



INSTITUTE OF ACTUARIAL
& QUANTITATIVE STUDIES

Subject: Professional Ethics

**Chapter: Unit 4 – Chapter
1(Part 1)**

Category: Notes

CODES OF ETHICS:

Most large corporations today have developed codes of conduct internally, which are intended to provide guidance for managers confronting ethical situations and moral conflicts. Such codes of conduct need to be supplemented by internal systems, such as reward and information systems, promotion and hiring practices, recognition systems, and organizational culture and communication systems, that support their implementation.

Strong top management commitment to and communication about values and ethical conduct is a core element of ethical leadership from the top of the organization. Ethical leadership is essential to managers and employees at all levels of the enterprise when they are faced with difficult ethical decisions and moral conflicts. Codes of conduct alone can seldom be sufficient for managers to come to good decisions unless they are supported by these other aspects of the organization.

In addition to company or organizational codes of conduct, many of which have been developed internally by companies to articulate their own value systems, a number of codes and principles have emerged globally to help managers think about their ethical responsibilities. Some of these are quite spare and lay out fundamental principles, based on globally agreed on documents signed by many nations, such as the United Nations Global Compact with its 10 core principles or the OECD Guidelines for Multinational Enterprises. Others are more elaborate and have been developed by business groups or multi sector alliances to help guide business decision making. Again, as with internal codes of conduct, these principles are helpful guides but cannot address every unique situation. As a result, codes need to be supported by the organization's managerial decision making, its culture, its reward systems, and the communication that exists about ethical practices within the firm.

Managers and Ethics in Organizations

Many managers find it difficult to speak about and sometimes even recognize ethical issues, a difficulty that the management theorists James Waters and Frederick Bird called the moral muteness of managers. Recognizing that management is an inherently ethical task and that the practices of the company embody a set of values or ethics, the management scholar Jeanne Liedtka suggests that there does exist a set of ethically based management practices that can help managers lead their companies effectively and so that they are competitive. By examining numerous organizational improvement initiatives, she determined that they shared common practices and common sets of values that could help an organization achieve its goals most effectively.

The ethics of effective and competitive business practices identified by Jeanne Liedtka include:

1. Creating a shared sense of meaning, vision, and purpose that connect the employees to the organization and are underpinned by valuing the community without subordinating the individual and seeing the community's purpose as flowing from the individuals involved.
2. A second characteristic that ethical leadership can provide is developing in employees a systems perspective, which is linked to the post conventional stages of cognitive and moral reasoning discussed above, so that a value of serving other community members and related entities in the broader ecosystem emerges.

3. Another theme is that of emphasizing business processes rather than hierarchy and structure, which is based on valuing work itself intrinsically and focusing on both ends and means in decision making, not just the ends. Localized decision making, particularly around work processes, provides a value of responsibility for individual actions, and using information within the system is supported by values of truth telling, integrity, and honesty, the characteristics of moral persons, as well as transparency about and access to needed information.

Organizations with these types of ethically based approaches also focus on development for both employees and the organization as a whole, which means valuing individuals as ends, not as means to ends (a key ethical principle), and focusing on learning and growth. Such approaches also encourage dialogue and related freedom of expression with a commitment to seek common ground when there are differences of opinion. Ethical leaders can also foster the capacity of others and themselves to take multiple perspectives simultaneously—in other words, to move toward post conventional levels of reasoning so that they can understand other points of view and make better decisions. The final element that managers can think about in their roles as ethical leaders is creating a sense of commitment and ownership among organizational members by emphasizing promise keeping, instilling a sense of urgency about the tasks of the enterprise, and encouraging engagement rather than detachment among organizational members.

COMPETITIVENESS:

Any organization, public or private, large or small, faces internal and external uncertainties that affect its ability to achieve its objectives. The effect of uncertainty on an organization's objectives is "risk." Risk management, commonly known in the business community as enterprise risk management (ERM), can provide for the structured and explicit consideration of all forms of uncertainty in making any decision. The overarching principle of ERM is that it must produce value for the organization. It is the culture, processes and structures that is directed towards taking advantage of potential opportunities while managing potential adverse effects.

Corporations face the task of managing their risk exposures while remaining profitable and competitive at the same time. Managing risks is not a new challenge, yet it may get overlooked due to several reasons. The challenges and demands of contemporary markets, customer expectations, regulatory authorities, employees and shareholders present organizations with an interesting array of contradictions.

Risk management can enhance the environment for identifying and capitalizing on opportunities to create value and protect established value. Efficient managers who undertake risk, use a variety of risk management solutions that transcends through traditional insurance risk transfer products.

The rapidly changing global economy has created an expanding array of risks to be managed to ensure the viability and success of an enterprise. Historically, the practice of risk management has been confined to the traditionally insurable risks such as loss from fire, earthquakes, wind, flood, legal liability and other relatively straightforward potential causes of loss. Solutions involving the purchase of insurance were emphasized, with focus on type of coverage, adequacy of limits and cost of risk transfer. Over the last thirty years, most major corporations have evolved a much more

sophisticated view of risk management, encompassing traditional risk management concerns and adding new issues arising from the changing internal and external environments within which they work. Now, it is understood that every aspect of a company's operational and financial activity contains the potential for risk that can negatively and meaningfully affect the success and viability of the organization.

Risk basically refers to the variations in the outcomes that could occur over a specified period in a given situation. If only one outcome is possible, the variation and hence the risk is zero. If many outcomes are possible, the risk is not zero. The greater the variation, the greater the risk. Risk may also be defined as the possibility that an event will occur and adversely affect the achievement of the Company's objectives and goals. A business risk is the threat that an event or action will adversely affect an organization's ability to achieve its business objectives/targets.

Business risk arises as much from Risk Management and Internal Control 199 possibility that opportunities will not be realized as much from the fact that certain threats could well materialize and that errors could well be made.

Risks may be broadly classified under the following heads:

(a) Industry & Services Risks:

These risks can be broadly categorized as follows, namely:

- Economic risks such as dependence on one product, one process, one client, one industry, etc. in the short and long term.
- Services risks
- Market structure
- Business dynamics
- Competition risks affecting tariffs prices, costs, revenues and customer preferences
- Customer relations risks
- Reputational risk

(b) Management and Operations Risks:

These risks relate broadly to the company's organisation and management such as planning, monitoring, and reporting systems in the day to day management process namely:

- Risks to Property
- Clear and well defined work processes
- Changes in Technology/ upgradation
- R&D risks
- Agency Network Risks
- Personnel risks such as labour turnover risks involving replacement risks, training risks, cost risks, skill risks etc. There are also unrest risks due to strikes and lockouts. These risks affect the company's business and earnings.
- Enviromental and Pollution Control regulations, etc.

- Locational benefits near metros, railway stations, ports, cities, etc.

(c) Market Risks:

These risks relate to market conditions namely:

- Raw material rates
- Quantities, quality, suppliers, lead time, interest rates risks and forex risks namely, fluctuation risks and interest rate risk in respect of foreign exchange transactions.

(d) Political Risks:

These risks relate to political uncertainties namely:

- Elections
- War risks
- Country/Area risks
- Insurance risks like fire, strikes, riots and civil commotion, marine risks, cargo risks, etc.
- Fiscal/Monetary Policy Risks including Taxation risks.

(e) Credit Risks:

These risks relate to commercial operations namely:

- Creditworthiness risks
- Risks in settlement of dues by clients
- Provisions for doubtful and bad debts

(f) Liquidity Risks:

These are financial risk factors namely:

- Financial solvency and liquidity risks
- Borrowing limits, delays
- Cash/Reserve management risks
- Tax risks.

(g) Disaster Risks:

These risks relate to disasters from following factors:

- Natural risks like fires, floods, earthquakes, etc.
- Man-made risks arising under the Factories Act, Mines Act, etc.
- Risk of failure of effective Disaster Management plans formulated by the company.

(h) Systems Risks:

These risks relate to the company's systems namely:

- System capacities
- System reliability
- Obsolescence risks
- Data Integrity risks

ORGANIZATION SIZE:

An organization's structure is important to the study of business ethics. In a Centralized organization, decision-making authority is concentrated in the hands of top-level managers, and little authority is delegated to lower levels. Responsibility, both internal and external, rests with top management. This structure is especially suited for organizations that make high-risk decisions and whose lower-level managers are not highly skilled in decision making. It is also suitable for organizations in which production processes are routine and efficiency is of primary importance.

These organizations are usually extremely bureaucratic, and the division of labour is typically very well defined. Each worker knows his or her job and what is specifically expected, and each has a clear understanding of how to carry out assigned tasks. Centralized organizations stress formal rules, policies, and procedures, backed up with elaborate control systems. Their codes of ethics may specify the techniques to be used for decision making. Because of their top-down approach and the distance between employee and decision maker, centralized organizational structures can lead to unethical acts. If the centralized organization is very bureaucratic, some employees may behave according to "the letter of the law" rather than the spirit.

In a decentralized organization, decision-making authority is delegated as far down the chain of command as possible. Such organizations have relatively few formal rules, and coordination and control are usually informal and personal. They focus instead on increasing the flow of information. As a result, one of the main strengths of decentralized organizations is their adaptability and early recognition of external change. With greater flexibility, managers can react quickly to changes in their ethical environment. Weakness of decentralized organizations is the difficulty they have in responding quickly to changes in policy and procedures established by top management. In addition, independent profit centers within a decentralized organization may deviate from organizational objectives.

PROFITABILITY & ETHICS:

In the fallout from Enron and others, many investors are paying closer attention to a company's ethics, as well as their profits. These investors realize that a corporate focus on profits alone with little regard to ethical standards, conduct and enforcement—may result in short-term revenue gain, but long-term profitability may be limited. In cases like Enron, long-term viability is limited too.

Consider this balance between profits and ethics to be "ethical profitability." Well-balanced companies not only consistently reward owners, investors and employees with profitable performance, they also genuinely focus on these five key areas:

Leadership by example

The chasm between managing and managing well is wide and deep. To manage is to merely lead employees. To manage well is to lead employees effectively, ethically and without arrogance.

Company owners, executives and managers must set the highest examples of attitude and conduct for their employees. "Do what I say, not what I do," is a parental anachronism with no value in management.

Company-wide ethical awareness

Most employees, when not at work, practice personal ethics in areas such as caring for others, being kind and honest, and not harming others. Do these same people, when they arrive at work, maintain their personal guidelines? In-the-office ethical behavior includes demonstrating trustworthiness to managers and coworkers, respecting privacy and avoiding conflicts of interest. Ethics knows no time clock.

Occasional classes can help, by reminding employees of the simplicity of determining ethical behavior. In a nutshell, examine questionable action and speech, and determine if it's harmful to yourself or another. If it is, avoid that behavior. Employees with any sort of religious background will recognize this ethic of reciprocity as familiar. The Bible's Golden Rule is a good example.

Strong management of revenue generation and reporting

Corporate temptation to stretch ethical behavior in revenue generation and reporting is universal.

From excessive cost-cutting to expand short-term market-share, to outright lies about revenue to positively affect stock price, it's easy to see why an otherwise intelligent, educated corporate officer can end up behind bars for condoning such behavior.

To overcome these temptations, revenue-related managers must establish and maintain a firm stance on ethical marketing, advertising, selling and reporting. This requires regular dissemination and enforcement of codes of conduct.

High level of internal trust

The level of trust within a company should reflect the level of trust the company solicits from customers. If customers are encouraged to put their complete trust in the product or service, then company teams must do the same with each other. Management must guide this internal process. An increase in trust is a reduction in risk and uncertainty, which in turn will keep the revenue generation process flowing smoothly. Another advantage of running a high-trust organization is improved internal flexibility and creativity. Instead of being constantly monitored, the person to whom a task is assigned can accomplish it the best way possible. The outcome is never in doubt because of the trust the team shares.

Formal and active compliance program

Ethical profitability is far more than merely operating within the boundaries of the law. Legal compliance limits unethical behavior, but it does not define ethical behavior. An organizational ethics doctrine does have legal benefits. Properly written, published and disseminated ethical codes will reduce corporate risk if an employee creates a criminal or civil problem because of poor ethical behavior. (Even federal sentencing guidelines recommend lower fines if such violations occur contrary to the existence and enforcement of compliance codes.)

The true test of ethical profitability is whether or not the company is a positive example to its employees, to its customers and even to other companies. Such companies practice the truest form of leadership-by-example. They reach for a higher bar.

COST OF ETHICS IN CORPORATE ETHICS EVALUATION:

Operating in an ethical way may incur additional costs to a business when compared with other retailers and companies who may not do business in the same way. For example, Primark bears the cost of carrying out all audits. Then there are its costs associated with working with ethical partners. An example of this is Primark's partnership with Nari Uddug Kendra (NUK). This is an organisation supporting women's rights and health in Bangladesh. See more information and read an interview with NUK on the Primark website.

NUK has more than 20 years experience in addressing women's rights and labour issues in the ready-made garment sector in Bangladesh. Through this partnership, Primark seeks to identify and address key issues around equal rights, opportunities for growth and career enhancement, as well as training needs within some of its key suppliers in Bangladesh. NUK's expertise in this area helps Primark provide employees and middle management at factories with more intensive support and training on ethical issues.

Costs to Primark of working in an ethical way include:

- The employment of the global Ethical Trade team
- Training its buyers on all ethical trade issues
- Managing and paying for external audits
- Helping suppliers put right issues raised by audits, through training and support from the Primark Ethical Trade team.

However, rather than seeing these activities as costs, Primark believes that they enable the business to operate in a sustainable and well-managed way. Through its remediation programme, Primark's team of ethical managers work with factories to help them find ways of putting issues right and developing sustainable practices. This provides a benefit to the supplier but also in the long term to Primark, who gains from having suppliers all working to its standards.

Transparency in business

Transparency is an important part of this process. Transparency means the business is open to people seeing how it manages its relationships with suppliers. In turn, suppliers practices also need

to be transparent. The alternative would be for an organization to ignore ethical behaviour. However, this would rapidly lead to a decline in brand reputation and consumers could move to purchasing from competing retailers behaving more ethically. Operating in the 'right way' is therefore not just appropriate for ethical reasons, but is also good business practice.

How to Measure Employee Ethical Standards

Before ethical standards can be enforced, employers must establish clear and understandable standards. Once the standards have been clearly identified, compliance is measured by observing employee actions and identifying the results of those actions. Standards for measuring ethical behavior must be tailored to meet the needs of each organization or business.

Ethical Standards

1. Employees are expected to be honest when dealing with customers, and trustworthy when responsible for protecting company resources.
2. Employees are responsible for reporting any illegal activity taking place on company property.
3. When dealing with customers, employees are expected to conduct themselves with integrity.
4. Employees working in positions of public trust are expected to avoid situations that would give the impression of a conflict of interest.

Employee Actions

Employee acceptance of responsibility for ethical conduct begins with willingness to attend ethics training. Employees attending training sessions express their agreement to abide by ethical standards by signing a code of conduct. Employees who avoid ethics training might not be prepared to display the expected behavior toward customers and co-workers. Employee actions that cause customers to register complaints are an indication that an employee is not in compliance with expected standards of ethical conduct.

Results

The best way to measure the effectiveness of a company's ethical standards is to observe the results of employee actions. When the company is able to establish and maintain a loyal and satisfied customer base, management has a sure indicator that employees are treating customers ethically. When employees protect the integrity of company property, management has a positive measure of ethical conduct. Negative actions by employees indicate that ethical standards are not being complied with.

Tailoring Measurement

- Retail companies might measure the effectiveness of ethics training and compliance through the results of customer surveys.
- Manufacturing firms might measure the effectiveness of ethics training by resource loss rates or by productivity rates for each department.
- Governmental organizations might measure ethics compliance on an evaluation of how well employees respond to external customers, or meeting the needs of clients.

BUSINESS & ECOLOGICAL ENVIRONMENT IN INDIAN CONTEXT:

A satellite picture, taken in 2004, shows thick haze and smoke along the Ganges Basin in northern India. Major sources of aerosols in this area are believed to be smoke from biomass burning in the northwest part of India, and air pollution from large cities in northern India. Dust from deserts in Pakistan and the Middle East may also contribute to the mix of aerosols.

There are many environmental issues in India. Air pollution, water pollution, garbage, and pollution of the natural environment are all challenges for India. The situation was worse between 1947 through 1995. According to data collection and environment assessment studies of World Bank experts, between 1995 through 2010, India has made one of the fastest progresses in the world, in addressing its environmental issues and improving its environmental quality. Still, India has a long way to go to reach environmental quality similar to those enjoyed in developed economies.

Pollution remains a major challenge and opportunity for India.

Environmental issues are one of the primary causes of disease, health issues and long term livelihood impact for India.

Major issues

Floods are a significant environmental issue for India. It causes soil erosion, destruction of wetlands and wide migration of solid wastes. Major environmental issues are forest and agricultural degradation of land, resource depletion (water, mineral, forest, sand, rocks etc.), environmental degradation, public health, loss of biodiversity, loss of resilience in ecosystems, livelihood security for the poor.

The major sources of pollution in India include the rampant burning of fuel wood and biomass such as dried waste from livestock as the primary source of energy, lack of organized garbage and waste removal services, lack of sewage treatment operations, lack of flood control and monsoon water drainage system, diversion of consumer waste into rivers, cremation practices near major rivers, government mandated protection of highly polluting old public transport, and continued operation by Indian government of government owned, high emission plants built between 1950 to 1980.

Air pollution, poor management of waste, growing water scarcity, falling groundwater tables, water pollution, preservation and quality of forests, biodiversity loss, and land/soil degradation are some of the major environmental issues India faces today.

India's population growth adds pressure to environmental issues and its resources.

Population growth and environmental quality

There is a long history of study and debate about the interactions between population growth and the environment. According to a British thinker Malthus, for example, a growing population exerts pressure on agricultural land, causing environmental degradation, and forcing the cultivation of land of poorer as well as poorer quality. This environmental degradation ultimately reduces agricultural yields and food availability, causes famines and diseases and death, thereby reducing the rate of

population growth. Population growth, because it can place increased pressure on the assimilative capacity of the environment, is also seen as a major cause of air, water, and solid-waste pollution. The result, Malthus theorized, is an equilibrium population that enjoys low levels of both income and environmental quality. Malthus suggested positive and preventative forced control of human population, along with abolition of poor laws.

Malthus theory, published between 1798 and 1826, has been analyzed and criticized ever since. The American thinker Henry George, for example, observed with his characteristic piquancy in dismissing Malthus: "Both the jay hawk and the man eat chickens; but the more Jayhawks, the fewer chickens, while the more men, the more chickens." Similarly, the American economist Julian Lincoln Simon criticized Malthus's theory. He noted that the facts of human history have proven the predictions of Malthus and of the Neo-Malthusians to be flawed. Massive geometric population growth in the 20th century did not result in a Malthusian catastrophe. The possible reasons include: increase in human knowledge, rapid increases in productivity, innovation and application of knowledge, general improvements in farming methods (industrial agriculture), mechanization of work (tractors), the introduction of high- yield varieties of wheat and other plants (Green Revolution), the use of pesticides to control crop pests.

More recent scholarly articles concede that whilst there is no question that population growth may contribute to environmental degradation, its effects can be modified by economic growth and modern technology. Research in environmental economics has uncovered a relationship between environmental quality, measured by ambient concentrations of air pollutants and per capita income. This so-called environmental Kuznets curve shows environmental quality worsening up until about \$5,000 of per capita income on purchasing parity basis, and improving thereafter. The key requirement, for this to be true, is continued adoption of technology and scientific management of resources, continued increases in productivity in every economic sector, entrepreneurial innovation and economic expansion.