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Unit I

Introduction to Business Ethics and Values

Business ethics is the study of appropriate **business** policies and practices regarding potentially controversial subjects including **corporate** governance, insider trading, bribery, discrimination, **corporate** social responsibility, and fiduciary responsibilities.

Business Ethics – History

The history of Ethics goes back to 1970's when the term Business Ethics was commonly used. Increasingly unethical conduct was found by corporations during the 1960s.

The word **ethics** is derived from the Greek word 'ethos', which means character.

Ethics is a branch of philosophy concerned with human character and conduct.

It is the discipline dealing with 'what is good and bad' and with moral duty and obligation.

Ethics is the embodiment of moral values, which describes what is 'right' and what is 'wrong' in human behaviour and what 'ought to be'.

Ethics is a "consideration and application of frameworks, values and principles for developing moral awareness and guiding behaviour and action". Commonly, ethics is also referred to as "moral, good, right, just and honest."

Ethical standards are referred to as the principles or ideals of human conduct." Thus, ethics implies good character and morality and refers to generally accepted human character and behaviour considered as a desirable by contemporary society.

What is ethical and unethical in general society may not be the same in business as the latter operates in different environments. Business ethics is "concerned primarily with the relationship of business goals and techniques to specific human needs. It studies the impact of acts on the good of the individual, the firm, the business community and the society as a whole.

"Business ethics study the special obligations that a man and a citizen accept when he becomes a part of the world of commerce". Business ethics are the norms and moral values of human behaviour desired by the contemporary society exclusively and inclusively dealing with commercial transactions. These definitions on business ethics are not comprehensive but they

provide an idea of what business ethics is. In fact, defining the term business ethics comprehensively is very difficult.

Business ethics means the behaviour of a businessman while conducting a business, by observing morality in his business activities.

The behaviour of a businessman has more impact within the business organisation than outside. So, he should obey the laws even though he may personally believe them to be unjust or immoral. If the businessman feels that the provisions of laws are unjust, he can take steps to change the provisions instead of disobeying them.

A businessman should observe morality not only in business activities but also in non-business activities. Such observation of morality is not required out of fear for punishment. He should observe ethics inspired by his own interest in his business and society as a whole. The reason is that there is no distinction between a businessmen and his business. According to Drucker, every individual and organisation in society should abide by certain moral codes and that there is no separate ethics of business.

Definitions:

The word 'ethics' refers to principles of behaviour that distinguish between good and bad; right and wrong. It is a person's own attitude and beliefs concerning good behaviour. Ethics reside within individuals and as such are defined separately by each individual in his/her own way. What may be ethical behaviour to 'X' may be unethical to 'Y'.

Ethics, in short, may refer to the following:

Principal Components of 'Ethics':

- i. Ethics are principles, values and beliefs that define what is right and wrong behaviour.
- ii. Ethics are broader than what is stated by law, customs and public opinion. For example, accepting gifts from father-in-law might be socially acceptable but not

- ethical; owners pocketing profits without sharing the gains with workers might be legally permissible but not ethical.
- iii. Ethical behaviour may differ from society to society. For example, birth control is mandatory in Communist societies but not in Catholic Christian societies.
 - iv. Ethical standards are ideals of human conduct. Defining ethical standards is not an easy task.

Business ethics refers to the application of moral principles to solve business problems. Here, the word 'morals' refers to accepted customs of conduct in a society. The purpose of business ethics is to guide the efforts of managers in discharging their duties to the satisfaction of various stakeholders e.g., employees, owners, customers, suppliers, and the general public.

Managerial ethics, thus, are those principles that guide the conduct and thinking of managers with respect to what is good or bad; right or wrong (Barry). It is not always easy to divide managerial actions into clear-cut compartments of ethical and unethical behaviour because of certain complicating factors.

Business ethics implies general ethical ideas to business behaviour. Ethical behaviour not only improves profitability but also fosters business relations and employees productivity. Business ethics is concerned with the behaviour of businessman in doing a business. Unethical practices create problems to businessman and business units.

The growth of a business is dependent upon ethical practices performed by the businessman. Business custom differs from one business to another. If a custom is adopted and accepted by businessman and public, that custom will become an ethics.

“Business Ethics is an art and science for maintaining harmonious relationship with society, its various groups and institutions as well as recognizing the moral responsibility for the Tightness and wrongness of business conduct”, as said by Wheeler.

According to Rogene A Buchholz, Business ethics refers to right or wrong behaviour in business decisions.

Business ethics can be said to begin where the laws ends. It is primarily concerned with those issues not covered by the law.

Business Ethics – 13 Main Characteristics

There are several characteristics or features of business ethics.

Some of them are discussed here:

1. Business ethics are based on social values, as the generally accepted norms of good or bad and 'right' and 'wrong' practices.
2. It is based on the social customs, traditions, standards, and attributes.
3. Business ethics may determine the ways and means for better and optimum business performance.
4. Business ethics provide basic guidelines and parameters towards most appropriate perfections in business scenario.
5. Business ethics is concerned basically the study of human behaviour and conducts.
6. Business ethics is a philosophy to determine the standards and norms to make mutual interactions and behaviour between individual and group in organisation.
7. Business ethics offers to establish the norms and directional approaches for making an appropriate code of conducts in business.
8. Business ethics are based on the concepts, thoughts and standards as contributed as well as generated by Indian ethos.
9. Business ethics may be an 'Art' as well as 'Science' also.
10. Business ethics basically inspire the values, standards and norms of professionalism in business for the well-being of customers.
11. Business ethics is to motivate and is consistently related with the concept of service motives for the customers' view point.
12. Business ethics shows the better and perspective ways and means for most excellences in customisation.
13. Business ethics aims to emphasise more on social responsibility of business towards society.

Business Ethics – Elements: A Formal Code of Conduct, Ethics Committee, Ethical Communication System, A Disciplinary System, Monitoring and a Few Others

Organizations are constantly striving for a better ethical atmosphere within the business climate and culture. Businesses must create an ethical business climate in order to develop an ethical organization.

Some of the elements of Business Ethics are:

(i) A Formal Code of Conduct:

Code of conduct is statements of organizational values. The Sarbanes-Oxley Act, 2002 made it important for businesses to have an ethics code, something in writing which will help the employees know – with both ease and clarity – what is expected of them on the job. The code should reflect the managements desire to incorporate the values and policies of the organization.

Code of Ethics:

For every new business incorporated, it is important for the management to have a code of ethics for his business. It is usually unwritten for small businesses. It is basically a buzzword for the employees to observe ethical norms and form the basic rules of conduct. It usually specifies methods for reporting violations, disciplinary action for violation and a structure of the due process to be followed.

A code of ethics must summarize the beliefs and values of the organization. For a large business empire, it is important to hire talent to assist existing personnel with regards to integrity, understanding, responsibility, and cultural norms of the country.

(ii) Ethics Committee:

Ethics committees can rise concerns of ethical nature; prepare or update code of conduct, and resolve ethical dilemma in organization. They formulate ethical policies and develop ethical standards.

They evaluate the compliances of the organisation with these ethical standards. The committee members should be conscious about the corporate culture and ethical concise of the organisation.

The following committees are to be formed:

- a) Ethics committee at the board level- The committee would be charged to oversee development and operation of the ethics management programme.
- b) Ethics management committee – It will be charged with implementing and administrating an ethics management programme, including administrating and training about policies and procedures, and resolving ethical dilemmas.

(iii) Ethical Communication System:

Ethical communication system helps the employees in making enquiries, getting advice if needed and reporting all the wrong done in the organisation.

Objectives of ethical communication system are:

- a) To communicate the organizations values and standards of ethical conduct or business to employees.
- b) To provide information to employees on the company's policies and procedures regarding ethical code of conduct.
- c) To help employees get guidance and resolve queries.
- d) To set up means of enquiries such as hotlines, suggestion boxes and e-mail facilities.

Top management can communicate the ethical standards to the lower management which can be further transferred to the operational level.

(iv) An Ethics Office with Ethical Officers:

The job of an ethics officer is to communicate and implement ethical policies amongst employees of the organisation. Ethics officer should develop a reputation for credibility, integrity, honesty and responsibility.

Functions of ethics officer are:

- a) Assessing the needs and risks that an ethical programme must address.
- b) Develop and distribute code of conduct.
- c) Conduct ethical training programme.
- d) Maintain confidential service to answer employee's questions about ethical issues.
- e) To ensure that organisation is in compliance with governmental regulations.
- f) To monitor and audit ethical conduct.
- g) To take action on possible violation of company's code.
- h) To review and update code in time.

(v) Ethics Training Programme:

Any written ethical code will not work unless supported and followed by a proper training programme. Some companies have an in-house training department while others may opt for an out-source expert. To ensure ethical behaviour, a corporate training programme is established which deals in assisting employees to understand the ethical issues that are likely to arise in their workplace.

When new employees are to be recruited, the induction training should be arranged for them. Training will help them to familiarize with company's ethical code of behaviour.

(vi) A Disciplinary System:

A disciplinary system should be established in the organisation to deal with ethical violations promptly and severely. If unethical behavior is not properly dealt with, it will result in threatening the entire social system. A company should adopt fair attitude towards everyone without any discrimination.

(vii) Establishing an Ombudsperson:

An ombudsperson is responsible to help coordinate development of policies and procedures to institutionalize moral values in the workplace.

(viii) Monitoring:

To make an ethical programme, a successful monitoring programme needs to be developed. A monitoring committee is formed. Monitoring can be done by keen observation by ethics officer, surveys and supporting systems.

Business Ethics – Nature of Ethics in Business

1. In business activities, most ethical questions could be of two types – Overt and Covert. Overt ethical problems like bribery, theft, sabotage, collusion, etc. are clear for everyone to see and are generally considered reprehensible. Most people deplore it and most businesses take care not to be so openly unethical.

Hence, most problems in the business sphere are covert ethical problems. Covert ethical problems are more complex, not so transparent and generally defy ethical solutions. These types of problems occur in corporate acquisitions, marketing and personnel policies, capital investment, market war, etc. They are difficult to locate, to eliminate and are consequently much more dangerous and threatening to business.

2. For a decision to be ethical, it should possess the following characteristics. It should be –
 - a) Right – that which is morally correct and due;
 - b) Equitable – that which is just and equal;
 - c) Good – that which brings in the highest good for all concerned;
 - d) Proper – that which is appropriate and acceptable;
 - e) Fair – that which is honest and due;
 - f) Just – that justice is not only done, but is also seen to have been done.
3. Ethics is unstructured, i.e., it does not have a structured format or framework. It is abstract in concept. Hence, it does not have universal acceptance, mainly because-
 - a. Ethics depend upon our moral standards;
 - b. Moral standards depend upon our value system;

- c. The value system of people depend upon their background and childhood experience; and
- d. The background and experience of people are vastly different. Hence the ethical practices of people are also different.
- e. Ethical decisions should express some obligations to others. If a decision merely results in benefits only to oneself, then that is not an ethical decision. The very concept of being ethical means that it results in some good for the larger society and not just for oneself.

Business ethics refers to basic guidelines to study and analyse a sense of right and wrong and goodness and badness of our tasks.

In context of business performance, there are certain principles and guidelines, based on ethical conducts as given here:

1. Principle of Conscience – This principle is based on inner-feeling of persons to analyse the sense of right and wrong. On this basis the businessmen can determine different roles and behaviour at their levels.
2. Principle of Wishless Work – This principle emphasise that there is no need to perform all the task to be self-centered or self-interest. Accordingly, we should perform all the role and behaviour to another person’s for their esteemed interest. We should be devoted to our efforts to do the work for others.
3. Principle of Esprit – According to this principle businessmen should give due attention to make best possible services and try to develop the feelings of devotion and truthfulness in services. All the behaviour and activities should be based on values and service motive in business.
4. Principle of Publicity – According to this principle, all the activities and performance as conducting in business houses, should be well informed to every person or organisation who are directly or indirectly attached with business. It aims to remove the doubtfulness and misunderstanding among people.

5. Principle of Purity – It is most needful that every businessman should follow the politeness, truthfulness and tolerance for developing the feelings of mental peace. At the same time, the mental peace and purity also becomes the ways for politeness and tolerances etc.
6. Principle of Humanity – It is needful that every businessman should follow the human values, human decorum and human aspects within their policies, programmes and different working areas. The ethical behaviour may determine the path of humanity.
7. Principle of Universal Values – It is required that every businessmen should conduct and perform the task and different business activities to be based on universal assumptions, customs and overall accepted norms and principles by society.
8. Principle of Commitment – According to this principle, every businessmen should be able to fulfill their commitments and assurances as given to other persons. The implementation of commitments should be based on honesty and responsiveness.
9. Principle of Rationality – On the basis of the ethical code of conduct, every businessmen should analyse and evaluate the good or bad, right or wrong, ethical or unethical aspects within their business transaction and day to day working of the business houses. They must follow the rational attitudes and behaviour.
10. Principle of Communicability – According to this principle, there is a need to make effective means of communication with the internal and external persons as engaged with business houses. The communication should be in cleared, open and justified manners.
11. Principle of non-Cooperation in Evils – It is needful that businessmen should try to make non-cooperation or discourage the evils, misconduct and unethical behaviour not only with different customers but with society also.
12. Principle of Cooperation with Other – Ethical norms motivate the feeling of collaboration and team spirit. It is required that on the basis of capacity and available resource, the businessmen should make full cooperation to different other persons as per their good conduct and value based behaviour.
13. Principle of Satisfaction – Every businessmen are required to create and develop their role and behaviour to establish pleasure and happiness with other persons and the society at large. Fore mostly, in business as per their products and services, the customers should be satisfied at every stage.

14. Principle of Coordinate Ends and Means – The businessmen should try to make a coordinating or balancing form between their ends and means within their work performance and its allied activities. They should develop their ventures within the limitations of resources and capacities.
 15. Principle of Due Process – All the persons and different employees, as engaged in business are required to involve in decision making process and different important task. Businessmen should follow a reasonable and justified working process in their organisation.
 16. Principle of Liking in Expectations – In order to establish the ethical norms and conducts in business, it is required to follow all these good and acceptable behaviour by businessmen. They must give and perform some excellence examples as per the expectations of others.
 17. Principle of Transparency – Ethics denotes the concept of purity and truth. All the business activities and transactions should be well informed with justified manners with their different stakeholders and society.
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Business Ethics – Need

Since business exists and operate within the society and is a part of a subsystem of society, its functioning must contribute to the welfare of the society. To survive, develop and excel, business must earn social sanction of the society wherein it exists and functions.

Without social sanctions, a business cannot earn loyal customers, cannot operate in the marketplace and will soon wither and die away. George A. Steiner, in ‘Business & Society’, says

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“The managers of the biggest companies know that as a business gets larger, the public takes more interest in it because it has a greater impact on the community. The antennae of these managers are tuned to public opinion and they react to it. They seek to maintain a proper image of their company in the public mind. This leads to the assumption of greater social responsibilities.”

No business, however great or strong or wealthy it may be at present, can exist on unethical means, or in total disregard to its social concern, for very long. Resorting to unethical behaviour

or disregarding social welfare is like calling for its own doom. Thus, business needs, in its own interest, to remain ethical and socially responsible. As V.B. Day, in 'The Social Relevance of Business' had stated –

“As a statement of purpose, maximising of profit is not only unsatisfying, it is not even accurate. A more realistic statement has to be more complicated. The corporation is a creation of society whose purpose is the production and distribution of needed goods and services, to profit of society and itself. Each element of that statement is needed if the whole is to be accurate; you cannot drop one element without doing violence to the facts.”

Business needs to remain ethical for its own good. Unethical actions and decisions may yield results only in the very short run. For the long run existence and sustained profitability of the firm, business is required to conduct itself ethically and to run its activities on ethical lines. Doing so would lay a strong foundation for the business for continued and sustained existence.

All over the world, again and again, it has been demonstrated that it is only ethical organisations that have continued to survive and grow, whereas unethical ones have shown results only as a flash in the pan, quickly growing and even more quickly dying and forgotten.

Business needs to function as responsible corporate citizens of the country. It is that organ of the society that creates wealth for the country. Hence, business can play a very significant role in the modernisation and development of the country, if it chooses to do so. But this will first require it to come out from its narrow mentality and even narrower goals and motives.

Business ethics comprises various traits, such as trustworthiness and transparency in customer services. Ethical business practices strengthen customer relationship that is of prime importance for long-term organizational success. It deals with retaining and creating a long-lasting impression in the minds of customers. Such impressions help the enterprise to win the trust of customers and get more business.

Business ethics plays a very crucial role in various management functions, which are given as follows:

i. Ethics in Finance:

It deals with various ethical dilemmas and violations in day-to-day financial transactions. An example of ethical violations is data fudging in which enterprises present a fabricated statement of accounts and other records, which are open to investigation. Ethics in financial transactions gained importance when due to their insufficiency nations suffered massive economic meltdowns.

The following are the ethics in finance:

- a. Following truthfulness and authenticity in business transactions
- b. Seeking the fulfillment of mutual interests
- c. Getting the economies and financial units freed from greed-based methodologies.

ii. Ethics in Human Resource Management:

It deals with the enforcement of the rights of employees in an enterprise.

Such rights are as follows:

- a. Having a right to work and be compensated for the same
- b. Possessing a right for free association and participation
- c. Enjoying a right for fair treatment in an enterprise
- d. Holding a right to work in a hazard-free environment
- e. Blowing whistle (an activity where an employee can raise voice against any wrong practice of anyone in an enterprise)

iii. Ethics in Marketing:

Deals with a number of issues, which are as follows:

- a. Misinforming the customers about the products or services
- b. Deciding high prices for the products and services
- c. Creating false impression on the customers/consumers about the features of products
- d. Promoting sexual attitudes through advertising; thus, affecting the young generation and children.

iv. Ethics in Production:

It deals with the responsibility of an organization to make sure that products and processes of production is not causing harm to the environment.

Business Ethics – Advantages of Managing Ethics in Workplaces

- a) Significant improvement to society- By applying business ethics, many social evils can be eliminated like child labour, harassment to employees etc.
- b) Cultivate strong team work and productivity- Business ethics helps in building openness, integrity and a sense of oneness amongst all employees. Employees become motivated as they feel strong alignment between their values and those of organisation.
- c) Support employee growth- It supports the employees in facing the entire situation whether good or bad.
- d) Insurance policy – It ensures the employees that all the policies are legal and all the employees are treated equally in the organisation.
- e) Avoid penal action- Ethical problems if detected at earlier stage helps in avoiding penal action and lower fines for the organisation.
- f) Helps in quality management, strategic planning and diversity management.

Business Ethics – Ethical Dilemma

An ethical dilemma is a situation where one is in conflict between moral imperatives. Ethical dilemma is also known as ethical paradox or moral dilemma. Ethical dilemma is a situation in

which it cannot be determined whether the action is right or wrong. To follow one action would result in transgressing another.

Characteristics of Ethical Dilemma:

1. Choice between equally undesirable alternatives
2. Different courses of action possible
3. Involves value judgments about actions or consequences
4. Data will not help resolve issue
5. Different sources (psychology, theology) offer solutions
6. Unfavourable outcomes will result
7. Choices have far-reaching effects on persons, relationships and society
8. Resources which must be allocated are finite or limited
9. Can be resolved, not solved
10. There is no “right” or “wrong”.

Business Ethics Practiced by Indian Companies are:

1. Principle of ‘sacrifice’ – A person, who is able to sacrifice a part of his asset or effort, commands a superior place in the organisation.
2. Principle of ‘harmony’- harmony helps in avoiding conflicts in the organization.
3. Principle of ‘non-violence’- It protects an organisation from strikes and lockouts.
4. Principle of ‘reward’- The one who performs well is encouraged in form of rewards.
5. Principle of ‘justice’ – The one who works hard is awarded and the one who fails is punished.
6. Principle of ‘taxation’- The one who is taxed more is encouraged to stay fit for a longer period by proper appreciation. This principle applies to people who are hardworking and productive.
7. Principle of ‘integrity’ – Integrity emphasis unity which helps to reap the benefits of division of labour.
8. Principle of ‘polygamy’ – It emphasized on combining of two different cultures by absorption or takeover.