



Short Review Paper

Shaping business with ethics

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Abstract

The corporate world has entered a phase wherein, as a whole it is experiencing pangs of moral consciousness. Management concepts have taken a new meaning with emerging expressions like corporate sustainability, business ethics and corporate governance becoming the buzz words. This corporate world has now to match its ethical instincts so as to embody itself in all its realms of its existence. This study will try to examine the concepts of ethics and its relevance to business.

Keywords: Ethics, Corporate, Morality, Values, Social responsibility.

Introduction

The conscience in a human being directs him to act in a particular fashion. The good and the bad, the creative and the corrupt, the right and the wrong are all the result of our consciousness. Mahatma Gandhi and Mother Teresa are revered even today because of their thoughts and deeds, which in a way was an outcome of their conscience or inner values. The infamous Satyam and the WorldCom scam are also the result of their conscience. Giant corporations such as Enron and British Petroleum failed only because of governance issues. Such experiences have shifted the focus on how the business should run. Many top executives and other stakeholders have started taking a closer look on how ethically a business is being managed. Corporates now have to pay more attention to an ethical and moral form of governance¹. The primary obligation of a business is to serve the interests of all its stakeholders by running its business economically and efficiently². However today, there the corporates need to be ethical in their business¹. Thus we can say that the core values internalized by a corporate and followed by its top management decides the way the corporate will function. For a business to survive, endure and grow, it must have a conscience that needs no threat of external Law or regulatory bodies, no motivating factor of an external reward to do the right thing by its stakeholders, its employees and the community at large. This is an ideal corporate governance which is, of course, difficult to attain, but each business house should endeavour to create corporate consciousness. All business are, today required to build an environment in which the top management responsible of governing should follow ethical practises in all its activities³.

Understanding ethics

The Greek origin of the word Ethics is “ethos” meaning, which relates to beliefs, standards and ideals adopted by a group, individual and community as a whole. Ethics refers to a set of

rules that define right and wrong conduct and that help individuals distinguish between fact and belief, decide how such issues are defined and what moral principles apply to the situation¹. Moral behaviour are the general rules of behaviour that a society adopts over the years. Ethics may be defined as *the science of morality* or as *the study of right conduct or duty*. It can be defined as a science which directs a human being towards a specific course in life. It must, however, not be confused with pure science. It is a creation of the human mind and influenced by culture.

It is argued that ethics had its importance in ancient times as well. The teachings of Lord Buddhaz emphasize on “*just be good and do good*”. This Cardinal maxim of ethics applies to all realms, whether personnel or professional and the governmental system is no exception.....Kautilya in his magnum opus, Arthashastra, urged the rulers to practice compassion. Plato expected from the statesmen to be the *men of wisdom* and empathy. Ethics in Governance has many dimensions and it is a multi-dimensional phenomenon.

There are three sources of ethics. The first source is individual’s *sense of values* which is inculcated by his parents, teachers and religion. The second source is the *value system of the society*. If the values of the society dictates honesty and integrity and appreciates sincerity and commitment towards work, it will breed a responsible individual. The third source of ethics is the system in which an employee works. An environment that inculcates a spirit of justice, brings transparency and integrity in its work commitments, evolves a sense of responsibility and accountability will nurture a committed employee.

Ethics in business

Why has ethical way of doing business and corporate governance suddenly become the buzz words in the Indian boardrooms. The Indian boardrooms are, of late, in the thick of

speculations, contradictions misunderstandings and clarifications. The Tata-Mistry boardroom tussle started the winter of discontent, and just as the furor seemed to be dying down that Infosys imbroglio took over the centre stage. Infosys, which has always been the poster boy for good, ethical corporate governance public with certain events which were too conspicuous to brush aside. The recent examples just confirmed what data in 2016 had hinted at. Cimply Five and In Govern, independent corporate governance research and advisory firms, had in 2016 released a report on their evaluation of corporate practices followed by the top 100 companies of India. Only five companies got 3 stars, the highest that any company was awarded. These were Ambuja Cements, Container Corporation, Federal Bank, HDFC and Hero Motocorp. Companies which were awarded two stars included Infosys, Wipro, Bharti Airtel, along with 48 other companies. If the highest standards of corporate governance is sadly missing, at least it is in the forefront of discussions now. With guidelines being framed and the guidelines getting the power backing of the force of law, Indian companies are now accepting the importance of these guidelines.

Let us examine the ethical way of doing business in its historical perspective. What is business ethics? Is it not the purpose of business to earn profits. There have been many arguments which view business pragmatically to state that in the long run unrestrained corporate freedom would benefit all. There have been many economists who have argued that if a company has an objective of maximizing returns for their investors, then sacrificing profits for other things, including corporate social responsibility, is shirking their fiduciary responsibility. These were the arguments which were held in the early part of 1950s and 1960s. But with the passage of another 10 years it was firmly established that the right way of doing business was following the right practices which were rooted in law as well as those which were sanctioned by ethical customs. Corporate social responsibility became an inherent part of the responsibility of a corporate. Again then what was business ethics. Very simply business ethics can be defined as application of professional ethics in a business environment. It is applicable to all aspects of business transactions and it is also reflected in the conduct of individuals associated with a corporation and the conduct of a corporation itself. In a very simplistic definition it can be defined as what is "right" as against what is "wrong": the conscience of a business, so to speak. Each corporation has certain behavioral norms which are ingrained by way of traditions, customs, community and professional values, in each individual associated with the corporation. There are, in addition, the written code of conduct which reflect the principles or values for which a corporation stands³. Some organisations have a Code of Ethics as well. The Code of Ethics governs the ethics which shall apply in the operation of any commercial enterprise. The individuals own concept of ethics cannot be ignored. The moral standards of any individual influenced by the political and cultural environment in which the organisation

is operating will result in the making of the ethics and morality of that business⁴.

Since the morality, the standards and the value systems, the concept of what was acceptable norms of behavior changes from time to time the Code of Conduct or the Code of Ethics has to be dynamic. A case in point is the ownership of slaves. In the early seventeenth century and the eighteenth century slavery and colonization was an acceptable way of doing business. Slavery was widespread in the European and the American colonies. Slaves were considered to be the properties of the owners and had a legal sanction. Slaves as a property was affirmed and clearly stated in the American Constitution. But with change of societal norm these very practices were frowned upon. These practices were made illegal subsequently as new norms dictated the way of doing business.

Business Ethics are a bundle of ethics and can be studied in three levels, based on an economic scale.

The macro level: The macro level examines the role of business in an international and a national context and includes different political/social systems, such as operations in a free enterprise, centrally planned and controlled economies, a mixed economy, and has to consider international relationships⁵. The fundamental question then is what is the role of business in society and which governance principles deliver the most benefits to society in a morally responsible way. Again the concept of morality is dynamic and the interpretation can change across societies, cultures, time period etc. Whatever be the interpretation, morality determines the code of conduct or the code of ethics through which business is carried out on an international or a national platform.

The corporate level: This deals with corporate social responsibility where an organization has to do "good" and has to be seen to be doing "good". At this level business ethics is defined by the interpretation of rules and standards⁵. These are again influenced by the prevailing political context along with the socio cultural ethos in which an organization is operating. It seems easy to assume that the culture of an organization are directly influenced by personal morality and ethics, but in reality there is a perceptible gap in the behavior of an individual operating within a corporation and outside it. This is exemplified in the current Infosys governance issues where the ownership and the management is in different hands. Even if there are no unethical practices, the perception of the code of ethics may differ leading to a situation of mistrust.

The individual level: the norms of behavior and code of conduct that is applicable to individuals within organisations and is largely dependent on factors like leadership, personality, peer pressure and the socio political environment. The culture of the organisation may or may not be in keeping with the individuals own moral and ethical principles. There may not be far reaching consequence of an individuals beliefs but every

corporate is affected by individuals moral and ethical stance. Any difference between business and personal code of ethics leads to levels of double standards which again impacts the individuals behavior.

Scope of business ethics

Business ethics should ideally permeate the whole organization. It should be in the bloodstream of the organization so to speak. It also requires that the business should be perceived to be ethical. It also implies that starting from recruitment to finances, production, sales, marketing, services, customer care, promotions et all should be perceived to be fair and just to the internal customer as well as the external ones. As the famous saying goes that the fish rots from the head, so the top management has to be committed to managing the business ethically, taking care to ensure that questionable practices are rooted out and so are individuals who have been found wanting in practicing high standards of behavior. And that is why Marvin Bower has said ~ There is no such thing as business ethics. There is only one kind—you have to adhere to the highest standards.

Ethical discipline has to be prevalent in every sphere of operation in an organization. It is widely believed that financial fraud is one of the biggest areas of ethical indiscipline in a privately managed organization. Financial indiscipline includes executive pay, manipulations leading to avoidance of payment of corporate taxes, bribery and corruption. Creative accounting, falsifying data, insider trading, securities fraud, misleading financial analysis are other forms of unethical practices. This is only the financial aspect. The financial aspect tends to be more complicated since the financial discipline is a matter of behavioral science as much as economics accounting and management. It is widely perceived to be more a matter of legal compliance than ethical adherence.

Sales and marketing is another strongly contested domain since this aspect is crucial to the profitability of an organization. Ethics in marketing deals with those principles and values a marketer should adhere to even at the cost of profits. It may deal with mis-selling of products, products which are redundant or dangerous to use. The other aspects of ethical marketing deal with transparency regarding the ingredients used in products, their consequences on consumption or the dangers they pose to the environment, genuine advertising and fairness in pricing and distribution.

A third equally challenging terrain is that of ethics in production. Each organization has the responsibility to ensure that their production processes do not harm the environment or upset the balance of nature. Since the production, consumption and thereafter the disposal of any product cannot be totally risk free, either to the environment or to humans choosing an ethical path can be immensely challenging. The production process may involve polluting nature, destroying habitats and giving rise

to urban sprawl. Certain technological consequences have a very long term impact, and the advantages or the disadvantages of the use of technology cannot be immediately fathomed. Product testing is another grey area. The product testing protocols have been accused of violating the rights of both humans and animals.

Advantages of business ethics

Business ethics and financial growth of a company are positively linked. Corporates and business houses are fast recognising this. An ethically committed company outperforms other companies that fail in conducting its business ethically.

Attracting and retaining talent: Competent and Talented individuals are willing to join a company that has a reputation for ethical values. Companies that strive to establish and maintain an environment that encourages trust and respect among employees will have a low attrition rate. The policies of a company decides its future and its policies cultivate teamwork, and supports employee growth.

Investor Loyalty: Investors will place their loyalty (and their money) in a company that has ethical values and is socially responsible. Efficiency, productivity and profit is a natural outcome of such a business organisation.

Customer satisfaction: Establishing a relationship with customers is a long drawn process. Loyalty to a particular brand or company comes only when there is a mutual respect between the two and an enduring relationship can then be established. A company that practises ethical values in all its dealings and adopts ethical practises will earn the faith of its customers.

Regulators and auditors: Companies that have a reputation of creating and maintaining an ethical environment are considered as responsible citizens. Monitoring of such companies is not always required. An ethically aware company will function responsibly to enhance its image in the eyes of the public.

Conclusion

Ethical practices exist in every sphere of an organizations' existence - management of human resources, fair labour practices, property rights including the intellectual ones, dealing with trade unions, management strategy etc. These are in addition to the financial aspects, the marketing strategies and the production issues already looked into. Other ethical issues deal with misuse of company time and resource, using business deals to leverage individual benefits, creating conflicts of interest within the organization, lying and cheating to obtain promotions or awards.

The importance of promoting the ethical way of doing business was understood in the 1970s but it developed into a structured academic subject only in the 1980s. Major companies today

promote their commitment to non-economic, non-profit causes under the banner of corporate social responsibility. It is important to be considered to be a responsible company by the consumer. As part of their corporate ethical programmes, many companies have formulated a code of ethics for their organization. These spell out the acceptable behavioral patterns within the organization and serve to guide individuals in handling problems related to value systems, they may face in the course of their duties. Such laid down code of conducts brings about greater awareness, and the consistency in application helps in avoiding ethical disasters.

There are the naysayers, who argue that the only purpose of the code of ethics is just to be there. They serve no other purpose. The competitive environment ensures that lying, bribery profit maximization at any cost, exploitation of resources, creative accounting amongst other unethical practices will prevail. The corporate ethical practices are rooted in utilitarian concepts. Individual will deal with situations based on their belief systems and not by laid down ethical corporate codes.

Perhaps the biggest purpose that the ethical codes serve is to lay down the mission of an organization and its obligations. This serves to reinforce the responsibilities individuals face both singly and in a group, to the corporation, to each other, to customers and clients, to stakeholders and to environment and to society too. It also inculcates a sense of values in the employees,

it helps them to face the moral consequence of their actions and be accountable for it, thereby developing virtues appropriate to their position.

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