

Business Ethics
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Lecture - 24
Shareholders as citizens of corporation

Now, we will be discussing the Shareholders as the Citizens of the Corporation. In that will first discuss about shareholders and their changing roles with respect to globalization. As discussed earlier globalization is deterritorialization of social introductions and investments, which are facilitated by technology and the political changes of taking which was helped in easing how people connect with each other. When we talking of the shareholders with respect to globalization what we find like in this with respect to globalization shareholders have been able to invest directly in the shares overseas in the global organizations outside their own country.

Also they have invested indirectly by investing their money in a organization, which is domestic organization but maybe sharing their services, or selling their goods and services in a overseas country. The indirect effect is also prominently seen in case of shareholders of MNCs which are investing in for a direct investment; for in direct investments and that is how their money is getting invested in organizations which are in the outside their own country. They can also directly invest in the international capital market by investing in funds, which are directly used for businesses outside their domestic country.

In these four ways, the shareholders they can invest in businesses which are not restricted just to their own country, and they can invest in global financial markets. Global financial markets refer to all the physical and virtual markets, where the financial titles all sorts of financial titles in terms of shares, capitals, currency and other services like options are traded worldwide maybe through 24 hours, and technology and the political development technological development and political development have like facilitated this global financial market, and facilitated the shareholders to invest in it.

So, one market like it may the global financial market arranged in such a way like it functions through 24 hours, it starts in London moves through the America then through may be Delhi then Dubai and then Frankfurt and then the time it is just before one hour again when it is like the dealing starts in London. So, through it is active throughout the 24 hours, and the shareholders can move through this have a look into this independent markets also, but and try to see how they are able to invest in it.

The problems of the ethical issues of these are governance and control mainly who is going to control, and in what way who is going to control because with the deterritorialization, all the territories zones have control have become relaxed. So, who is going to maintain control over such a vast scenario is a big problem. Second is this market depends mainly on speculations of how it is going to function. And these speculations may lead to unfair competitions, and also the illegal transactions of money, and the developing countries may get affected by these type of transactions were based on speculations maybe money is moved out of one country in expectation. Like if invested in other country where the profit shown to be more then the there is more return. And in that way major chunk of money moves out of one country and this are illegal transactions.

To put a check on this there has been lot of debates and in this respect, one tax which is called the Tobin tax is discussed which is tax to be put on all financial foreign financial transactions, foreign currency transactions. But again ethical questions lies about the global enforcement of it, and the benefit of this tax based on does it put a check on the desirable and undesirable can it discriminate between the desirable and undesirable transactions. So, this is a question of debate given rise to between like people belonging to the anti-globalization moments in globalization moments with like no as such conclusion has been reached on to how to deal with these issues.

Another important problem of this globalization and shareholders is to deal with the global terrorism, and money laundering from one country to another. To have a check on this, it is very important to know your customers, it is very important to see like the criminals are not holding key positions in the bank. To have a proper check on the

employee backgrounds, but this may again fall in the domain of ethical issues with respect to human resource management. So, it has to be done very carefully. And any unusual or suspicious transactions have to be noted and reported properly. And there has to be proper training of the regulators and the staffs to smell about to be aware about this illegal transactions happening. And then we need certain extent put a check on this money laundering and the global terrorism.

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Next, we will move on to understanding shareholders as the citizens of the corporation. In this, we are going to discuss on the shareholder democracy. When you are talking of shareholder democracy, we understand the democracy means the power of the shareholders, the entitlement of the shareholders to participate in corporate decisions.

And to have a say in corporate decisions, and it is based on the legal claim rights based on the property rights, legal claim based on property rights. But again question lies can shareholder be a force for wider social accountability and performance of the organization? Regarding this, three issues need to be considered. First is the scope of activities, second is the adequate information, and third is the mechanism for change. When we are discussing the scope of activities means the shareholders must be having information about the whole range of activities the organization is getting involved in,

then only they can try to find out whether the organization is maintaining the role of the social accountability or not. If we are not aware of the different activities the organization is involved in, then we are not in a position to judge it

So, in that scope of activities also, so the organization has to acknowledge its accountability to the shareholders. And in this accountability, we understand they are accountable to the shareholders not only for their financial performance, but also for performance in other areas with respect to other stakeholders only when the corporate acknowledges their accountability to all the shareholders for all activities they are involved in. Not only accountability for only the financial accountability, financial performance then only we can see that the shareholders can have a say regarding wider social accountability, and they can be a force for wider social accountability of the organization.

Next, when it comes to in order to do this, shareholders must be having adequate information about what the organization is to be. And the information asymmetry has to be less. For this as we have discussed earlier, shareholder participation, more programs to make shareholder aware of the functioning of the organization, entering into dialogue with the shareholders are very important steps taken by the organization to share adequate information with the shareholders. So, adequate information in terms of getting involved in the social accounting process, where that organization enters into a dialogue with the shareholders to understand their expectations from the organization, what they want to see, and how it wants reward the organization to perform with respect to the social accountability.

The third is the mechanism for change. Shareholders must be having certain mechanism to communicate about their choices to the organization. So, if you have defined the scope of activities, if you have given adequate information also through like getting involved in the social accounting process. But there should also be certain mechanism for in the hands of the shareholder, which they can use as a mechanism for bringing in change in the organization and communicate their ethical choices to the organization. So, that mechanism can be taken as ethical investment also having some criteria of deciding I will

be investing in these type of organization, I will not be investing in this type of organization, I will be investing in this organization only, these criteria are followed or not. So, these can be a mechanism for the shareholder's to exercise their choices to bring in some change in the way organization is functioning and that is called ethical shareholding.

(Refer Slide Time: 16:27)

Two approaches to 'ethical' shareholding	
Stakeholder activism	Ethical investment
Single-issue focus	Multi-issue concerns
No financial concerns	Strong financial interest
Seeks confrontation	Seeks engagement
Seeks publicity	Avoids publicity

Source: 

There are two approaches to ethical shareholding. One is called stakeholder activism and the other is ethical investment. We will discuss these two in details. We may talk of stakeholder activism. This is where the shareholder tries to invest in the organization to invest in majority of the shares, so that he or she gets a voice, which the voice, which the company is bound to hear. And that voice is bringing into focus trying to make the organization aware of certain responsibilities like that they now may not have performed well or taken care of. So, this is a single issue focus. And they generally speak about a single issue.

Then the concern is more about the issue at hand to make the company hear what the shareholder wants to tell. It is direct concentration with the organization to tell like this is what you have not done, and maybe need to take care of, need to do it, and it seeks publicity, so that everybody gets aware of it. And maybe this collects like intensity moral

intensity, and then the company is forced to notice this issue, and take proper steps solving it.

Ethical investment, on the other hand is not regarding a single-issue focus, but it is regarding multiple issues concerned and with the relevance to particular criteria which is there in the mind of the investor. And it has a financial interest definitely because it will it is investing in companies which is following these ethical principles. It seeks engagement with the particular organization who is following the ethical standards as per the expectations of the investor or as shown by the market, like yes this is an ethical company and it avoids publicity. So, these are two ways of approaches of ethical share holding.

(Refer Slide Time: 20:03)



Shareholder activism

- Buy shares in company for right to speak at the AGM
 - Voice concern and challenge the company on allegedly unethical practices
 - Possibility of broad media attention by 'disrupting' the meeting
- Issues:
 - Gets involved with 'the enemy'
 - Only an option for reasonably wealthy individuals

As we see shareholder activism is buying of the share of the company for the right to speak and the annual general meeting. Is there is a possibility of broad media attention by disrupting the meeting, so voice concern and challenge the company on allegedly unethical practices. And it is the issue is as if it is getting involved with the enemy, and it is only an option which is there for reasonably wealthy individuals to get involved in this type of activity.

(Refer Slide Time: 20:54)



Socially responsible investment (SRI)

Ethical investment is the use of ethical, social and environmental criteria in the selection and management of investment portfolios, generally consisting of company shares

What we talk of socially responsible investment is the use of ethical, social and environmental criteria in the selection and management to investment portfolios, generally consisting of company shares.

(Refer Slide Time: 21:15)



Ethical investment

Examples of positive and negative criteria for ethical investment

Negative criteria	Positive criteria
<ul style="list-style-type: none">• Alcoholic beverages production and retail• Animal rights violation• Child labour• Companies producing or trading with oppressive regimes• Environmentally hazardous products or processes• Genetic engineering• Nuclear power• Poor employment practices• Pornography• Tobacco products• Weapons	<ul style="list-style-type: none">• Conservation and environmental protection• Equal opportunities and ethical employment practices• Public transport• Inner city renovation and community development programmes• Environmental performance• Green technologies

So, as we are discussing in ethical investment, there could be certain positive criteria

which is there in the mind of the person who is making the investment. And certain negative criteria like if these things are present, I am not going to invest in. So, let us have look into this positive and the negative criteria. Negative criteria could be like alcoholic beverages production and retail, animal rights violation, child labor, companies producing or trading with oppressive regimes, environmental hazards products, genetic engineering, nuclear power, poor employment practices, pornography, tobacco products, weapons etcetera.

Positive criteria could be conservation of environmental protection, equal opportunities and ethical employment practices, public transport, inner city renovation and community development programs, environmental performance and green technologies. So, you find like it is maybe dealing with the social rights employment rights and the environmental issues. So, certain criteria which is there in the mind of the investor like I will be investing for organization, who are working for these purposes or promoting this purposes. And I will not be investing for companies who are either depleting the environmental resources, polluting the resources or working against some of the in our invest or working some of the ways which are violating the basic human rights or social rights. So, these are some of the criteria of positive and negative criteria for ethical investment by the organization.

(Refer Slide Time: 23:22)

Ethical Investment

Top 10 stocks held in SRI funds in emerging market firms, 2009

Position	Company	Industry
1	Petrobras (Brazil)	Oil and gas
2	Samsung Electronics (South Korea)	Consumer electronics
3	China Mobile (China)	Mobile phone provider
4	Taiwan Semiconductor (Taiwan)	Electronics
5	Yale (Brazil)	Pharmaceuticals
6	Vale (Brazil)	Mining
7	Aeromexico (Mexico)	Mobile phone provider
8	Gaspetrol (Brazil)	Oil and gas
9	Brazil (Brazil)	Steel
10	Absolut (Brazil)	Alcoholic beverages (e.g. Rum)



And we can see like some of the industries and top ten stocks in the emerging market forms.

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Main concerns with SRI movement

- **Quality of information**
 - Most information provided by firms and is difficult to verify
- **Dubious criteria**
 - See table in previous slide
- **Too inclusive**
 - 90% of Fortune 500 firms are held by at least 1 SRI fund
- **Strong emphasis on returns:**
 - Usually, SRI fund managers screen for performance first, then select using ethical criteria
 - Firms taking longer-term perspectives and thus sacrificing short-term profitability therefore unlikely to be included

(See Vogel, 2005)



However the main concerns about these socially responsible investment movement is the quality of information most of the information are the provided by the firms themselves like we are doing this and this. It is the self-reporting as we found in social accounting also. So, there is difficulty in verifying whether they are actually doing it or not. So, they like whole set of criteria as mentioned in the last slide, so which one to focus on which is more important than the other, these are challenges for this ethical investment. So, it is too inclusive in the sense like if you find like 90 percent of the Fortune 500 firms are held by at least one socially responsible investment fund. So, it shows like, it is too inclusive in nature.

So, and it is like in many cases strong emphasis on returns. What generally happens by the investment managers like (Refer Time: 25:09) they may be selecting for the performance first, and then they trend to tag the ethical criteria select based on the ethical criteria. And firms which take longer terms perspectives and thus scarifying the profitability are not like unlike they were unlikely to be included because if the performance is selected as a criteria first they do not get a chance of getting included,

when they are taking long-term prospective and sacrificing short-term profitability. Because these firms do not get a chance of getting included in the screening, so that maybe the strong emphasis on return may lead to some dilemmas while we discussing our like ethical investment.

Next, we will be discussing on share holding for sustainability.

Thank you.