



Business ethics: The application of moral standards to business decision making

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Abstract

Ethics is derived from the Greek word 'ethos' which means a person's fundamental orientation toward life. Ethics refers to the moral standards used to govern behaviour and to determine right or wrong, good or evil. Ethical behaviour are the acts consistent with the moral standards or codes of conduct established by society. Ethical standards may change over time and differ from culture to culture. For example, political bribes or payoffs may be acceptable in one culture but not in another. Ethical issues are inevitable in business.

Keywords: business ethics, code of ethics, corporate ethical programme, ethical behaviour, societal attitudes

Introduction

Business ethics may be defined as a set of moral standards which people owning and managing business are expected to follow. These standards are meant to govern the conduct of business persons. Business ethics indicates what is right conduct in business matters. It is the application of moral standards to business decision-making.

The main characteristics of business ethics are:

- Ethics is important in all types of business-large or small, manufacturing or services.
- Business ethics is above law. It requires behaviour which is socially desirable even if not legally binding.
- Ethics is a dynamic term and may change over time.

Elements of Business Ethics

The main elements of business ethics are:

1. **Values:** Values are the moral beliefs held by an individual, an organisation and a society. Values represent moral convictions and are relatively permanent. For example, a company may charge reasonable prices due to its value systems in spite of its monopoly position in the industry.
2. **Rights:** Rights are the claims of the individual or organisation. For example, every citizen of India enjoys certain rights under the country's Constitution.
3. **Duties:** Duties are the obligations of a person or an organisation. For example, every citizen has the duty to follow the country's law.

Levels of Business Ethics

There are four levels of business ethics *viz.*

1. **Societal:** At this level, questions about the basic institutions in a society are asked. The problem of apartheid and debate over the merits of capitalism are examples of such questions.
2. **Stakeholders:** This level is concerned with relations between a business enterprise and its stakeholders such as employees, customers, shareholders, Government, suppliers, etc. Insider trading is one example of such relations.
3. **Internal Policy:** At this level, relations between an organisation and its employees are analysed. Rights and obligations of the two towards each other are important.
4. **Personal:** Here questions about how people should treat one another within an organisation are asked. These questions deal with the day-to-day issue of life.

Sources of Ethical Standards

Ethical standards originate and develop from the following sources:

- **Societal Attitudes:** Decline in society's norms as reflected in greater emphasis on permissiveness, decline in the influence of family and orientation towards quantity as opposed to quality tend to lower ethical standards. Emphasis on public disclosure and media information increase awareness and consciousness creating or at least enforcing existing ethical standards. Society is becoming less independent as individuals become more oriented to groups. Groups establish norms which can have a significant impact on individual

behaviour. But these differ from group to group causing conflict and confusion concerning which standards should be followed.

- **Competitive Pressures:** Our economic system is built on two fundamental concepts of efforts and competition. The essence of these beliefs is that working hard and outperforming others in achieving goals will be rewarded with high levels of success. In recent years, however, 'winning at all cost' philosophy has become prominent. This philosophy tends to substitute unethical practices, e.g., cheating for hard work. For example, business firms often make questionable claims in their advertisements in order to outperform their competitors.
- **Legal Environment:** The legislative environment is confusing and full of loopholes. Legal interpretations and entanglements often make it difficult for managers to know exactly what course to take or what decision to make. Even then law affects ethical behaviour. Many a time what is considered ethical is made law.
- **Code of Ethics:** Code of conduct serves as a guide to all members of the professional or industry. A code of ethics requires and prohibits specific practices. It may not deter the misbehaviour of international wrong doers but it reminds employees incorporate these standards into their daily activities. Codes of conduct have been developed in medical, legal and accounting professions. These is, however, no universal code of conduct to guide managers.

Advocates of a code of conduct argue that it will improve the confidence of customers and others in the quality of products and services. It will guide managers in their daily jobs. In the long run, it will improve the quality of managerial talent reaching the top level. On the other hand, critics argue that it will restrict the freedom of managers. The environment of any organisation is too dynamic for any specific code of conduct. A strict code will introduce rigidity while a loose code of conduct would result in different interpretations to suit individual needs. It would be very difficult to enforce a code of conduct.

Code of ethics is necessary and useful. If stated in operational terms and supported by organisations, it can be a guide to socially responsible behaviour.

There are several ways of institutionalizing managerial ethics. Social audit and code of ethics have already been described. Ethics committees, ombudsman offices, judicial boards and ethics training are other ways. Some companies are arranging training programmes to teach their employees how to confront moral problems in business. Some firms have judicial boards that rule on ethical questions. Others have appointed ombudsman (an officer to investigate decisions from the viewpoint of ethics). Taking a long-term perspective and improving organizational communication both internally and externally can also be helpful in improving managerial ethics.

Need for Ethics in Business

Ethical considerations are as important in managerial as in any other occupation. In the field or morality, personal life is not separate from business life. The social dimensions of business ethics cannot be overlooked because many problems arise from the relationship of business to the broader society. Ethical considerations are significant for managers due to the following reasons:

- For every individual, job is the centre of life. Unless job values are in harmony with the rest of life, he cannot be a happy and healthy person.
- Modern society is an industrial society. Therefore, business values become the values of the society as a whole.
- A business executive must take into consideration the moral and social considerations because these are the real motivating factors.
- When an organisation fails to behave in accordance with the social expectations, it may lose not only its image and market share but its very right to exist.
- Today, a business manager is expected to serve as a trustee of various social groups. As the trustee, he must observe the ethical values of the society.

Factors Governing Business Ethics

Business ethics has deep and wide roots in society. Some of the pressure points of ethical behaviour are given below:

1. **Value Forming Institutions:** The value system of an individual is shaped by various institutions, e.g., family, religion, school and the government. These institutions prescribe what is good or bad for an individual. Right behaviour is rewarded while wrong behaviour is punished. This continues throughout the life of an individual as he acquires certain values through his daily experience in the long run. The influences of these institutions are inter-related. The values fostered by one individual are reinforced by the others. As an organisation is an agglomeration of individuals, its values are the collective values of its members. That is why, a conflict may arise between the values of the organisation and those of an individual.
2. **Organisational Goals:** The objectives of an organisation influence the values of its members. A business is an economic institution and it must be profitable. The classical economic theory stressed profit maximisation goal. Many times, managers may be forced to compromise their personal ethical values in order to achieve organisational goals. But the goal may be tempered by many values. Leadership, integrity,

knowledge and skills, survival is some of them. All these factors change the goals of an organisation and consequently expected behaviour from its members.

3. **Work and Career:** Work refers to the job and the tasks or responsibilities associated with it, Career, on the other hand, represents a series of jobs or positions. Each work has its own values and persons performing the work follow these values. For example, sales people may have different values than engineers. Thus, work and career create special values that give unity, cohesion and meaning to persons and groups.
4. **Superiors:** Most people succumb to pressure from superiors in doing things that they may consider unethical otherwise. For example, a secretary may tell a visitor that the boss is out when he is actually in because her boss has told her to do so. Many a time a employee may sign false documents due to pressure from the boss.
5. **Peers and Colleagues:** An individual in a work group tends to conform to the norms of the group. He does so either to get approval or friendship of his colleagues. He adopts the attitudes, beliefs and values of the group to which he is associated. Thus, the behavioural standards of the peers and colleagues exercise a significant influence on the value system of an individual. For example, a person may justify some indiscretions on the basis that 'everybody is doing it'.
6. **Professional Codes:** These days three types of codes are available: First, big companies formulate their philosophy or creed to guide the behaviour of their employees. The main objective of these documents is to build the company's image by showing the company's concern for ethical behaviour in the society. Secondly, company policies contain a code to guide actions that have an ethical conduct, e.g., no discrimination in recruitment on the basis of caste, creed, sex and religion. Thirdly, professional bodies have prescribed ethical codes to govern the conduct of their members. In India, the Institute of Chartered Accountants of India, the Institute of Cost and Management Accountants of India, the Institute of Company Secretaries of India, the All India Management Association (AIMA), etc. have formulated professional codes. These codes are enforced through fines and even expulsion of erring members. However, such sanction is not very effective in the field of management code because the AIMA does not have the statutory authority to enforce and majority of managers are not its members.

The Business Ethics Survey Report India- conducted by KPMG India reveals that smart Indian companies are increasingly becoming concerned about the way they do business. They realise that good ethics is good business too. The survey suggested the following five steps to develop Ethical Corporation.

- Appoint an ethics officer-preferably a respected senior executive who has recently retired from your organisation.
- Involve employees in developing a mission statement, if you already have one, recheck if you need to add 'ethics' to it.
- Evolve a code of conduct and ensure every employee knows exactly how your company likes to conduct business.
- Facilitate upstream communication from employees- by investing in a grievance cell or a hotline or an ombudsman.
- Build an ethical culture by personal example – CEO should stand for Chief Ethics Officer in your company.

Models of Business Conduct

Clarence C. Walton has suggested the following models of business conduct:

1. **The Austere Model:** In this model a business firm exclusively emphasises owners interest and profit motive. Such a business is always cost-conscious in every activity. This is a conservative outlook.
2. **The Household Model:** The firm adopting this model employs a paternalistic approach with its employees. It is analogous to a family or household wherein the genuine needs of family members are provided for.
3. **The Vendor Model:** In this model, the interests and rights of customers are given top priority. Consumer satisfaction is considered of supreme importance.
4. **The Investment Model:** This model focuses on the long-term profits and survival of the enterprise. Social investment is given recognition along with economic investments.
5. **The Civic Model:** This model makes a positive commitment to social needs. Its slogan is corporate citizenship and social responsibility is accepted.
6. **The Artistic Model:** In this model the enterprise is encouraged to become a creative instrument for serving the cause of civilization and improving the quality of life. Creative ideas are generated and used for this purpose.

How to Judge Ethics of a Business Decision

The below mentioned questions may be helpful in judging a business decision whether it is ethical or not:

- Have you defined the problem accurately?
- How would you define the problem if you stood on the other side of the fence?
- How did this situation occur in the first place?
- To whom and to what do you give your loyalty as a person and as a member of the corporation?
- What is your intention in making this decision?
- How does this intention compare with the probable results?

- Whom could your decision or action injure?
- Can you discuss the problem with the affected parties before you make the decision?
- Are you confident that your position will be as valid over a long period of time as it seems now?
- Could you disclose without qualm your decision or action to your boss, your chief executive officer, the board of directors, your family, society as a whole?
- What is the symbolic potential of your action if understood? If misunderstood?
- Under what conditions would you allow exceptions to your stand?

Developing a Corporate Ethical Programme

The main steps involved in developing a corporate ethical programme are as follows:

- **Top Management Commitment:** Top management of the company must not only have consistent commitment but also provide leadership in creating and maintaining an internal ethical environment. Members of the top management must set examples of ethical behaviour. Ethical policies and practices when followed by managers and employees down the line become a part of corporate culture. Top management can institute a system of incentives and rewards to encourage the adoption of ethical practices.
- **Ethical Code:** An ethical company must formulate a code that describes the principles and rules of business conduct and behaviour. The practices that are desired and that are prohibited must be listed. The codes themselves cannot ensure ethical practices. But these do provide valuable guidelines to people. Any deviation from these guidelines can be easily detected and dealt with. The code needs to be well-publicised.
- **Communication System:** A sound communication system between the management and employees is necessary for the implementation of the code. Management uses the system to convey messages concerning ethical practices. Employees can provide valuable feedback through the system.
- **Enforcement:** All employees may not voluntarily adopt ethical standards. Therefore, incentives and disincentives are needed to encourage ethical conduct and to punish the wrongdoers. In extreme cases of unethical behaviour legal action or dismissal may be required.

Benefits of Ethical Codes

Managers are sometimes faced with situations which are ethically ambiguous without any clear-cut ethical guidelines. These ambiguities can be avoided if there is a formal and specific code of ethics. Such a code serves the following groups:

- **Customers:** When an organisation follows a code of conduct, its customers are protected against undesirable transactions, e.g., price discrimination, misleading advertisement, etc. They can deal with confidence and their anxiety is eliminated.
- **Employees:** Employees know what type of behaviour is expected of them. They can easily distinguish between ethical and unethical acts and thereby avoid unethical practices.
- **Company:** The company gains from a code because it has to exercise less control over the behaviour of its employees. The code also serves as a basis for maintaining public relations.
- **Industry:** Codes of conduct lead to healthy competition and fair trade practices in the industry. Therefore, the industry can gain in a socially responsible manner.
- **Society:** Society is the ultimate beneficiary of ethical codes. When professionals follow certain specified patterns of behaviour the social cause is served better.

Conclusion

Business ethics indicates what is right conduct in business matters. It is the application of moral standards to business decision-making. Values, rights and duties are the main elements of business ethics. There are four levels of business ethics. They are societal, stakeholders, internal policy and personal. Ethical standards originate and develop from different sources. Ethical considerations are as important in managerial as in any other occupation. In the field of morality, personal life is not separate from business life. The social dimensions of business ethics cannot be overlooked because many problems arise from the relationship of business to the broader society. Managers are sometimes faced with situations which are ethically ambiguous without any clear-cut ethical guidelines. These ambiguities can be avoided if there is a formal and specific code of ethics.

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