Principles of Business Ethics

Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. Satyagraha, Gandhi’s approach to conflict, was to "hold firmly to Truth.” He stressed that people follow ethical principles and listed following seven Social Sins:

(i) Politics without Principles.
(ii) Wealth without work.
(iii) Commerce without Morality.
(iv) Knowledge without Character.
(v) Pleasure without Conscience.
(vi) Science without humanity.
(vii) Worship without sacrifice.

Difference between Ethics and Morals:

The word ‘Ethics’ is derived from Greek word "ethos" meaning"character". The word ‘Moral’ is derived from Latin word ‘Mos’ meaning ‘custom’.

Another way to look at the distinction is to say that morals are accepted from an authority (cultural, religious, etc.), while ethics are accepted because they follow from personally accepted principles.

For example, if one accepts the authority of a religion, and that religion forbids stealing, then stealing would be immoral. An ethical view might be based on an idea of personal property that should not be taken.

Five Sources of Ethical Standards

The Utilitarian Approach assesses an action in terms of its consequences or outcomes; i.e., the net benefits and costs to all stakeholders. It strives to achieve the greatest good for the greatest number while creating the least amount of harm or preventing the greatest amount of suffering.
The Rights Approach: This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives.

The Fairness or Justice Approach: Aristotle and other Greek philosophers have contributed the idea that all equals should be treated equally. Today we use this idea to say that ethical actions treat all human beings equally.

Common Good Approach: The common good approach suggests that ethical actions are those that benefit all members of the community.

The Virtue Approach: A very ancient approach to ethics is that ethical actions need to be consistent with certain ideal virtues like Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control etc.

Business Ethics – Importance/Need for business Ethics:

Business ethics are moral principles that guide the way a business behaves. Acting in an ethical way involves distinguishing between “right” and “wrong” and then making the “right” choice. Few of the benefits of business ethics are:

1. **Ethics helps to promote a strong public image:** An organization that pays attention to its ethics can portray a strong and positive image to the public. People see such organizations as valuing people more than profit.

2. **Enhanced employee growth:** Attention to ethics in the workplace helps employees face the reality, both good and bad in the organization and gain the confidence of dealing with complex work situations.

3. **Improved society:** Few decades ago, children and workers were ruthlessly exploited. Then society reacted and demanded that businesses place high value on ethics, fairness and equal rights resulting in framing of anti-trust laws.

4. **Ethics programs help to avoid criminal acts “of omission” and can lower fines:** Ethics programs help to detect ethical issues and violations early, so that they can be reported or addressed.
Corporate Governance and Corporate Social Responsibility

Corporate Governance:

**Definition:** “Corporate governance is about promoting corporate fairness, transparency and accountability”.

The traditional governance model positions management is accountable solely to investors (shareholders). But a growing number of corporations accept that constituents other than shareholders are affected by corporate activity, who include: Employees, Trade Unions, Customers, Shareholders, Suppliers, Local Communities, Government.

**Benefits of Good Corporate Governance:**

- Protection of investor interests
- Studies show clear evidence that good governance is rewarded with a higher market valuation.
- Ensures compliance with laws and regulations.

**Roles played by different committees in Corporate Governance:**

- **Board of Directors:** The Board occupies a trusteeship role and should be accountable to all stakeholders.
- **Audit Committee:** They ensure adequate internal controls and review financial statements.
- **Compensation Committee:** It reviews and recommends the remuneration to the Board and management.
- **Investor Grievance committee:** It ensures timely and adequate redressal of investors grievances.
- **Divisional Management Committee:** It looks after the various divisions of the organizations.
Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that organizations have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations.

Strategies to implement CSR:

Below are some key strategies companies can use when implementing CSR-

- **Mission, Vision and Values Statements**: If CSR is to be integrated into company’s mission, vision and values documents. These state a company’s goals and aspirations.
- **Cultural Values**: Many companies now understand that corporate social responsibility cannot flourish in an environment where innovation and independent thinking are not welcome.
- **Employee Recognition and Rewards**: The system of recruiting, hiring, promoting, compensating and publicly honouring employees can be designed to promote corporate social responsibility.
- **CSR Reporting**: Many companies have come to understand the value of assessing their social and environmental performance on a regular basis. Annual CSR reports can build trust among stakeholders

Importance/Need/Benefits of CSR:

- **Achievement of long term objectives**: An entity which helps the society by being socially responsible, in turn gets the benefit. A better society would produce a better environment in which the business may gain long-term profit maximisation.
- **Enhanced Brand Image and Reputation**: Customers are drawn to brands and companies with good reputations.
- **Iron Law of responsibility**: Society gives business its license to exist and this can be amended or revoked at any time if it fails to live up to society’s expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society’s
needs constructively. In the long-run those who do not use power in a manner that society considers responsible, will tend to lose it.

- **Helps minimise Ecological Damage:** The effluents of many businesses damage the surrounding environment. By their own socially responsible behavior, they can stop this.
- **Reduced Operating Costs:** For example, many initiatives aimed at improving environmental performance, such as reducing emissions of gases that contribute to global climate change or reducing use of agrochemicals also lower costs.

**Standards on CSR:**

**The Global Reporting Initiative:**

- It is a reporting standard established in 1997.
- Organisations are required to report their *environmental and social performance*.
- GRI vision that this reporting should be as routine as reporting of financial statements.

**Social Accountability 8000:**

- SA8000 is an international standard that ensure compliance with Corporate Responsibility.
- It requires management to accept responsibility for supporting human rights.
- It requires improvement in working conditions.
- It applies to industries of any size and in any location.
Workplace Ethics

Workplace ethics refers to taking right decisions at workplace.

Factors Influencing Ethical Behaviour at Work

- **The Individual**: An individual’s ethical behaviour affects not only his or her reputation within the company, but may also affect the company’s. Whether the behavior of an employee is ethical or not depends a lot on his personal values. An individual may develop unethical behavior on personal reasons like negative life experiences, financial difficulties etc.

- **Influence of managers and co-workers**: Co-workers and management will have significant influence on an employee behavior. For example if the boss or co-workers leave work early, one may be tempted to do so as well. If one sees co-workers making personal long-distance phone calls at work and charging them to the company, then one may be more likely to do so also.

- **Opportunity to engage in misconduct**: Pressure on employees, weak controls, over-aggressive targets may lead to unethical behavior.

Examples of unethical behavior in workplace:

Some examples of ethical issues faced by an individual in the workplace are:

1. **Relationships with suppliers and business partners**:
   - (a) Bribery and immoral entertainment
   - (b) Discrimination between suppliers
   - (c) Dishonesty in making and keeping contracts

2. **Relationship with customers**
   - (a) Unfair pricing
   - (b) Cheating customers
(c) Dishonest advertising
(d) Research confidentiality

(3) Relationship with employees
   (a) Discrimination in hiring and treatment of employees

(4) Management of resources
   (a) Misuse of organisational funds
   (b) Tax evasion

**Discrimination:**

Discrimination is treating people differently. It is usually intended to refer to the wrongful act of making a difference in treatment or favor on a basis other than individual merit.

**Discrimination in employment involves three basic elements [4 Marks].**

- First, it is a decision against one or more employees (or prospective employees) that is not based on individual merit.
- Second, the decision taken is prejudicial, which means, there is bias in decision making on basis like gender, age, culture etc.
- Third, the decision has a harmful or negative impact on the interests of the employees, perhaps costing them jobs, promotions, or better pay (because, existing employees may leave the job due to this discrimination).

**Among the practices now widely recognized as discriminatory are the following:**

- **Recruitment Practices:** This is done by recruiting new candidates as preferred by existing employees, or advertising only in such magazines read by a particular gender only.
- **Screening Practices**: Job qualifications are discriminatory when they are not relevant to the job to be performed (e.g., requiring a high school diploma or a credential for an essentially manual task).
- **Promotion practices**: This happens when promotions in job are issued to only certain gender or any other similar basis.
- **Conditions of Employment**: Many times wages and salaries are discriminatory to the extent that equal wages and salaries are not given to people who are doing essentially the same work.
- **Dismissal**: Firing an employee on the basis of his or her race or Gender is a clear form of discrimination.

**Harassment**

Harassment occurs when a person is made to feel insulted or humiliated. Harassment happens in-

- **Workplace harassment**: It means unwelcome verbal or physical conduct towards an employee which severely affects his work performance.
- **Sexual harassment**: It means harassing an opposite gender, generally in verbal or non-verbal, which may include coercion. According to The Supreme Court definition, in *Vishaka Vs. State of Rajasthan & Others*, sexual harassment is any unwelcome sexually determined behaviour, such as - physical contact, any other physical, verbal or non-verbal conduct of a sexual nature.

**Importance of Ethical Behaviour at the Workplace**:

Significant problems could arise, if ethical behavior is not maintained, which may include:

- Increased risk of employees making unethical decisions
- Increased tendency of employees to report violations to outside regulatory authorities (whistle blowing)
- Inability to recruit and retain top people
- Diminished reputation in the industry and the community
- Significant legal exposure and loss of competitive advantage in the marketplace.
Guidelines for Managing Ethics in the Workplace:

- **Codes of Conduct and Ethics**: A proper code of conduct in an organization will make sure that proper ethics are followed at various levels of organization.
- **Include a grievance policy for employees** to use to resolve disagreements with supervisors and staff.
- **Set an example from the top**: Executives and managers not only need to endorse strict standards of conduct, but should also ensure that they follow it themselves.
- **Appointing an ombudsperson**: This establishes a point of contact where employees can go to ask questions seek advices.
- **Creating an atmosphere of trust** is also critical in encouraging employees to report ethical violations they observe
Environment & Ethics

Ecological Ethics / Environment Ethics:

- Business firms are parts of a larger ecological system.
- It means application of ethical principles while dealing with environment.
- It requires minimizing adverse impact or businesses on environment.
- Problems like Global warming, Ozone depletion and disposal of hazardous wastes that concern the entire world.
- They require International cooperation and have to be tackled at the global level.

Sustainable Development:

"Sustainable development is development that meets the needs of the present, without compromising the ability of future generations to meet their own needs."

A nation or society should satisfy its requirements – social, economic and others – without jeopardizing the interest of future generations.

Sustainable development is about finding better ways of doing things, both for the future and the present. We might need to change the way we work and live now, but this doesn't mean our quality of life will be reduced.

Air Pollution:

- **Air Pollution**: Air pollution has increased exponentially as industrialization expanded. The most prevalent forms of air pollution are the gases and particulates spewed out by autos and industrial processes, which affect the quality of the air we breathe.
- Air pollutants also affect vegetation decreasing agricultural yields
- One of the worst industrial disasters of all time occurred in Union Carbide’s plant in Bhopal on the night of December 3, 1984. The accidental release of methyl-isocynate in the congested, low-income district of Old Bhopal killed 3,000 people and left many thousand more with chronic disabilities leading to premature deaths.
Global Warming: Greenhouse gases - carbon dioxide, nitrous oxide, methane, and chlorofluorocarbons, occur naturally in the atmosphere to absorb and hold heat from the sun, preventing it from escaping back into space, to keep the earth's temperature about 33°C.

This is done, particularly by the burning of fossil fuels such as oil and coal rising the levels of greenhouse gases and resulting in increasing amounts of heat, raising temperatures around the globe.

Ozone Depletion:

- A layer of ozone in the lower stratosphere screens all life on earth from harmful ultraviolet radiation.
- This ozone layer, however, is destroyed by CFC gases, which have been used in aerosol cans, refrigerators, air conditioners, industries.
- This results in the subsequent increase of ultraviolet rays which could cause several hundred thousand new cases of skin cancer and could also lead to considerable destruction of the 75 percent of the world's major crops that are sensitive to ultraviolet light.

Acid Rain: Like global warming, acid rain is a threat to the environment that is closely related to the combustion of fossil fuels (oil, coal, and natural gas), which are heavily used by utilities to produce electricity. Burning fossil fuels, particularly coal containing high levels of sulphur, releases large quantities of sulphur oxides and nitrogen oxides into the atmosphere. These acids are then carried down in rain.

Water Pollution:

Although water is essential to human life as well as to industrial growth and development, the world's per capita supplies of water are shrinking and are now 30 percent smaller than 25 years ago. A number of factors have contributed to this.
An increase in population and economic activity particularly in urban areas, has resulted in increased demands for water. To meet these demands, water is being increasingly diverted from agricultural irrigation to provide water for cities.

**Land Pollution:**

Each year people living in cities produce tons of solid wastes every year. City garbage dumps are significant sources of pollution, containing toxic substances such as cadmium (from rechargeable batteries), mercury, lead (from car batteries and TV picture tubes), vanadium, copper, zinc.

Vinyl chloride is another common industrial chemical used in the production of plastics, which is released in small amounts when plastic products deteriorate, causes liver related deceases.

**Eco-friendly Business Practices:**

- Business and Industry are closely linked with environment and resource utilization.
- Business, Industry and multinational corporations have to recognize environmental management as the priority area.
- Accordingly, waste management is to be done through following systems.
  - Minimum production of waste.
  - Maximizing reuse of waste and recycling.
- **Green accounting systems:** The conventional accounting system ignores the impact of a business economic activities on environment. This may result in businesses involving in practices that are against the environment. Green Accounting requires including environmental costs in the cost of products. It is also known as ‘environmental accounting’ or ‘natural resource accounting’

**What is Green Accounting [4 Marks]?**

- Green Accounting is a new concept to businesses.
- The conventional accounting system ignores the impact of economic activities on environment.
- This may result in businesses involving in practices that are against the environment.
- Green Accounting requires including environmental costs in the cost of products.
- It is also known as ‘environmental accounting’ or ‘natural resource accounting’
Ethics in Marketing and Consumer Protection

Marketing executives face the challenge of balancing their own best interests in the form of recognition, pay, and promotion, with the best interests of consumers. In any situation they must be able to distinguish what is ethical from what is unethical.

**Importance of Ethics in Marketing:**

- **To reverse declining public confidence in marketing.** Periodically we hear about misleading package labels, false claims in ads, phony list prices etc. To reverse this situation, business leaders must make sure ethics are followed.
- **To avoid increases in government regulation.** Unethical behavior simply increase the probability of more government regulation. Moreover, once some form of government control has been introduced, it is rarely removed.
- **To regain the power granted by society:** If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.
- **To protect the image of the organization.** Buyers often form an impression of an entire organization based on their contact with one person. You may base your opinion of a retail store on the behavior of a single sales clerk.

**Competition Act, 2002:**

Competition Law was introduced in India in 2002, to improve competitiveness in an industry.

**Parameters of Competition Law:**

- **Prohibition of certain agreements, which are considered to be anti-competitive in nature.** Examples of such agreements are Tie-In agreement, Bid rigging etc.
- **Abuse of dominant position:** There shall be an abuse of dominant position if an enterprise impose unfair conditions or prices.
- **Regulation of combinations** which cause or likely to cause an appreciable adverse affect on competition within the relevant market in India is also considered to be void.
Consumer Interest Vs Public Interest

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<thead>
<tr>
<th>Consumer Interest</th>
<th>Public Interest</th>
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<tr>
<td>Consumer interest covers with the a consumer’s well being</td>
<td>It is concerned with public at large i.e, society as a whole</td>
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<td>The focus is on protecting consumers from market mal-practices</td>
<td>The focus is balancing the interests of everyone</td>
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<td>Consumers are affected by quality, price, quantity etc</td>
<td>Public is affected by political stability, economic reforms etc</td>
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<td>Few applicable acts are Consumer Protection Act, Competition Act etc</td>
<td>Few applicable acts are RTI Act, Wild life control Act etc</td>
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Consumer Protection Council of India:

The objects of the Central Council shall be to promote and protect the rights of the consumers such as:-

a) the right to be protected against the marketing of goods and services which are hazardous to life and property;
b) the right to be informed about the quality, quantity, potency, purity, standard and price of goods or services so as to protect the consumer against unfair trade practices;
c) the right to be assured, wherever possible, access to a variety of goods, and services at competitive prices;
d) the right to be heard and to be assured that consumer’s interest will receive due consideration at appropriate terms;
e) the right to consumer education.
f) the right to seek redressal against unfair trade practices
Ethics In Accounting And Finance

Fundamental principles for Finance and Accounting Professionals:

- **Integrity**: In simple terms, Integrity means ‘honesty’. A finance and accounting professional should be straightforward and honest.
- **Objectivity**: He should not be biased. He should express his opinion independently, without any bias.
- **Confidentiality**: This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.
- **Professional competence and due care**: Finance and accounting professionals have a need to update their professional skills from time to time.
- **Professional behavior**: This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result into discrediting the profession.

Threats:

**Self-interest threats**, which may occur as a result of the financial or other interests of a finance and accounting professional or of an immediate or close family member;

**Self-review threats**, which may occur when a previous judgment needs to be reevaluated by the finance and accounting professional responsible for that judgment;

**Advocacy threats**, arise when a professional is give his opinion on a client such that his objectivity may be compromised.

**Familiarity threats** occur when a finance and accounting professional has close relationships in the work environment and such relationships impair his selfless attitude towards work.

**Intimidation threats** arise when a professional is threatened not to perform his duties.
Safeguards to overcome threats:

Safeguards are those measures employed to eliminate or minimize the threats faced by a finance professional.

Safeguards created by the profession, legislation or regulation, like-

- Professional Standards
- Disciplinary action against the professional.
- Educational, training and experience requirements for entry into the profession.

Safeguards in work environment:

- Strong internal controls.
- Leadership that stresses the importance of ethical behavior
- The employing organisation's ethics and conduct programs.

Reasons for Unethical Behaviour:

*Emphasis on short term results:* This is one of the primary reasons which has led to the downfall of many companies like Enron and WorldCom. Manipulating accounting entries to depict good profitability can help companies raise further capital from the market.

*Ignoring small unethical issues:* It is a known fact that most of the compromises we make start are small however they lead us to large problems. Similarly, companies need to develop an environment where small ethical lapses are taken seriously.

*Economic cycles:* In situations of recession, managements might follow window dressing by showing appreciated financial statements.

*Accounting rules:* A Finance professional might be unethical due to the complex set of laws and rules which are hard to get into.
How to create ethical environment:

- Ensuring that employees are aware of their legal and ethical responsibilities.
- Ensuring fair treatment to those who act as whistle blowers.
- Providing a communication system between the management and the employees so that any one in the company can report about fraud and mismanagement without the fear of being reprimanded.
- Top management initiative.

Importance of Ethics:

- **Investor Protection:** The finance and accounting professional must make sure that the trust put on them by stakeholders is fulfilled.
- **Stock Markets:** Every fraud will have an effect on stock markets, due to which common man, who invested might suffer.

Resolving Ethical conflict:

An ethical conflict arises when it becomes for a professional to decide what is right and what is wrong. In such case, the procedure to resolve it shall be -

- Considering relevant facts.
- Selecting course of action and consequences.
- Consulting with those charged with governance.
- Obtain a legal advice if required.
- Documentation of important matters.