

# SREE SIDDAGANGA FIRST GRADE COLLEGE OF ARTS AND COMMERCE

## NELAMANGALA – 562123

### Chapter 1

#### Nature and Essences of Business Ethics

##### **Introduction**

In Latin language ethics is called Ethicus. In Greek it is called Ethikos and root word Ethos which means character, custom or habits also means —way of living.

Ethics refers to a system of moral principles, rules and conduct. The ability to distinguish between right and wrong and act accordingly.

##### **Meaning:**

Ethics is a branch of philosophy that is concerned with human conduct. It is the moral principles that govern a person's behavior. It helps us to classify what is good and bad, right and wrong, fair and unfair.

In short, ethics means a code of conduct.

##### **Sources of Ethics**

- General Inheritance
- Religion Philosophical
- Legal Systems

##### **Difference between Ethics and Morals**

- Morals are the beliefs of the individual or group as to what is right or wrong:  
Ethics are guiding principles which help the individual or group to decide what is good or bad.
- Moral is derived from the Greek word 'Mos' means custom:  
Ethics is derived from the Greek word 'Ethos' means character.
- Morals are governed by Social and cultural norms:  
Ethics are governed by individual or professional norms.

##### **Difference between Ethics and Law**

- Ethics are rules of conduct.  
Laws are rules developed by governments in order to provide balance in society and protection to its citizens.
- Ethics comes from people's awareness of what is right and wrong.  
Laws are enforced by governments to its people.
- Ethics are moral codes which every person must conform to.  
Laws are codifications of ethics meant to regulate society.
- Ethics does not carry any punishment to anyone who violates it.  
The law will punish anyone who happens to violate it.
- Ethics comes from within a person's moral values.  
Laws are made with ethics as a guiding principle.

## Scope of Ethics

- It determines rightness or wrongness of human actions. It does not enquire into the origin and growth of human conduct.
- Ethics is concerned with the highest good or absolute good. It investigates the nature of its fundamental notions i.e. right, duty and good.
- Ethics covers the following dilemmas: how to live a good life our rights and responsibilities the language of right and wrong moral decisions - what is good and bad?
- Ethics discusses the nature of human freedom. Ethics investigates what constitutes good or bad, just or unjust.
- Ethics is essentially related to all other branches of knowledge like sociology, political science, economic, jurisprudence, law and legal study, psychology, anthropology, culture study, ecology and environmental study, economics, religion, aesthetics and other similar areas.
- Studies human behavior and makes evaluative assessment about them as moral or immoral.
- Establishes moral standards/norms of behavior.
- Ethics is a branch of social science. It deals with moral principles and social values. It helps us to classify, what is good and what is bad? It tells us to do good things and avoid doing bad things.

Thus If we ask this simple question: why do we have to study ethics? the simplest answer is: It tells us how to act rightly. It has the value in guiding people in the practice of right conduct or the art of living the good life.

## Importance of Ethics

- **Social concern and responsibility** – concern for consumers, are products safe and well designed.
- **Value in business** – quality, team work, client focus, integrity, customer centric.
- **Improves organizational effectiveness** – clarity & streamline decision making at each operating level.
- **Healthy competition** – expand your boundaries of abilities, better yourself, growth.
- **Benefit for stakeholders** – internal are owners employees managers, external are suppliers, society, government, creditors, customers.

## Role of Ethics

- The moral obligation and sense of duty, the responsibility for actions are included within the scope of ethics.
- Ethics deals with moral good in order to query the nature of human behaviour.
- It enquires into the actions, motives, intentions of human.
- It merely debates over the moral consciousness and the various problems associated to it.

## Nature of Ethics

1. Ethics is the study of human conduct with respect to its rightness or wrongness in the light of a supreme standard.
2. Ethics is a science, concerned with a particular sphere of nature that deals with certain judgments that we make about human conduct. It also talks about systematic explanation of rightness or wrongness in a man's life.
3. Ethics is not an art. Art deals with acquiring new skills to produce objects. Rather it helps us to justify rightness or goodness which can lead to the supreme goal of human life

4. Ethics is a branch of philosophy and moral philosophy which is concerned about what is good for the society. It covers a whole family of things that have a real importance in everyday life. Philosophy means love of wisdom and is the study of general and fundamental problems concerning matters such as existence, knowledge, values, reason, mind, and language.

5. Ethics is derived from religions, philosophies and culture

### **Types of Ethics:**

- Transactional Ethics
- Participatory Ethics
- Recognition Ethics

### **Transactional Ethics**

Man is a social animal. He has to act and react with others through different transactions. The practice of ethics in all these transactions is called as transactional ethics.

Business transactions are the interaction between business and its customer.

Eg. We need vegetables & fruits likewise the vendor needs customers like us for survival and we both are dependent on each other.

### **Participatory Ethics**

Guided by common good, all the participations follow some ethical practices. Participatory ethics is an integral part of business ethics these are the action some of which are guided by common interest and some share interest all participatory involved in the business.

It provides idea about how to mediate between business goals and moral demands and how to serve the society in more ethical way and gain corporate excellence.

### **Recognition Ethics**

As human beings people are endowed with the ability to understand the problems of others. This quality leads to the recognition of individuals, institutions, and societies. Conflicting situations can be solved by the correct recognition of the situation.

Eg. The strong is helping the weak; the learned is helping the lesser learned, the experienced is helping the new entrant.

### **The field of Ethics**

The field of ethics is usually broken into three different ways of thinking:

- Descriptive Ethics
- Normative Ethics
- Analytic Ethics

**Descriptive Ethics:** This category is the easiest to understand as it involves describing how people behave and what sorts of moral standards they claim to follow. This incorporates research from anthropology, psychology, sociology and history to understand beliefs about moral norms.

**Normative Ethics:** This category of ethics involves creating or evaluating moral standards in an attempt to figure out what people should do or whether the current moral behaviour is reasonable. Normative ethics states that "This action is wrong in this society, but it is right in another."

**Analytic Ethics:** It is also referred to as Meta ethics, It is the study of assumptions people make when engaging in normative ethics. It states that, Morality is relative. It argues that there are no moral standards independent of our social groups and hence whatever a social group decides is right is right and whatever it decides is wrong is wrong.

Eg: Existence of God.

## Business Ethics

### *Meaning:*

Business Ethics refers to written and unwritten codes of principles and values that govern decisions and actions within a company. It helps the business organization to set the standards for determining between good and bad decision making and behaviour.

### *Definition:*

- **According to ICAI**  
“The principles and standards that determine acceptable conduct in business organization.”
- **According to John Donaldson**  
“Business Ethics is the systematic study of moral matters pertaining to business, industry, related activities, institutions, or practices or beliefs.”

## Characteristics or Features of business ethics

1. **Code of conduct** : Business ethics is a code of conduct. It tells what to do and what not to do for the welfare of the society. All businessmen must follow this code of conduct.
2. **Based on moral and social values** : Business ethics is based on moral and social values. It contains moral and social principles (rules) for doing business. This includes self-control, consumer protection and welfare, service to society, fair treatment to social groups, not to exploit others, etc.
3. **Gives protection to social groups** : Business ethics give protection to different social groups such as consumers, employees, small businessmen, government, shareholders, creditors, etc.
4. **Provides basic framework** : Business ethics provide a basic framework for doing business. It gives the social cultural, economic, legal and other limits of business. Business must be conducted within these limits.
5. **Voluntary** : Business ethics must be voluntary. The businessmen must accept business ethics on their own. Business ethics must be like self-discipline. It must not be enforced by law.
6. **Requires education and guidance** : Businessmen must be given proper education and guidance before introducing business ethics. The businessmen must be motivated to use business ethics. They must be informed about the advantages of using business ethics. Trade Associations and Chambers of Commerce must also play an active role in this matter.
7. **Relative Term** : Business ethics is a relative term. That is, it changes from one business to another. It also changes from one country to another. What is considered as good in one country may be taboo in another country.
8. **New concept** : Business ethics is a newer concept. It is strictly followed only in developed countries. It is not followed properly in poor and developing countries.

## Need/ Importance/Advantages/Arguments for Business Ethics

**Goodwill** : A high ethical business organization enjoys high goodwill from its customers. Customers confidence increases about the quality, quantity, price etc of the products. They trust that ethical businessmen will not cheat them and build a long lasting relationship with such concerns.

**Profitability** : Business ethics are important to develop good and friendly relations between business and society. This will result in regular supply of quality goods and services to the society, and in return results in profits and growth of the economy.

**Stop business malpractices :** Some unscrupulous businessmen do business malpractices by indulging in unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, etc. These business malpractices are harmful to the consumers. Business ethics help to stop these business malpractices.

**Improve customers' confidence :** Business ethics are needed to improve the customers' confidence about the quality, quantity, price, etc. of the products. The customers have more trust and confidence in the businessmen who follow ethical rules. They feel that such businessmen will not cheat them.

**Survival of business :** Business ethics are mandatory for the survival of business. The businessmen who do not follow it will have short-term success, but they will fail in the long run. This is because they can cheat a consumer only once. After that, the consumer will not buy goods from that businessman. He will also tell others not to buy from that businessman. So this will defame his image and provoke a negative publicity. This will result in failure of the business. Therefore, if the businessmen do not follow ethical rules, he will fail in the market. So, it is always better to follow appropriate code of conduct to survive in the market.

**Safeguarding consumers' rights :** The consumer has many rights such as right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc. But many businessmen do not respect and protect these rights. Business ethics are must to safeguard these rights of the consumers.

**Protecting employees and shareholders :** Business ethics are required to protect the interest of employees, shareholders, competitors, dealers, suppliers, etc. It protects them from exploitation through unfair trade practices.

**Develops good relations :** Business ethics are important to develop good and friendly relations between business and society. This will result in a regular supply of good quality goods and services at low prices to the society. It will also result in profits for the businesses thereby resulting in growth of economy.

**Creates good image :** Business ethics create a good image for the business and businessmen. If the businessmen follow all ethical rules, then they will be fully accepted and not criticised by the society. The society will always support those businessmen who follow this necessary code of conduct.

**Smooth functioning :** If the business follows all the business ethics, then the employees, shareholders, consumers, dealers and suppliers will all be happy. So they will give full cooperation to the business. This will result in smooth functioning of the business. So, the business will grow, expand and diversify easily and quickly. It will have more sales and more profits.

**Consumer movement :** Business ethics are gaining importance because of the growth of the consumer movement. Today, the consumers are aware of their rights. Now they are more organised and hence cannot be cheated easily. They take actions against those businessmen who indulge in bad business practices. They boycott poor quality, harmful, high-priced and counterfeit (duplicate) goods. Therefore, the only way to survive in business is to be honest and fair.

**Consumer satisfaction :** Today, the consumer is the king of the market. Any business simply cannot survive without the consumers. Therefore, the main aim or objective of business is consumer satisfaction. If the consumer is not satisfied, then there will be no sales and thus no profits too. Consumer will be satisfied only if the business follows all the business ethics, and hence are highly needed.

**Importance of labour :** Employees or workers play a very crucial role in the success of a business. Therefore, business must use business ethics while dealing with the employees. The business must give them proper wages and salaries and provide them with better working conditions. There must be good relations between employer and employees. The employees must also be given proper welfare facilities.

**Healthy competition :** The business must use business ethics while dealing with the competitors. They must have healthy competition with the competitors. They must not do cutthroat competition. Similarly, they must give equal opportunities to small-scale business. They must avoid monopoly. This is because a monopoly is harmful to the consumers.

**Reasons for upholding Business ethics:**

- A higher moral within your employees and the organization
- It helps to attract new customers
- It builds higher customer loyalty
- It reduces the risk of negative press or backlash caused by doing —the wrong|| things
- It helps to make a positive impact on the community
- If you want to run a sustainable business having a high set of ethics is critical, and there can be serious consequences if poor ethical decisions are made.

Regardless of whether you believe good business ethics contribute to profits or not, poor ethics will have a major impact on your bottom line. Without standards you have misinformed, misguided and bad decisions being made, which can cause financial loss or injury to other people, or the business. Many legal cases are raised because of people seeking compensation for their losses as a result of business people making unethical decisions.

**Factors Influencing Business Ethics**

In taking decisions involving ethical issues a business must consider

**1. Leadership**

Leader is a person who leads people towards achieving a common goal. Not all leaders are considered to be perfect in decision making, as every decision they make will depend upon the character of the person which differs from person to person. Leaders are models and mentors and should have strong commitment towards ethics and ethical conduct and should give a constant leadership in renewing the values of an organization. They play a key role in creating, maintaining and changing the ethical culture. Its necessary for leaders to set good examples and follow ethics. Where there are good leaders there will be good ethical practices in business.

Eg. JRD Tata, Dhirubhai Ambani, N.R. Narayana Murthy.

**2. Individual Characteristics**

It refers to the attitude and lifestyles of each person individually. It includes values (belief about right and wrong), Ego (strength of one's convictions) and degree of one's control.

**3. Environment**

It refers to things around us. An organization uses abundant natural resources for its production purposes and hence should be ethical in its utilization. It should follow the principle of sustainable development and not exhaustive development.

#### 4. Corporate Culture

It is the set of shared values, beliefs, goals, norms that prevail within an organization. As in the case of Tyco where its organizational culture supports unethical practices. If the company makes huge profits in unethical way then individuals who join the organization would also have to practice unethical activities to survive in the company. As in the case of Enron where many executives and managers knew the company was following some illegal and unethical practices, but the executives and managers did not know how to make the ethical decisions and corporate ethical culture. Thus they fall back and managers have to pay in the form of fines and imprisonment.

#### 5. Strategy and performance

To integrate ethics into the business strategy, business people have to add three more questions

- What do we stand for? What is our purpose? What values do we have?

#### 6. Corporate governance

It is a set of systems and processes that a company follows to ensure that it is in the best interest of the stake holders. Stake holders are the shareholders, customers, creditors, government, suppliers and the community.

#### 7. Other factors include

- Identification of stakeholders of the business their rights and responsibilities. Stakeholders include customers, government, employees, shareholders, suppliers, business partners, other statutory organizations and the general public.
- Importance of profit and other similar motives of the business and its managers in relation to the importance of morality, honesty and other similar values.
- The extent of responsibility of business for specific areas and to the community in general. It includes environmental protection, equality and fairness in dealing with stakeholders, product quality and reliability and abetting corruption.
- Personal value system and beliefs of the owners and managers of the business.
- Impact of ethical behaviour on short and long term prospects and performance of business.
- The company policies, rules, work-procedures and system.
- The organizational culture and shared values.

#### Principles of Business Ethics

Rules or principles of business ethics are the code of conduct for businessmen. It tells us how businessmen should do business for social good. These principles are related to consumers, employees, investors, local community and the society as a whole.

**The important rules or principles of business ethics are as follows:-**

**Avoid exploitation of consumers :** Don't cheat and exploit consumers by using bad business practices such as artificial price rise and adulteration.

**Avoid profiteering :** Don't indulge in unscrupulous activities like hoarding, black-marketing, sale and use of banned or harmful goods, etc., for the sake of greed to earn exorbitant profits.

**Encourage healthy competition :** Don't destroy a healthy competitive atmosphere in the market which offers certain benefits to the consumers. Do not engage in a cut-throat competition. Avoid making attempts to malign and spoil the image of competitors by unfair means.

**Ensure accuracy :** Always check and verify the accuracy in weighing, packaging and quality while supplying goods to the consumers.

**Pay taxes regularly :** Pay taxes and other charges or duties to the government honestly and regularly. Avoid bribing government officials and lobbying for special favours.

**Get accounts audited :** Maintain accurate business records, accounts and make them available to all authorized persons and authorities.

**Fair treatment to employees :** Pay fair wages or salaries, provide facilities and incentives and give humane treatment to employees.

**Keep investors informed :** Supply reliable information to shareholders and investors about the financial position and important decisions of the company.

**Avoid injustice and discrimination :** Avoid injustice and partiality to employees in transfers and promotions. Avoid discrimination among them based on gender, race, religion, language, nationality, etc.

**No bribe and corruption :** Don't give expensive gifts, secret commissions, kickbacks, payoffs to politicians, bureaucrats, government officials and suppliers. Say no to bribe and avoid corruption.

**Discourage secret agreement :** Do not make a secret agreement with other businessmen for controlling production, distribution, pricing or for any other activity, which is harmful to the consumers.

**Keep service before profit :** Accept the principle of "service first and profit next." The customer or consumer is the most important part of any business. All business activities are done for meeting his needs and for increasing his satisfaction and welfare.

**Practice fair business :** Make your business fair, humane, efficient and dynamic. Give the benefits of these qualities to the consumers.

**Avoid monopoly :** Avoid forming private monopolies and concentration of economic power. Monopolies are bad for consumers.

**Fullfill customers expectations :** Adjust your business activities as per the demands, needs and expectations of the customers.

**Respect consumers rights :** Give full respect and honour to the basic rights of the consumers like right to be informed, right to be heard, right to seek redressal.

**Accept social responsibilities :** Responsibilities towards different social groups.

**Satisfy consumers wants :** Find out and satisfy the wants of the consumers. Use the available resources to produce good quality goods and services. Supply these goods and services regularly to the consumers. Charge reasonable prices for the goods and services. Give proper after-sales services. Do not produce goods and services, which are harmful to the health and life of the consumers. Remember, the main objective of the business is to satisfy the consumers wants.



**Service motive :** Give more importance to service and consumer's satisfaction and less importance to profit-maximization. Make profits by providing services to the consumers. Do not make profits by exploiting the consumers.

**Protect group interests :** Protect the interest of the group i.e give employees better wages and good working conditions, give shareholders better rate of dividend, give consumers good quality goods and services at low prices, etc.

**Optimum utilization of resources :** Ensure better and optimum utilization of natural and human resources and minimize wastage of these resources. Use the resources to remove poverty and to increase the standard of living of people.

**Intentions of business :** Use pure, legal and sacred means to do business. Do not use illegal, unscrupulous and evil means to do business.

### Scope/Purpose of Business Ethics

Ethical problems and phenomena arise across all the functional areas of companies and at all levels within the company.

#### **1. Ethics in Compliance**

Compliance is about obeying and adhering to rules and authority. It is an important department in the organization. Monitors the processes that are mapped for internal & external regulations. Failing to meet compliance would lead to penalties.

#### **2. Ethics in Finance**

The ethical issues in finance that companies and employees are confronted with include:

- In accounting – window dressing, misleading financial analysis.
- Insider trading, securities fraud leading to manipulation of the financial markets.
- Executive compensation.
- Bribery, kickbacks, over billing of expenses, facilitation payments.
- Fake reimbursements

#### **3. Ethics in Marketing**

Marketing ethics is the area of applied ethics which deals with the moral principles behind the operation and regulation of marketing.

The ethical issues confronted in this area include:

- Pricing: price fixing, price discrimination, price skimming.
- Anti-competitive practices like manipulation of supply, exclusive dealing arrangements, tying arrangements etc.
- Misleading advertisements
- Content of advertisements eg. Statutory warning for cigarettes not enough
- Children and marketing.
- Black markets, grey markets (un-official).

#### **4. Ethics in Human Resources**

The ethics of human resource management (HRM) covers those ethical issues arising around the employer-employee relationship, such as the rights and duties owed between employer and employee. The issues of ethics faced by HRM include:

- Discrimination issues i.e. discrimination on the bases of age, gender, race, religion, disabilities, weight etc.
- Sexual harassment.
- Issues surrounding the representation of employees and the democratization of the workplace.
- Issues affecting the privacy of the employee: workplace surveillance, drug testing.
- Issues affecting the privacy of the employer: whistle-blowing.
- Issues relating to the fairness of the employment contract and the balance of power between employer and employee.
- Occupational safety and health. Companies tend to shift economic risks onto the shoulders of their employees. The boom of performance-related pay systems and flexible employment contracts are indicators of these newly established forms of shifting risk.

**5. Ethics of Production** This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm.

The issues of ethics faced by production include:

- Defective, addictive and inherently dangerous products and services eg. Tobacco, alcohol, weapons, drugs, chemical manufacturing etc.
- Ethical relations between the company and the environment include pollution, environmental ethics, and carbon emissions trading.
- Ethical problems arising out of new technologies for eg. Genetically modified food
- Product testing ethics.

#### **6. Ethics of Intellectual property,**

knowledge and skills Who as the greater rights to an idea: the company who trained the employee or the employee themselves? As a result attempts to assert ownership and ethical disputes over ownership arise.

The issues of ethics faced by intellectual property, knowledge & skills include

- The practice of employing all the most talented people in a specific field, regardless of need, in order to prevent any competitors employing them.
- Employee raiding: the practice of attracting key employees away from a competitor to take unfair advantage of the knowledge or skills they may possess.
- Patent misuse, copyright misuse.

#### **7. Ethics in Technology**

The computer and world wide web are two most significant inventions of the twentieth century. There are many ethical issues that arise from this technology. It is easy to gain access to information. This leads to data mining (hacking), privacy invasion.

### **Approaches to the study of Business Ethics**

Important approaches to the study of business ethics are as follows:

#### **1. Conventional Approach**

The conventional approach to business ethics makes a comparison between a practice or decision and prevailing norms of acceptability. The questions that arise are which group's norms should be considered and which views are "prevailing." Norms come from a range of places spanning from an individual's conscience to global standards. An individual's conscience, which will guide decisions, is influenced by myriad sources such as the employer, laws, religious beliefs, even reality television shows. The conventional approach to ethics judges internal decisions based on analysis of external norms. This approach is based on how normal society today views business ethics.

## **2. Principles Approach**

Principles approach is based upon the use of ethics principles to direct behavior, actions and policies. This is an approach to ethics that focuses on theories of the importance of general principles such as respect for autonomy, beneficence and justice.

## **3. Ethical Tests Approach**

Ethical Tests Approach is based on short, practical questions to guide ethical decision making and behavior. Business faculty in ethics courses spend a lot of time teaching theories of ethical reasoning and analysing those big, thorny dilemmas triggering what one professor called ethics fatigue.

### **Disadvantages of business ethics/ Arguments against business ethics**

#### **1. Business ethics reduce a company's freedom to maximize its profit.**

For example, a multinational company may move its manufacturing facility to a developing country to reduce costs. Practices acceptable in that country, such as child labour, poor health and safety, poverty level wages and coerced employment, will not be tolerated by an ethical company. Improvements in working conditions, such as a living wage and minimum health and safety standards reduce the level of cost-savings that the company generates. However, it could be argued that the restrictions on company freedom benefit wider society.

#### **2. People, Planet, Profit**

Companies increasingly recognize the need to commit to business ethics and measure their success by more than just profitability. This has led to the introduction of the triple bottom line, also known as "people, planet, profit." This type of performance reporting acknowledges that companies must make a profit to survive, but encourages ethical and sustainable business conduct.

#### **3. Customer to bear costs**

Some economists like Friedman believed that if business ethics is a part of corporate culture, the customer would have to bear the cost of ethical practices of the organization as some ethical practices increase product prices.

#### **4. Loyal agent's argument**

#### **5. Business ethics is essentially just obeying the law**