

CORPORATE GONERNANCE, ETHICS

&

SOCIAL RESPONSIBILITY OF BUSINESS

UNIT-1

CONCEPT OF BUSINESS ETHICS

Business ethics studies appropriate business policies and practices regarding potentially controversial subjects, including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, fiduciary responsibilities, and much more. The law often guides business ethics, but at other times business ethics provide a basic guideline that businesses can follow to gain public approval.

Business ethics is the study and formulation of business policies based on a framework of values.

This framework defines employee behaviour in their interactions with each other and outsiders. It also defines the values and role of the business within a society.

For example, a company may discourage direct reports from having romantic relationships with each other to prevent favouritism during quarterly reviews.

It may also choose to pay a high minimum wage to its workers or institute environment-friendly practices at its facilities to minimize damage to its surroundings due to production processes.

The application of ethics to business situations has been around since ancient times.

But it became an important field of study only in the 1970s. Modern corporations design their business ethics policies to achieve two ends: reconcile their role as public citizens and fulfil their business requirement of producing goods and profits.

As such, business ethics are meant to ensure an orderly and fair workplace that is also productive and efficient.

VARIOUS APPROACHES OF BUSINESS ETHICS

There are different ways of thinking about ethical behaviour. Some situations offer clean-cut ethical choices. Stealing is unethical. There is no debate about it. There are other situations where two or more values, rights, or obligations conflict with each other and a choice has to be made.

For example, suppose that a police officer attends his brother's wedding and finds some guests using drugs there, which is against the law. Should the officer arrest the drug users? Should he

be loyal to his brother or to his job? It offers a difficult choice. Various approaches to ethical behaviour give some guidance in making some choices. Some of these approaches are:

1. Teleological approach:

Also known as consequentiality approach, it determines the moral conduct on the basis of the consequences of an activity. Whether an action is right or wrong would depend upon the judgement about the consequences of such an action. The idea is to judge the action moral if it delivers better than harm to society. For example, with this approach, lying to save one's life would be ethically acceptable.

Some of the philosophers supporting this view are nineteenth century philosophers John Stuart Mill and Jeremy Bentham. They proposed that ethics and morality of an act should be judged on the basis of their ultimate utility.

An act would be considered moral if it produced more satisfaction than dissatisfaction for society. It must be understood that this satisfaction or happiness should be for the society in general and not to the people committing the act or the people who are directly involved in the act.

For example, not paying the money to someone whom you owe may make you happy but it disrupts the social system of fairness and equity thus making the society as a whole unhappy. Accordingly, this would not be considered as a Similarly, a party who breaks a contract may be happy because it is beneficial to it, but it would damage the society's legal framework for conducting business in an orderly fashion. Hence, it would not be an ethical act.

2. Deontological approach:

While a "teleologist" focuses on doing what will maximize societal welfare, a "deontologist" focuses on doing what is "right" based on his moral principles. Accordingly, some actions would be considered wrong even if the consequences of these actions were good. According to DeGeorge:

"The deontological approach is built upon the premise that "duty" is the basic moral category and that the duty is independent of the consequences. An action is right if it has certain characteristics or is of a certain kind and wrong if it has other characteristics or is of another kind".

This approach has more of a religious undertone. The ethical code of conduct has been dictated by the Holy Scriptures. The wrongs and rights have been defined by the word of God. This gives the concept of ethics a fixed perception. Since the word of God is considered as permanent and unchangeable, so then is the concept of ethics.

Holy Scriptures like those of the Bible, the Holy Quran, Bhagwad Gita and Guru Granth Sahib are considered to be the words of God and hence must be accepted in their entirety and without question. In similar thinking, though based upon rationality, rather than religious command, Emmanuel Kant, an eighteenth-century German philosopher suggested morality as universally binding on all rational minds.

According to him, “Act as if the maxim of thy action were to become by thy will a universal law of nature.” This mode of thinking asks whether the rationale for your action is suitable to become a universal law or principle for everyone to follow. For example, “not breaking a promise” would be a good principle for everyone to follow. This means that morality would be considered unconditional and applicable to all people at all times and in all cases.

This approach suggests that moral judgments be made on the determination of intrinsic good or evil in an act which should be self-evident. For example, the Ten Commandments would be considered as one of the guidelines to determine what is intrinsically good and what is intrinsically evil.

3. Emotive approach:

This approach is proposed by A.J. Ayer. He suggests that morals and ethics are just the personal viewpoints and “moral judgements are meaningless expressions of emotions.” The concept of morality is personal in nature and only reflects a person’s emotions.

This means that if a person feels good about an act, then in his view, it is a moral act. For example, using loopholes to cheat on income tax may be immoral from societal point of view, but the person filing the income tax returns sees nothing wrong with it.

Similarly, not joining the army in time of war may be unethical and unpatriotic from the point of view of the society and the country, but the person concerned may consider war as immoral in itself. According to this approach, the whole idea about morality hinges on the personal view point.

An extension of Emotive theory puts focus the integrity of the person. While the person is looking for his own “long term” benefit, he must have a “virtue ethics perspective” which primarily considers the person’s character, motivations and intentions.

Character, motivations and intentions must be consistent with the principles accepted by society as ethical. The advantage of this approach is that it allows the ethical decision maker to rely on relevant community standards, “without going through the complex process of trying to decide what is right in every situation using deontological or teleological approaches.”

4. Moral-rights approach:

This approach views behaviour as respecting and protecting fundamental human rights, equal treatment under law and so on. Some of these rights are set forth in documents such as Bill of Rights in America and U.N. Declaration of Human Rights. From ethical point of view, people expect that their health and safety is not endangered by unsafe products.

They have a right not to be intentionally deceived on matters which should be truthfully disclosed to them. Citizens have a fundamental right to privacy and violation of such privacy would not be morally justifiable.

Individuals have the right to object and reject directives that violate their moral or religious beliefs. For example, Sikhs are allowed to wear turbans instead of putting on a hat as required by Royal Canadian Police, because of their religious beliefs.

5. Justice approach:

The justice view of moral behaviour is based on the belief that ethical decisions do not discriminate people on the basis of any types of preferences, but treat all people fairly, equitably and impartially, according to established guiding rules and standards. All mankind is created equal and discriminating against any one on the basis of race, gender, religion, nationality or any such criteria would be considered unethical.

From organizational point of view, all policies and rules should be fairly administered. For example, a senior executive and an assembly worker should get the same treatment for the same issue, such as a charge of sexual harassment.

ETHICAL THEORIES

Ethical Theories are attempts to provide a clear, unified account of what our ethical obligations are. They are attempts, in other words, to tell a single “story” about what we are obligated to do, without referring directly to specific examples. It is common in discussions of business ethics to appeal to one or more ethical theories in an attempt to clarify what it is right or wrong to do in particular situations. Some of the philosophical ethical theories commonly appealed to include:

- **Utilitarianism**, which says that the right thing to do in any situation is whatever will “do the best” (that is, produce the best outcomes) taking into consideration the interests of all concerned parties;
- **Kantianism** (or Deontology more generally), which says that—as a matter of respect—there are certain absolute (or nearly absolute) rules that must be followed (for example, the rule that we must respect people’s privacy, or respect other people’s right to make decisions about their own lives);
- **Social Contract Theory** (or “contractarianism”), which says that, in order to figure out what ethical rules to follow, we ought to imagine what rules rational beings would agree to in an “ideal” decision-making context;
- **Virtue Theory**, which says that we ought to focus not on what rules to follow, but on what kinds of people (or organizations!) we want to be, and what kinds of ethical examples we ought to follow;
- **Feminist Ethics**, which is a complex set of interrelated perspectives that emphasize interpersonal concerns such as caring, interdependence, and the ethical requirements of particular relationships. Such concerns are traditionally identified with women, but Feminist Ethics should not be thought of as a theory only *for* women.

ETHICAL GOVERNANCE

Ethical governance is a concept related to good governance. It requires that public officials adhere to high moral standards while serving others. Or in other words, ethical governance brings ethical element in the good governance.

It is necessary for public authorities to not only satisfy the obligations laid down by law, but, in addition, their conduct must be inspired and be guided by principles of ethics and good conduct which have not yet been expressly stated in the regulations.

Example- Suppose you are collector of a district and a scheme regarding distribution of houses at subsidized rates is under you. You are distributing the houses according to rules in a transparent manner. This is good governance.

Now, an old lady comes to you and requests to allot a house to her but she doesn't have relevant documents. Now you have to make choice based on rules and empathy. Not driving the helpless lady away but actually helping her in accessing relevant documents shows empathy of the collector and displays ethical governance.

A system of laws and rules, however elaborate, cannot provide for all situations. Hence both good governance and ethical governance are required to ensure that the authority entrusted to the public officials is exercised in the best interest of the people.

CONCEPT OF CORPORATE ETHICS

Corporate ethics are a set of beliefs to which a company adheres that govern its behaviour in the ways it conducts business. Some corporations have well defined ethical parameters and others don't, or they sacrifice ethical behaviour to profit and determine that gaining profit and power are the most desired motives. When discovered in this type of activity, there is often a strong backlash that results in losing profits. This suggests that even if the decision to adopt defined corporate ethics is purely motivated by profit, it may be good business.

The ways companies conduct business are multiple and complex, and corporate ethics may operate on numerous levels. Ethical considerations can determine how a corporation competes at the business level with other corporations. Are they aggressive, and prone to change their minds or drop allegiances with other companies for their own benefits, or does the corporation cheerfully compete with and support the efforts of its competitors?

Another way corporate ethics get expressed is through the care a corporation takes in interacting with customers or people on other levels. Decisions about how customers are treated are important, but decisions on what type of responsibility the corporation plays in protecting the environments of people are valuable too. A company that routinely releases chemicals into the environment can have great customer service, but its actions suggest the bottom line is not protecting the people that it serves. Many corporations now take great pains to promote sustainability, and these efforts are well received by customers and neighbours.

Employee relations is a different aspect of corporate ethics. Are employees provided with decent living wages and health care access? If profits go down, does the company immediately lay off workers to satisfy shareholders, or does it work to retain people's jobs in difficult economic times? How a corporation handles this is variable and is one of many ethical dilemmas all corporations face.

Ethics are not easy, and might be considered as a series of judgment calls. A corporation must engage ethically with multiple parts of itself, other competitors, and the public, deciding what to do when ethical responsibilities conflict. Following corporate ethics in one way might prevent satisfying some other part of the corporation: for example, laying off employees to

satisfy shareholders or using more polluting chemicals to save on costs to save employee jobs. Such decisions are difficult to make. Nevertheless, corporations that take a strong stance on ethical operation must try to negotiate each judgment call, while remaining true to their ethical code.

When a company does not have a code of corporate ethics, its behaviour tells others what the corporation considers ethical. Constantly negative and only profit-induced decisions can be greatly disparaged by the public. Additionally, employees come to work with moral codes of their own, and might find it challenging to adopt a conflicting code at work.

BENEFITS OF ADOPTING ETHICS IN BUSINESS

Business ethics is a crucial factor that directly affects the long-term and short-term profitability of the company. The reputation of the company is vital in deciding whether that company is worth investing in or not.

Modern organizations need to understand the significance of business ethics. This is because the field of ethical investments is growing at a fast pace. At present, investors are looking out for ethically operating organizations to invest in.

This has made modern organizations treat business ethics as a significant part of the company's long-term strategy. Some of the key benefits of business ethics are as follows.

- **Build customer loyalty**

Customers are the most important stakeholder in any business. A loyal customer base is a key to the growth of the business.

Organizations need to align their corporate behaviours with good ethical practices.

This will help the organization to develop a better brand image. Furthermore, a strong brand image, in turn, will help to attract new customers whilst retaining loyal customers.

- **Improves business reputation**

Organizations well known to act ethically will definitely have a stronger reputation than ordinary companies. It is one of the key benefits of business ethics.

The organization will grow immensely when it is ethical in the way the business operates. Successful treatment of employees, customers, stakeholders will affect business growth. In addition, companies also need to focus on social media ethics to enhance their reputation.

- **Retain employees**

As per the research findings, it is understood that companies that practice unethical behaviours have high employee turnover rates.

When a company treats the employees fairly, the satisfaction levels and morale of employees will increase. Moreover, they will have trust and confidence in the company.

This is because they know that the company is doing the right thing the right way. High employee retention will help the organization to reduce costs whilst retaining the top talent.

- **Establish a positive working environment**

Good ethical practices allow employees to develop positive working relationships with their peers and subordinates.

Employees who follow the company's ethical practices are better team players than individuals just out for themselves. Their immediate superiors can trust them with data and other confidential information.

Employees who fail to adhere to these ethics can lose the chances of career advancements. Moreover, they will lose the trust the company has kept in them as well.

Employee theft is one example of poor ethics. Furthermore, it is also important that the organization's top management emulate ethical behaviour in both their actions and words.

- **Enhances the environmental wellbeing**

The ethical behaviour of an organization will positively impact the environment, community, and overall society.

Corporate social responsibility programs help organizations to operate sustainably. It will also promote long-term sustainable development.

Caring about the wider community and the environment will benefit society by building a better world for a living. This is one of the most important benefits of business ethics in an organization.

- **Better team spirit**

The employees of the organization need to be well aware of the company's ethical values. It will build trust and a sense of unity within the organization. Moreover, it will also enhance the productivity and team spirit amongst the employees.

- **Avoid legal issues**

There can be instances where the management of the company tends to maximize profits through certain unethical behaviours.

The repercussions and penalties for being caught can be serious. It can range from severe fines and sanctions to tarnished brand image. Moreover, the resulting negative brand reputation can cause customer dissatisfaction and long-term damage to brand image.

- **Attract more investments**

Investors are more likely to invest in organizations with good corporate ethics and morals. They will feel safe to invest as they know that the organization will use it responsibly.