
- Private sector businesses.

Difference Between Hierarchical Culture and Market-Driven Culture

Basis	**Hierarchical Culture**	**Market-Driven Culture**
Focus	Rules, structure, and stability	Customers, competition, and results
Decision-Making	Centralized (Top Management)	Performance and market-oriented
Work Environment	Formal and disciplined	Competitive and dynamic
Flexibility	Low	High
Employee Role	Follow procedures	Achieve targets and innovate
Main Objective	Efficiency and control	Customer satisfaction and profitability

Organizational Leadership and Corporate Culture

Leadership and corporate culture are closely connected. Leaders create, shape, and maintain the organization's culture through their behaviour, decisions, and communication. At the same time, the existing corporate culture influences how leaders manage employees and make decisions.

In simple terms:

- **Leadership creates and influences corporate culture.**
- **Corporate culture influences leadership behaviour and decision-making.**

How Leadership Influences Corporate Culture

1. Establishes Vision and Values

Leaders define the organization's mission, vision, and core values, which become the foundation of corporate culture.

2. Promotes Ethical Behaviour

Leaders set an example by acting honestly, fairly, and with integrity, encouraging employees to follow ethical standards.

3. Builds Employee Motivation

Good leaders motivate employees through recognition, encouragement, and support, creating a positive work culture.

4. Encourages Teamwork

Leaders promote cooperation, trust, and collaboration among employees.

5. Shapes Organizational Behaviour

Employees often imitate the attitudes and actions of their leaders, making leadership a key factor in shaping workplace behaviour.

6. Manages Change

Leaders help employees adapt to organizational changes while maintaining a healthy corporate culture.

How Corporate Culture Influences Leadership

- Guides leaders in making ethical decisions.
- Influences leadership style and communication.

- Creates expectations for employee behaviour.
- Helps leaders build trust and cooperation.
- Supports consistent decision-making throughout the organization.

Importance of the Relationship

- Creates a positive work environment.
- Improves employee performance and productivity.
- Promotes ethical decision-making.
- Strengthens teamwork and communication.
- Builds employee trust and commitment.
- Enhances customer satisfaction.
- Improves organizational reputation.
- Supports long-term organizational success.

Characteristics of Effective Leadership for a Strong Corporate Culture

- Integrity and honesty.
- Accountability.
- Respect for employees.
- Fairness in decision-making.
- Effective communication.
- Visionary thinking.
- Ability to motivate others.
- Commitment to ethical values.

Examples

- A leader who promotes **honesty and transparency** creates a culture of trust.
- A leader who **recognizes employee achievements** builds a culture of motivation and teamwork.
- A leader who **encourages innovation** develops a culture of creativity and continuous improvement.

Major Leadership Styles and Their Cultural Impact

Autocratic (Authoritarian) Leadership

- **Characteristics:** Centralized decision-making, leader retains full control, limited employee input
- **Cultural Impact:**
  - Creates a compliance-driven culture where employees follow orders rather than exercise judgment
  - Can suppress open communication and discourage employees from raising ethical concerns
  - Useful in crisis situations requiring quick decisions, but harmful long-term for innovation and trust
- **Risk:** Fear-based culture where mistakes are hidden rather than reported

Democratic (Participative) Leadership

- **Characteristics:** Leader involves employees in decision-making, values input and consensus
- **Cultural Impact:**
  - Builds a culture of collaboration, ownership, and mutual respect
  - Encourages open dialogue, making it easier to surface ethical issues early

    - Increases employee commitment to organizational values because they help shape them
- **Risk:** Slower decision-making; can create ambiguity if consensus isn't reached

Transformational Leadership

- **Characteristics:** Leader inspires through vision, purpose, and personal example; focuses on long-term growth of people and organization
- **Cultural Impact:**
    - Strongly cultivates a values-driven, purpose-oriented culture
    - Employees internalize organizational values rather than just complying with rules
    - Promotes innovation, adaptability, and high ethical engagement
- **Risk:** Can create dependency on a charismatic leader; culture may weaken if leadership changes

Transactional Leadership

- **Characteristics:** Leadership based on clear structure, rewards, and penalties tied to performance
- **Cultural Impact:**
    - Builds a results-oriented, structured culture with clear expectations
    - Ethical behaviour only reinforced if reward systems are properly aligned with ethical outcomes (otherwise incentivizes "results at any cost")
    - Works well for routine, process-driven environments
- **Risk:** Can create a transactional, short-term mindset rather than genuine value commitment

Laissez-Faire (Delegative) Leadership

- **Characteristics:** Leader provides minimal direction, gives employees high autonomy
- **Cultural Impact:**
    - Can foster a culture of innovation and independence among highly skilled, self-motivated teams
    - Without proper accountability structures, may lead to inconsistent ethical standards across teams
- **Risk:** Lack of oversight can allow unethical practices to go unnoticed

Servant Leadership

- **Characteristics:** Leader prioritizes the needs, growth, and well-being of employees and stakeholders above their own
- **Cultural Impact:**
    - Builds a highly trust-based, people-first culture
    - Strongly reduces unethical pressure on employees, since leaders model empathy and support
    - Enhances employee loyalty, psychological safety, and long-term ethical commitment
- **Risk:** May be perceived as less authoritative in highly competitive or crisis-driven industries

Authentic Leadership

- **Characteristics:** Leader demonstrates self-awareness, transparency, and consistency between stated values and actual behaviour
- **Cultural Impact:**
    - Builds credibility and trust, as employees see alignment between what leaders say and do
    - Reduces cynicism and "ethics fatigue" that occurs when leaders preach values they don't practice
- **Risk:** Requires high emotional intelligence; inconsistent execution can backfire

Charismatic Leadership

- **Characteristics:** Leader relies on personal charm, confidence, and persuasive communication to influence followers
- **Cultural Impact:**
    - Can rapidly energize and unify culture around a shared vision
    - Ethical outcome heavily depends on the leader's personal values — charisma can be used for ethical inspiration or manipulative control
- **Risk:** Culture can become overly leader-dependent; risk of cult-like conformity if unchecked

Transformational Leadership and Culture Change

Transformational leadership — a concept developed by James MacGregor Burns and Bernard Bass — describes leaders who inspire followers through a compelling vision, intellectual stimulation, individualised support, and personal example, rather than through transactional reward-and-punishment alone. Transformational leaders are often the driving force behind deliberate culture change.

Steps in Managing Culture Change

1. **Diagnose the current culture:** through surveys, interviews, and observation of artefacts, values, and assumptions.
2. **Define the desired culture:** aligned with the organisation's strategy and ethical commitments.
3. **Secure visible leadership commitment:** leaders must model the new behaviours consistently.
4. **Align systems and incentives:** performance appraisal, recruitment, and reward systems must reinforce the new culture rather than the old one.
5. **Communicate consistently:** through rituals, stories, and symbols that reinforce the new narrative.
6. **Reinforce and sustain:** culture change takes years, not months, and requires ongoing reinforcement to avoid reverting to old norms.

Example: When Satya Nadella became CEO of Microsoft in 2014, he led a widely documented shift from a competitive, siloed "know-it-all" culture to a collaborative "learn-it-all" growth-mindset culture, credited with revitalising the company's innovation and market performance.

Advantages and Limitations of Strong Corporate Culture

Advantages	Limitations / Risks
Provides clear behavioural guidance without excessive rules	A strong but wrong culture (e.g. excessive risk-taking) can be very hard to change
Builds employee commitment and reduces turnover	Can create resistance to necessary strategic change
Improves coordination and decision speed	May suppress dissent and whistleblowing if conformity is overvalued
Enhances external reputation and brand trust	Cultural fit hiring can inadvertently reduce diversity of thought

Questions Section

2 Marks Questions

S.No.	*Question*	*Bloom's Level*
1	*Define corporate culture.*	*Remember (L1)*
2	*State any two elements of corporate culture.*	*Remember (L1)*
3	*What are cultural artefacts? Give any two examples.*	*Understand (L2)*
4	*Define hierarchical culture.*	*Remember (L1)*
5	*What is a market-driven culture?*	*Remember (L1)*
6	*Name any two leadership styles and state their impact on organisational culture.*	*Understand (L2)*
7	*Define transformational leadership.*	*Remember (L1)*
8	*List the layers of culture according to Edgar Schein.*	*Remember (L1)*

10 Marks Questions

S.No.	*Question*	*Bloom's Level*
1	*Explain the meaning, nature, and significance of corporate culture with suitable examples.*	*Understand (L2)*
2	*Discuss the key elements of corporate culture—shared values, beliefs, norms, rituals, symbols, and language.*	*Understand (L2)*
3	*Compare hierarchical culture and market-driven culture, highlighting their strengths and weaknesses.*	*Analyze (L4)*
4	*Explain the Competing Values Framework and analyze its four culture types.*	*Analyze (L4)*
5	*Analyze how different leadership styles influence organisational culture.*	*Analyze (L4)*
6	*Discuss transformational leadership and evaluate its role in managing corporate culture change.*	*Evaluate (L5)*
7	*Explain the steps involved in successfully managing a corporate culture-change initiative.*	*Understand (L2)*

Higher Order Thinking Questions

S.No.	*Question*	*Bloom's Level*
1	*Design a set of three rituals that a newly merged company (formed from a hierarchical bank and an agile fintech start-up) could introduce to build a shared culture.*	*Create (L6)*
2	*Analyze how a market-driven culture, if left completely unchecked, could create conditions for an ethical scandal similar to Enron's.*	*Analyze (L4)*
3	*Propose a culture-diagnosis method (survey questions or an observation checklist) that a manager could use to detect a mismatch between a company's espoused values and its underlying assumptions.*	*Create (L6)*

Case Study 1: Microsoft's Culture Transformation under Satya Nadella

When Satya Nadella took over as CEO of Microsoft in 2014, the company was widely seen as having a rigid, internally competitive "know-it-all" culture. Nadella championed a shift toward a collaborative "growth mindset" culture, emphasising empathy, learning, and cross-team cooperation, which is credited with reviving Microsoft's innovation and market value.

Discussion Questions:

- What type of leadership did Nadella exhibit, and how does it relate to the culture-change steps discussed in this unit?
- Which elements of the old culture (artefacts, values, assumptions) likely needed to change, and how?
- How might resistance to this culture change have manifested, and how could it be managed?

Case Study 2: Hierarchical Culture in a Public-Sector Bank

A public-sector bank in India has a strongly hierarchical culture, with decisions requiring multiple layers of sign-off. This ensures compliance and consistency but has made the bank slow to launch new digital products compared to private-sector fintech competitors.

Discussion Questions:

- What are the advantages the bank retains from its hierarchical culture?
- What risks does this culture pose to the bank's competitiveness?
- What leadership approach could help the bank build more agility without abandoning necessary controls?

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3. Murthy, C.S.V. — *Business Ethics and Corporate Governance*, Himalaya Publishing House, 2017, Ch. 5.

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UNIT – IV
LEGAL FRAMEWORK

"Law is order, and good law is good order."

— Aristotle

Unit Overview

This unit introduces the legal framework supporting ethical business practices. It covers the relationship between law and ethics, agencies enforcing ethical business behaviour, environmental protection laws, fair trade practices, legal compliance, customer safety, corporate law, securities regulations, and corporate governance principles.

Key Terminologies

Term	Meaning
Legal Compliance	Adherence to applicable laws and regulations.
Corporate Law	Laws governing business organizations.
SEBI	Securities and Exchange Board of India.
MCA	Ministry of Corporate Affairs.
RBI	Reserve Bank of India.
CCPA	Central Consumer Protection Authority.
Competition Commission	Regulates fair competition.
ASCI	Advertising Standards Council of India.
Environmental Protection	Laws protecting natural resources.
Fair Trade Practices	Ethical and lawful business practices.

Learning Objectives

After completing this unit, students will be able to:

1. Understand the relationship between law and ethics.
2. Explain agencies enforcing ethical business behaviour.
3. Describe legal compliance requirements.
4. Understand environmental and consumer protection laws.
5. Analyze corporate governance principles under Indian law.

Learning Outcome

On completion of this unit, students will be able to attain **CO4: Apply the knowledge of professional ethics and technical ethics (extended to legal compliance).** and, in line with Bloom's Taxonomy, will be able to:

- Distinguish between legal and ethical obligations, and explain why compliance is a minimum, not a ceiling, for ethical conduct.

- Identify the regulatory agencies that enforce ethical business behaviour in India.
- Explain the legal framework for environmental protection, fair trade, and consumer safety.
- Describe key provisions of corporate law and securities regulation relevant to governance.

Importance of Studying this Unit

Legal compliance protects organizations from penalties while promoting ethical conduct and stakeholder confidence. Understanding the legal framework helps future managers operate responsibly within national and international regulations.

Law & Ethics

What is Law?

Law is a system of rules and regulations created and enforced by the government to maintain order, protect rights, and ensure justice in society. Every citizen is legally required to follow these rules, and violating them can result in penalties such as fines, imprisonment, or other legal action.

Definitions:

- **John Austin:** "Law is the command of the sovereign backed by sanctions."
- **Salmond:** "Law is the body of principles recognized and applied by the state in the administration of justice."

Features of Law

- Created by the government or legislature.
- Legally binding on all citizens.
- Enforced by courts and legal authorities.
- Violation leads to legal punishment.
- Aims to maintain peace, justice, and social order.

Example:

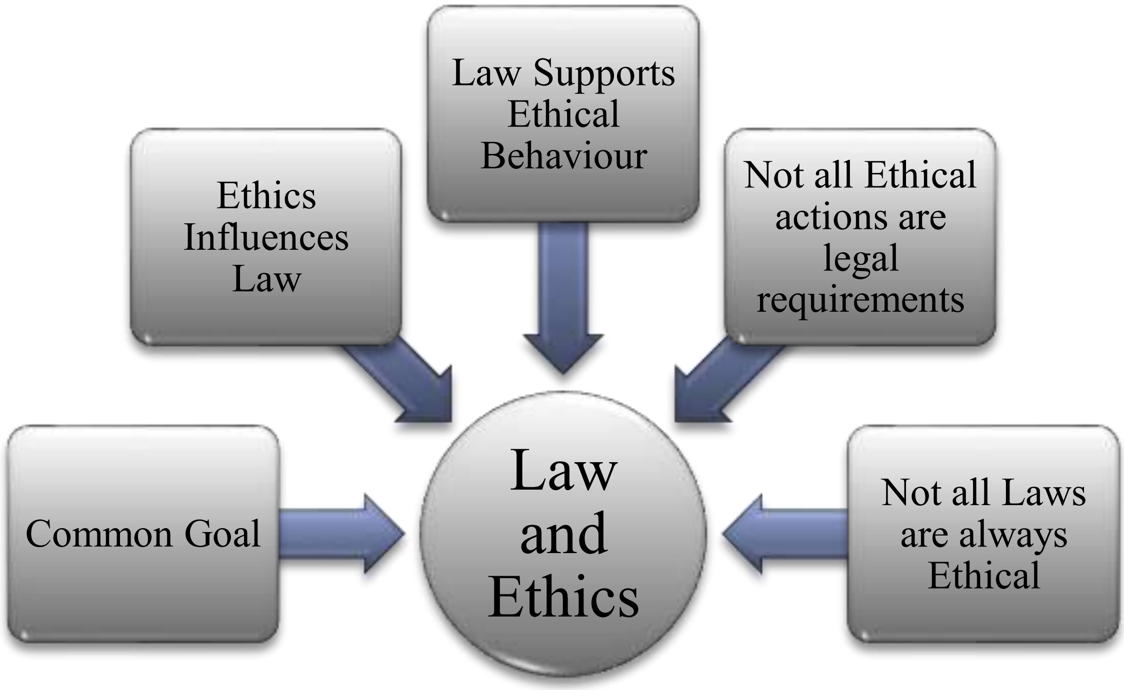
- Paying taxes is a legal obligation.

- Driving without a valid license is punishable by law.

Relationship between Law and Ethics

Ethics refers to moral principles that guide what is right and wrong, while **law** consists of legally enforceable rules established by the government. Both help regulate human behaviour, but they are not the same.

Relationship



1. **Common Goal**
    - Both aim to promote justice, fairness, and social welfare.
2. **Ethics Influences Law**
    - Many laws are based on ethical values.
    - Example: Laws against theft, murder, and fraud are based on moral beliefs.
3. **Law Supports Ethical Behaviour**
    - Laws encourage people and organizations to behave responsibly.
    - Example: Environmental protection laws promote ethical treatment of nature.
4. **Not All Ethical Actions Are Legal Requirements**
    - Helping a poor person is ethical but not legally required.
5. **Not All Laws Are Always Ethical**
    - Some laws in history were legally valid but considered unethical.
    - Example: Apartheid laws in South Africa.

Agencies enforcing ethical business behaviour

These agencies are government authorities, regulatory bodies, and professional organizations that ensure businesses operate legally, fairly, transparently, and ethically. They protect the interests of consumers, employees, investors, and society.

Objectives

- Ensure compliance with laws and regulations.
- Protect consumers and investors.
- Prevent fraud, corruption, and unfair trade practices.
- Promote transparency and accountability.
- Encourage ethical corporate governance.

Major Agencies Enforcing Ethical Business Behaviour (India)

1. Ministry of Corporate Affairs (MCA)

- Regulates companies under the **Companies Act, 2013**.
- Promotes good corporate governance.
- Monitors company compliance and disclosures.
- Takes action against companies violating legal provisions.

Role: Ensures transparency, accountability, and ethical management.

2. Securities and Exchange Board of India (SEBI)

- Regulates the securities and stock market.

- Protects the interests of investors.
- Prevents insider trading and market manipulation.
- Ensures listed companies follow corporate governance norms.

Role: Promotes fairness and transparency in financial markets.

3. Competition Commission of India (CCI)

- Prevents anti-competitive practices.
- Prohibits abuse of dominant market position.
- Regulates mergers and acquisitions to ensure fair competition.

Role: Encourages fair business competition.

4. Consumer Protection Authority (CCPA)

- Protects consumer rights under the **Consumer Protection Act, 2019**.
- Takes action against misleading advertisements and unfair trade practices.
- Orders recall of unsafe products when necessary.

Role: Safeguards consumer interests.

5. Central Vigilance Commission (CVC)

- Prevents corruption in government organizations and public sector enterprises.
- Advises government departments on vigilance matters.
- Promotes integrity and accountability.

Role: Encourages ethical conduct in public administration.

6. Reserve Bank of India (RBI)

- Regulates banks and financial institutions.
- Ensures fair banking practices.
- Protects customer interests and financial stability.

Role: Promotes ethical financial management.

7. National Company Law Tribunal (NCLT)

- Resolves disputes related to companies.
- Handles insolvency and bankruptcy cases.
- Protects shareholders' and creditors' rights.

Role: Ensures justice in corporate matters.

8. Professional Bodies

Examples:

- Institute of Chartered Accountants of India (ICAI)
- Institute of Company Secretaries of India (ICSI)
- Institute of Cost Accountants of India (ICMAI)

Role:

- Develop codes of professional ethics.
- Monitor members' conduct.
- Take disciplinary action for unethical practices.

Legal Impact on Business Conduct

Environmental Protection

Environmental law obliges businesses to control pollution, manage waste responsibly, and conserve natural resources. Key Indian statutes include the Environment (Protection) Act 1986, the Water (Prevention and Control of Pollution) Act 1974, and the Air (Prevention and Control of Pollution) Act 1981. Non-compliance can result in closure orders, fines, and criminal liability for company officers.

> ***Example:*** *The 1984 Bhopal Gas Tragedy led directly to the enactment of the Environment (Protection) Act 1986, one of India's most comprehensive environmental statutes, and to the principle of "absolute liability" for hazardous industries established by the Supreme Court in later rulings.*

Fair Trade Practices

Fair trade practice law prohibits deceptive advertising, false representation of goods, unfair restrictive trade practices, and abuse of dominant market position. In India, this is chiefly governed by the Competition Act 2002 (replacing the earlier MRTP Act) and the Consumer Protection Act 2019.

- Prohibits misleading advertisements and false claims about product quality or origin.
- Prohibits cartels and price-fixing agreements between competitors.
- Prohibits abuse of a dominant position to unfairly exclude competitors.
- Requires clear, non-deceptive terms in consumer contracts.

Legal Compliances

Beyond sector-specific rules, every company must meet a baseline of statutory compliance obligations, including timely filing of financial statements and annual returns with the Registrar of Companies, statutory audits, tax filings (GST and income tax), labour law compliance (provident fund, ESI, minimum wages), and sector-specific licences.

Safeguarding Health and Wellbeing of Customers

Consumer protection law makes health and safety a legal, not merely ethical, obligation. The Consumer Protection Act 2019 introduced product liability provisions, allowing consumers to claim compensation for harm caused by defective products, and established the Central Consumer Protection Authority (CCPA) with powers to order recalls and penalise misleading claims.

> ***Example:*** *The Consumer Protection Act 2019's product liability chapter allows a consumer harmed by a defective product to sue the manufacturer, service provider, and seller directly for compensation.*

Corporate Law

Corporate law is the body of legal rules that governs the formation, operation, management, and dissolution of companies, defining the rights and responsibilities of shareholders, directors, and other stakeholders.

Key Legislation Governing Corporate Law in India

Law	**Purpose**
Companies Act, 2013	Primary legislation governing incorporation, management, board composition, CSR, mergers, and winding up of companies in India
Companies Act, 1956 (historical)	Predecessor legislation, largely replaced by the 2013 Act
Limited Liability Partnership (LLP) Act, 2008	Governs LLP structures as an alternative to traditional companies
Insolvency and Bankruptcy Code (IBC), 2016	Provides a time-bound process for resolving corporate insolvency and bankruptcy

Key Provisions of the Companies Act, 2013 Relevant to Governance

Provision	**Governance Relevance**
Section 149	Mandates minimum number of directors, including independent directors for certain companies
Section 135	Mandates Corporate Social Responsibility (CSR) spending for eligible companies
Section 177	Requires formation of Audit Committee for certain classes of companies

Section 178	Requires Nomination and Remuneration Committee
Section 166	Defines duties of directors (good faith, avoiding conflict of interest, due diligence)
Section 143	Governs statutory auditor duties, including fraud reporting

Role of Corporate Law in Governance

1. Establishes the **legal personality** of a company, separate from its owners
2. Defines **fiduciary duties** of directors toward the company and shareholders
3. Provides mechanisms for **shareholder rights protection** (voting, dividends, information access)
4. Sets rules for **related-party transactions**, disclosures, and conflict-of-interest management
5. Provides legal recourse for **minority shareholder protection** against oppression/mismanagement

Securities and Financial Regulations

Securities and financial regulations govern the issuance, trading, and disclosure requirements of financial instruments (shares, bonds, derivatives) in capital markets, aiming to protect investors and maintain fair, transparent, and efficient markets.

Key Regulatory Bodies and Frameworks in India

Regulator/Framework	Role
SEBI (Securities and Exchange Board of India)	Primary regulator of securities markets; protects investor interests, regulates stock exchanges, listed companies, and intermediaries
RBI (Reserve Bank of India)	Regulates banking and monetary policy, indirectly affecting corporate financial governance
SEBI (LODR) Regulations, 2015	*Listing Obligations and Disclosure Requirements* — mandates continuous disclosure norms for listed companies
Insider Trading Regulations (SEBI PIT, 2015)	Prohibits trading based on unpublished price-sensitive information
SEBI Takeover Code, 2011	Regulates acquisition of shares and takeovers of listed companies

Key Objectives of Securities Regulation

1. **Investor protection** – ensuring fair treatment and access to accurate information for all investors
2. **Market integrity** – preventing fraud, manipulation, and insider trading
3. **Transparency** – mandating timely and accurate disclosure of financial and material information
4. **Fair capital allocation** – ensuring efficient functioning of primary (IPO) and secondary (stock exchange) markets

Key Disclosure Requirements for Listed Companies

- Quarterly and annual financial results
- Related-party transaction disclosures
- Material events/information affecting share price (mergers, litigation, management changes)
- Shareholding patterns and changes in promoter holding
- Corporate governance compliance reports

Corporate Governance Codes and Principles

Definition: Corporate governance codes are sets of best-practice principles — often issued by regulators, stock exchanges, or international bodies — that guide how companies should be directed and controlled, covering board structure, accountability, transparency, and stakeholder relations, even where not strictly mandated by law.

Major Corporate Governance Codes/Frameworks

Code/Framework	Origin	Key Focus
OECD Principles of Corporate Governance	International (OECD, first issued 1999, revised 2015/2023)	Global benchmark covering shareholder rights, board responsibilities, disclosure, and stakeholder role
Cadbury Committee Report (1992)	UK	Pioneering report on separation of Chairman/CEO roles, board accountability, "comply or explain" principle
SEBI Corporate Governance Code (Clause 49 → LODR Regulations)	India	Mandates board composition, independent directors, audit committees for listed companies

Kotak Committee Report (2017)	India	Recommended reforms adopted into SEBI LODR, including separation of Chairperson and MD/CEO roles in top listed companies
King Report on Corporate Governance	South Africa	Emphasizes integrated reporting and stakeholder-inclusive governance

Core Principles Common Across Governance Codes

Principle	Explanation
Board accountability	Board must act in the best interest of the company and all shareholders, not just management
Separation of powers	Distinct roles for Chairperson, CEO/MD, and Board to avoid concentration of power
Independent directors	Presence of independent, non-executive directors to provide unbiased oversight
Transparency and disclosure	Timely, accurate reporting of financial and non-financial information
Shareholder rights	Equal treatment of shareholders, especially protection of minority shareholders
Risk management	Board oversight of enterprise risk management systems
Stakeholder responsibility	Consideration of employees, customers, community, and environment, not just shareholders

"Comply or Explain" Principle

Many governance codes (originating from the UK's Cadbury Report) use a **"comply or explain"** approach rather than rigid legal mandates — companies must either comply with the code's recommendations or publicly explain why they have not, allowing flexibility while maintaining accountability through transparency.

Interrelationship Between the Three Pillars

Pillar	Nature	Enforcement
Corporate Law	Legally binding (statutory)	Courts, Registrar of Companies (RoC), NCLT
Securities Regulations	Legally binding for listed/public companies	SEBI, stock exchanges

Governance Codes	Often principle-based, sometimes voluntary ("comply or explain")	Board self-regulation, market/reputational pressure, partial SEBI enforcement via LODR

Key Insight: While corporate law provides the binding legal skeleton and securities regulations protect capital markets, governance codes fill the gap by promoting *best practices* that go beyond minimum legal compliance — collectively ensuring companies are managed responsibly, transparently, and in the interest of all stakeholders.

Questions Section

2 Marks Questions

S.No.	*Question*	*Bloom's Taxonomy Level*
1	*Distinguish between law and ethics.*	*Analyze (C4)*
2	*Name any three agencies enforcing ethical business conduct in India.*	*Remember (C1)*
3	*What is the Competition Act, 2002 primarily concerned with?*	*Remember (C1)*
4	*What is product liability under the Consumer Protection Act, 2019?*	*Remember (C1)*
5	*State any two environmental protection laws in India.*	*Remember (C1)*
6	*What is the role of SEBI's LODR Regulations?*	*Understand (C2)*
7	*What does FEMA regulate?*	*Remember (C1)*
8	*Give one example of a legal but arguably unethical business practice.*	*Apply (C3)*

10 Marks Questions

S.No.	*Question*	*Bloom's Taxonomy Level*
1	*Explain the relationship between law and ethics, with examples of where they align and diverge.*	*Analyze (C4)*
2	*Discuss the role of key regulatory agencies (SEBI, MCA, CCI, RBI, CCPA) in enforcing ethical business behaviour in India.*	*Analyze (C4)*
3	*Explain the legal framework for environmental protection and fair trade practices in India.*	*Understand (C2)*
4	*Discuss how the Consumer Protection Act, 2019 safeguards the health and wellbeing of customers.*	*Analyze (C4)*

S.No.	***Question***	***Bloom's Taxonomy Level***
5	*Explain the key provisions of the Companies Act, 2013 relevant to corporate governance.*	*Understand (C2)*
6	*Discuss the securities and financial regulations that govern listed companies in India.*	*Analyze (C4)*
7	*Critically evaluate the advantages and limitations of relying on law to enforce ethical business conduct.*	*Evaluate (C5)*

High Order Thinking Questions

S.No.	***Question***	***Bloom's Taxonomy Level***
1	*A start-up's product is legal to sell in India but has been banned in the EU on safety grounds. Analyse the legal and ethical obligations facing the company's management.*	*Analyze (C4)*
2	*Draft a one-page compliance checklist a small manufacturing company could use to meet its environmental and consumer-safety legal obligations.*	*Create (C6)*
3	*Compare the enforcement powers of SEBI and the CCPA, and evaluate which is better suited to protecting retail investors versus retail consumers.*	*Evaluate (C5)*

Case Study 1: The Bhopal Gas Tragedy and Environmental Law Reform

The 1984 Bhopal Gas Tragedy, caused by a toxic gas leak from a pesticide plant, killed thousands and remains one of the world's worst industrial disasters. It directly led to the enactment of the Environment (Protection) Act 1986 and to the Supreme Court's doctrine of absolute liability for hazardous industries.

Discussion Questions:

- Which specific regulatory gaps did this tragedy expose?
- How did Indian law change in response, and was this a legal or an ethical response — or both?
- What ongoing compliance obligations would prevent a similar disaster today?

Case Study 2: Misleading Advertising and Consumer Protection

In 2019, several FMCG companies in India were penalised by the Competition Commission of India and flagged by ASCI for misleading pricing practices and health claims in advertisements, disadvantaging consumers who relied on the claims.

Discussion Questions:

- Which agencies were involved in enforcement in this case, and what was each one's role?
- How does the Consumer Protection Act 2019 strengthen a consumer's ability to seek redress in such cases?
- Was the companies' conduct only a legal violation, or also an ethical one? Explain.

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UNIT – V
CORPORATE CULTURE

"Corporate governance is the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation." — N.R. Narayana Murthy

Unit Overview

This unit explains corporate governance principles that promote transparency, accountability, fairness, and responsibility in organizations. Students learn about governance codes, the roles of auditors, directors and shareholders, corporate scams, governance committees, regulatory frameworks, CSR, and international governance practices.

Key Terminologies

Term	Meaning
Corporate Governance	System of directing and controlling organizations.
Board of Directors	Governing body responsible for organizational decisions.
Transparency	Open disclosure of organizational information.
Accountability	Responsibility for organizational actions.
Audit	Examination of financial records.
Shareholders	Owners of a company.
Cadbury Committee	Committee establishing corporate governance principles.
CSR	Corporate Social Responsibility.
Corporate Scam	Fraudulent business activity.
Disclosure	Providing accurate organizational information to stakeholders.

Learning Objectives

After studying this unit, students will be able to:

1. Understand corporate governance concepts.
2. Explain governance principles and codes.
3. Describe the roles of directors, auditors and shareholders.
4. Analyze corporate governance committees and reports.
5. Evaluate corporate governance practices using real-life cases.

Learning Outcome

On completion of this unit, students will be able to attain **CO5: Analyze corporate law, ethics, codes and principles; evaluate corporate governance and corporate scams.** and, in line with Bloom's Taxonomy, will be able to:

- Explain the meaning and importance of corporate governance, transparency, and disclosure.

- Describe the roles of the board of directors, auditors, and shareholders in governance.
- Analyse global corporate governance issues and the nature and consequences of major corporate scams.
- Explain the Cadbury Committee's contribution and key Indian governance committees, and evaluate the overall benefits and limitations of corporate governance.

Importance of Studying this Unit

Good corporate governance promotes transparency, accountability, investor confidence, ethical leadership, and long-term organizational sustainability. It helps prevent corporate fraud, improves stakeholder trust, and contributes to economic development.

Introduction & Meaning of Corporate Governance

At its core, **corporate governance** is the system of rules, practices, and processes by which a firm is directed and controlled. Think of it as the framework that balances the interests of a company's many stakeholders—such as shareholders, senior management executives, customers, suppliers, financiers, the government, and the community.

The Core Purpose: It provides the structure through which the company's objectives are set, and the means of attaining those objectives and monitoring performance are determined. It is essentially about accountability, fairness, and transparency.

Corporate Governance Codes

A **Corporate Governance Code** is a set of non-binding guidelines, principles, or rules established by regulatory bodies, stock exchanges, or industry committees to dictate how companies should operate responsibly.

While some systems are strict legislation (like the Sarbanes-Oxley Act in the US), many countries use a **"Comply or Explain"** approach (popularized by the UK Corporate Governance Code). This means companies must either follow the code's rules or publicly explain why they didn't.

Key Pillars typically found in Governance Codes:

- **Board Leadership & Company Purpose:** The board should establish the company's purpose, values, and strategy, ensuring they align with its culture.
- **Division of Responsibilities:** A clear separation of roles at the top—most notably ensuring the **CEO** (who runs the business) and the **Chairman of the Board** (who leads the board) are two different people to avoid concentration of power.
- **Composition, Succession, and Evaluation:** The board should have a balance of skills, experience, and **Independent Directors** who can challenge management objectively.
- **Audit, Risk, and Internal Control:** Ensuring independent oversight of financial reporting and establishing robust risk management systems.
- **Remuneration:** Executive pay should be designed to promote the long-term, sustainable success of the company, rather than short-term profit chasing.

Transparency & Disclosure

Transparency and disclosure are the twin mechanisms that make corporate governance verifiable. Without them, stakeholders have no way of knowing if a company is actually practicing good governance.

- **Transparency:** The ease with which outsiders can meaningfully analyze a company's actions, financials, and decision-making processes. It implies openness and a lack of hidden agendas.
- **Disclosure:** The actual act of releasing all material information about a company's financial performance, ownership, governance structure, and future prospects to the public and regulatory bodies.

What Companies Must Disclose

To maintain trust and meet legal standards, corporations generally provide detailed information across three main buckets:

Category	Typical Disclosure Elements
Financial & Operational Results	Audited financial statements, balance sheets, cash flow statements, and management discussion & analysis (MD&A).
Governance & Ownership	Major shareholdings, voting rights, board member biographies, executive compensation packages, and conflicts of interest.
Non-Financial Risks	Environmental, Social, and Governance (**ESG**) impacts, cybersecurity protocols, and supply chain ethical standards.

Why This Matters

Good corporate governance is not just a checkbox exercise. When companies are transparent and follow established codes, they build **trust**.

- **For Investors:** It reduces risk, making them more willing to invest capital, often lowering the company's cost of borrowing.
- **For Society:** It prevents massive corporate scandals and collapses (like Enron or Lehman Brothers) that can devastate employee livelihoods and the broader economy.

Board of Directors: The Stewards

The Board of Directors is elected by shareholders to act as the ultimate decision-making body of the company. They do not manage day-to-day operations (that is the job of executive management), but they set the strategy and oversee management.

Key Responsibilities:

- **Strategic Direction:** Reviewing, guiding, and approving corporate strategy, major plans of action, and annual budgets.

- **Hiring and Firing the CEO:** Selecting, compensating, monitoring, and, when necessary, replacing the Chief Executive Officer (CEO) and senior management.
- **Risk Management:** Setting the company’s "risk appetite" and ensuring management has robust internal control systems in place to mitigate legal, financial, and operational risks.
- **Fiduciary Duties:** Board members owe two fundamental duties to the company:
    - *Duty of Care:* Making informed, deliberate decisions in good faith.
    - *Duty of Loyalty:* Putting the company's interests above any personal or outside business interests (managing conflicts of interest).

Shareholders: The Owners

Shareholders provide the capital that funds the corporation. Because they own shares of the company, they are the residual risk-bearers—if the company thrives, they profit; if it fails, they lose their investment.

Key Responsibilities & Powers:

- **Voting Rights:** Shareholders exercise control primarily through voting at the Annual General Meeting (AGM) on major structural changes, such as mergers, acquisitions, or changes to the corporate charter.
- **Electing the Board:** They hold the power to vote directors onto or off the board, ensuring the board remains accountable to the owners.
- **Approving the Auditors:** Shareholders officially ratify the appointment of the external independent auditing firm.
- **Say-on-Pay:** In many jurisdictions, shareholders have an advisory or binding vote on executive compensation packages to prevent excessive management payouts.

Auditors: The Independent Verifiers

Because management runs the business day-to-day and prepares the financial statements, there is an inherent risk that they might misrepresent data to look better. Auditors act as the independent third party that verifies the truth.

Key Responsibilities:

- **Independent Examination:** Reviewing the company’s financial records, accounting policies, and internal controls entirely free from management influence.
- **Expressing an Audit Opinion:** Providing a formal statement (the Auditor's Report) confirming whether the financial statements present a **"true and fair view"** of the company's financial health in accordance with accounting standards.
- **Detecting Material Misstatements:** Identifying significant errors or systemic fraud within the financial reporting system.

- **Reporting to the Audit Committee:** Rather than reporting directly to the CEO, independent auditors report to the Board's *Audit Committee* (which consists of independent, non-executive directors) to preserve objectivity.

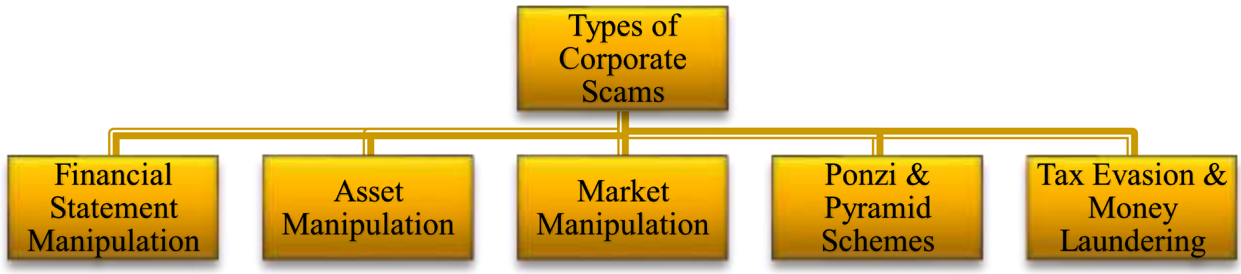
What is a Corporate Scam?

A **corporate scam** (or corporate fraud) refers to illegal or unethical activities undertaken by an individual or company in a deceptive manner to provide a financial advantage to themselves or the organization.

Unlike typical street crimes, corporate scams are usually characterized by **sophisticated financial manipulation**, deception of regulatory authorities, and breach of trust with shareholders, employees, and the public.

Common Types of Corporate Scams

Most corporate scams fall into a few primary categories:



- **Financial Statement Manipulation (Accounting Fraud):** Intentionally falsifying a company's financial records to overstate revenues, hide losses, or inflate assets to make the business look more profitable than it actually is.
- **Asset Misappropriation:** The theft or misuse of a company's assets by its own directors, managers, or employees (e.g., siphoning company funds into personal accounts, creating "phantom" vendors, or using shell companies).
- **Market Manipulation & Insider Trading:** Artificially inflating or deflating stock prices (often called "pump and dump" schemes) or using non-public, confidential information to trade stocks for personal gain.

- **Ponzi & Pyramid Schemes:** Investment operations where early investors are paid returns using capital from newer investors rather than from actual legitimate business profits.
- **Tax Evasion and Money Laundering:** Funnelling untaxed or illegally acquired corporate earnings through offshore tax havens, shell companies, or complex transaction chains to disguise their true origin.

Historic Case Studies

A. Global Scams

- **Enron (US, 2001):** The energy giant used complex off-the-books accounting loopholes (Special Purpose Entities) to hide billions of dollars in debt while artificially inflating its revenues. When the truth emerged, the company went bankrupt, and its major accounting firm, Arthur Andersen, dissolved.
- **Bernie Madoff (US, 2008):** Orchestrated the largest Ponzi scheme in history, defrauding thousands of investors out of an estimated $64 billion over decades by paying "returns" using funds from new clients.
- **Theranos (US, 2018):** A Silicon Valley blood-testing startup that defrauded investors by falsely claiming its technology could run comprehensive medical tests using just a single drop of blood.

B. Indian Scams

- **Harshad Mehta Scam (1992):** Often called the "Big Bull," Mehta manipulated loopholes in the banking system using ready-forward (RF) deals and fake bank receipts to channel huge sums of bank money into the stock market, artificially driving up stock prices until the bubble burst.
- **Satyam Computer Services (2009):** Widely referred to as "India’s Enron". Founder B. Ramalinga Raju admitted to systematically falsifying the company's accounts for years—inflating cash reserves, creating over 50,000 fake employees to siphon funds, and overstating revenues by over $1 billion (₹7,000 crore).
- **PNB - Nirav Modi Fraud (2018):** Involved obtaining unauthorized and fraudulent Letters of Undertaking (LoUs) from the Punjab National Bank (PNB) to secure billions of rupees in overseas credit.

Corporate Governance Committees — India and Abroad

A. International Committees

Cadbury Committee (UK, 1992)

- Chaired by Sir Adrian Cadbury; set up by the London Stock Exchange, Financial Reporting Council, and the accountancy profession, following a spate of corporate collapses (BCCI, Polly Peck, Maxwell Communications).
- Considered the foundation document of modern corporate governance worldwide.

Key recommendations:

- Clear separation of the roles of Chairman and CEO to prevent concentration of power
- Board should include a strong presence of independent non-executive directors
- Formation of an Audit Committee comprising non-executive directors
- Formation of a Remuneration Committee to set director pay
- Directors' service contracts should not exceed three years without shareholder approval
- "Comply or explain" principle — companies must either comply with the Code or publicly explain why they haven't (this became a global template)

Benfits

- Improved transparency and accountability in financial reporting
- Increased investor confidence
- Became the template adopted (with modification) by regulators worldwide, including India

Limitations:

- Voluntary/non-statutory — reliant on self-regulation and disclosure rather than enforcement
- Focused heavily on financial reporting and board structure, less on broader stakeholder or ethical concerns
- "Comply or explain" allows companies to explain non-compliance without real penalty

Other Notable International Committees/Codes:

- **Greenbury Committee (UK, 1995)** — focused specifically on directors' remuneration; recommended remuneration committees composed entirely of non-executive directors and detailed disclosure of pay packages.
- **Hampel Committee (UK, 1998)** — combined Cadbury and Greenbury recommendations into the "Combined Code," balancing accountability with business prosperity.
- **OECD Principles of Corporate Governance (1999, revised 2004, 2015)** — global benchmark covering shareholder rights, equitable treatment, stakeholder role, disclosure/transparency, and board responsibilities.
- **Sarbanes-Oxley Act, SOX (USA, 2002)** — enacted after Enron and WorldCom scandals; statutory (not voluntary) — imposed strict certification of financial statements by CEO/CFO, auditor independence rules, and criminal penalties for fraud.

B. Indian Committees

Kumar Mangalam Birla Committee (SEBI, 1999)

- First major Indian corporate governance committee; recommendations led to Clause 49 of the Listing Agreement.
- Recommended composition of the Board with independent directors, mandatory Audit Committee, and disclosure norms.

Naresh Chandra Committee (2002)

- Set up after Enron; focused on auditor-company relationship and independence of auditors.
- Recommended rotation of audit partners and restrictions on non-audit services by auditors.

Narayana Murthy Committee (SEBI, 2003)

- Strengthened Clause 49; introduced stricter definitions of "independent director," mandatory whistle-blower policy, and stronger audit committee responsibilities.

J.J. Irani Committee (2005)

- Reviewed the Companies Act framework; recommendations fed into the Companies Act, 2013.

Companies Act, 2013 (statutory backbone)

- Made corporate governance provisions legally binding rather than voluntary — mandatory independent directors, Corporate Social Responsibility (CSR) spending under Section 135, women director requirement, and Nomination & Remuneration Committee.

Uday Kotak Committee (SEBI, 2017)

- Focused on improving governance standards of listed companies — recommendations included separation of Chairman and MD/CEO roles (for top listed companies), enhanced disclosures, and minimum board size/diversity norms.

Corporate Social Responsibility (CSR)

Definition: The commitment of businesses to contribute to sustainable economic development by working with employees, communities, and society at large to improve quality of life, in ways that are good for business and for development.

Evolution in India: From voluntary philanthropy → statutory obligation under **Section 135 of the Companies Act, 2013** — India was the first country to legally mandate CSR spending.

Applicability (Section 135): Companies with net worth ≥ ₹500 crore, or turnover ≥ ₹1,000 crore, or net profit ≥ ₹5 crore in the preceding financial year must spend at least **2% of average net profits** of the preceding three years on CSR.

Key features:

- Mandatory CSR Committee of the Board (minimum 3 directors, including one independent director)
- CSR Policy must be disclosed in the Board's Report and on the company website
- Schedule VII lists permissible CSR activities: education, health, poverty eradication, environmental sustainability, gender equality, rural development, disaster relief, etc.
- Unspent CSR funds (for ongoing projects) must be transferred to a designated bank account and utilized within 3 years, or transferred to a specified government fund (e.g., PM CARES)

Benefits of CSR:	Limitations/Criticisms:
Builds brand reputation and stakeholder trust	Often treated as a compliance/box-ticking exercise rather than genuine strategy
Enhances employee morale and retention	Risk of "greenwashing" — superficial CSR for PR value
Reduces regulatory and reputational risk	Uneven implementation quality; monitoring and impact assessment remain weak
Contributes to sustainable community development	Some argue mandating CSR by law dilutes its voluntary, ethical character (Friedman's shareholder-primacy critique)

Board of Directors (BoD) — Composition

Purpose: The Board is the apex governing body responsible for strategic direction, oversight of management, and accountability to shareholders and stakeholders.

Composition (as per Companies Act, 2013 / SEBI LODR):

- **Executive Directors** — involved in day-to-day management (e.g., MD, Whole-time Director)
- **Non-Executive Directors** — not involved in daily operations, provide independent oversight
- **Independent Directors** — non-executive directors with no material pecuniary relationship with the company; required to bring objectivity
  - Listed companies: at least 1/3rd of the Board must be independent directors (higher for companies with an executive Chairman, per SEBI norms — 50%)
- **Woman Director** — mandatory for certain classes of companies (listed companies; specified public companies)
- **Nominee Directors** — represent specific stakeholders (e.g., banks, financial institutions, promoters)
- **Chairman** — presides over Board meetings; SEBI has increasingly pushed for separation of Chairman and MD/CEO roles in top listed companies

Key Board Committees (mandated under Companies Act/SEBI LODR):

- Audit Committee
- Nomination and Remuneration Committee
- Stakeholders' Relationship Committee
- CSR Committee
- Risk Management Committee (for top listed companies)

Board Composition Principles (from Cadbury onward):

- Balance of executive and non-executive directors
- No individual or small group should dominate decision-making
- Board size should be adequate for effective functioning — neither too small (limited diversity of view) nor too large (unwieldy, slow decision-making)

Benefits and Limitations of Governance Committees — General Assessment

Benefits:

- Provide structured, research-based frameworks adaptable across jurisdictions
- Improve transparency, accountability, and investor confidence
- Catalyze legislative reform (Cadbury → Clause 49 → Companies Act 2013 CSR/governance provisions)
- Introduce accountability mechanisms — audit committees, independent directors, whistle-blower policies

Limitations:

- Many recommendations remain voluntary or "comply or explain," diluting enforcement
- Focus often skewed toward financial/procedural compliance over ethical culture
- One-size-fits-all recommendations don't always suit family-owned or promoter-driven firms (common in India)
- Implementation gap — governance codes can be met "on paper" without genuine behavioral change
- Overlapping committees and reporting requirements can increase compliance burden without proportional benefit for smaller companies

Questions Section

2 Marks Questions

S.No.	***Question***	***Bloom's Taxonomy Level***
1	*Define corporate governance.*	*Remember (C1)*
2	*What is meant by the fiduciary duty of directors?*	*Understand (C2)*
3	*Name the four types of audit opinion.*	*Remember (C1)*
4	*Distinguish between shareholders and stakeholders.*	*Analyze (C4)*
5	*What is the "comply or explain" principle?*	*Understand (C2)*
6	*Who chaired the Cadbury Committee, and in which year was its report published?*	*Remember (C1)*
7	*Name any two Indian corporate governance committees.*	*Remember (C1)*
8	*What is Section 135 of the Companies Act, 2013 concerned with?*	*Remember (C1)*

10 Marks Questions

S.No.	***Question***	***Bloom's Taxonomy Level***
1	*Explain the meaning and importance of corporate governance from the perspective of transparency and disclosure.*	*Understand (C2)*
2	*Discuss the roles and responsibilities of the board of directors, including board composition norms.*	*Analyze (C4)*
3	*Explain the role of auditors in corporate governance, including the types of audit opinion.*	*Analyze (C4)*
4	*Discuss the roles of shareholders and stakeholders, and how companies should balance their interests.*	*Analyze (C4)*
5	*Explain the major global issues in corporate governance with examples.*	*Analyze (C4)*

S.No.	***Question***	***Bloom's Taxonomy Level***
6	*Discuss the nature, types, and consequences of corporate scams with reference to the Satyam case.*	*Analyze (C4)*
7	*Explain the Cadbury Committee's recommendations and their influence on Indian corporate governance committees.*	*Analyze (C4)*
8	*Critically evaluate the benefits and limitations of corporate governance frameworks.*	*Evaluate (C5)*

Higher Order Thinking Questions

S.No.	***Question***	***Bloom's Taxonomy Level***
1	*Design a board-composition structure (director types and numbers) for a newly listed mid-sized Indian company, justifying each choice against SEBI LODR requirements.*	*Create (C6)*
2	*Analyse how Section 135 CSR mandates change the ethical character of CSR discussed in Unit I from voluntary philanthropy to governance-mandated obligation.*	*Analyze (C4)*
3	*Compare the governance failures in Satyam (India) and Enron (USA), identifying common structural weaknesses and the reforms each triggered.*	*Evaluate (C5)*

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

In January 2009, Ramalinga Raju, founder and Chairman of Satyam Computer Services, confessed to inflating the company's cash and bank balances by over ₹7,000 crores over several years. The board, independent directors, and auditors (PricewaterhouseCoopers) all failed to detect the fraud, even though the company appeared compliant with governance norms on paper.

Discussion Questions:

- Which corporate governance mechanisms failed in the Satyam case?
- How could independent directors have prevented this fraud had they exercised proper fiduciary duty?
- What reforms did India introduce to corporate governance and auditing standards after the Satyam scandal?

Case Study 2: The Cadbury Committee and "Comply or Explain"

The UK's Cadbury Committee (1992) introduced the "comply or explain" principle, allowing companies to deviate from a governance code provided they publicly justify their reasons, rather than imposing rigid, one-size-fits-all rules.

Discussion Questions:

- What are the advantages of a "comply or explain" approach over strict mandatory rules?
- What risks does this flexibility introduce, and how might companies misuse it?
- How has India adapted or departed from this principle in its own SEBI governance regulations?

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2. Tricker, B. — *Corporate Governance: Principles, Policies, and Practices*, 3rd Ed., Oxford University Press, 2015.
3. Cadbury, A. — *Corporate Governance and Chairmanship*, Oxford University Press, 2002.
4. Bholanath Dutta, S.K. Podder — *Corporation Governance*, Vrinda Publications, 2010.
5. SEBI — Corporate Governance Regulations and Guidelines, 2015.

Web Resources

1. SEBI Corporate Governance Norms: https://www.sebi.gov.in
2. Ministry of Corporate Affairs — MCA21: https://www.mca.gov.in

3. NPTEL — Corporate Governance: https://archive.nptel.ac.in/courses/109/106/109106117/