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## Principles of Business Ethics

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### Question 1

*Explain the Social Sins listed by Mahatma Gandhi.*

### Answer

Mahatma Gandhi, Father of India, promoted non-violence, justice and harmony between people of all faiths. 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.

The first deals with the political field. The Kings in Indian tradition were only the guardian executors and servants of 'Dharma'. For Gandhi, Rama was the symbol of a king dedicated to principles. The second dictum deals with the sphere of Economics. Tolstoy and Ruskin inspired Gandhi on the idea of bread-labour. Gandhiji developed the third maxim into the idea of trusteeship. A businessman has to act only as a trustee of the society for whatever he has gained from the society. Everything, finally, belongs to the society. The fourth dictum deals with knowledge. Education stands for the all round development of the individual and his character. Gandhi's system of basic education was the system for development of one's character. In this maxim, Gandhi emphasized on conscience. He said that pleasure without conscience is a sin. In sixth maxim, Gandhi held that science without the thought of the welfare of humanity is a sin. Science and humanity together pave the way for welfare of all. In religion, we worship, but if we are not ready to sacrifice for social service, worship has no value, it is a sin to worship without sacrifice.

### Question 2

*Answer stating whether the statement is correct or incorrect with brief reason:*

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*'Ethics and morals are synonymous'.*

### Answer

**Incorrect:** Both 'ethics' and 'morals' deal with right and wrong conduct. But they are not same. Ethics deals with individual character which is a personal attribute. Ethics is the response of individual to a specific situation e.g. whether in this situation, it is ethical to state the truth. Morals deal with customs set by groups or some authority like religion. Morals are general principles e.g. you should speak truth.

### Question 3

*What is the difference between 'Morals' and 'Ethics'?"*

### Answer

**Moral vs. Ethics:** Following are the points of difference between Ethics and Moral :

- (i) The word 'Ethics' is derived from Ancient Greek 'éthikos' meaning 'character'. The word 'moral' is derived from Latin 'mos' meaning 'custom'.
- (ii) Character is the essence of values and habits of a person or group. It covers the analysis and employment of concepts such as right and wrong, good and evil and acting with responsibility. Moral is defined as relating to principles of right and wrong.
- (iii) Character is a personal attitude, while custom is defined by a group over a period of time. For example People have character, Societies have custom.
- (iv) Morals are accepted from an authority (such as cultural, religious etc.) while ethics are accepted because they follow from personally accepted principles. An ethical view might be based on an idea of personal property that should not be taken without social consent. Moral norms can usually be expressed as general rules and statements such as 'always tell the truth'.
- (v) Morals work on smaller scale than ethics, more reliably, but by addressing human needs for belonging and emulation, while ethics has a much wider scope.

### Question 4

*Explain the meaning of the terms 'ethics' and 'business ethics' and also state the requirements of 'business ethics'.*

### Answer

**Ethics:** The term 'Ethics' has a variety of meanings. One of the meanings is 'Ethics' are the principles of conduct governing an individual or a group. Another definition describes ethics as relating to what is good or bad and having to do with moral duty and obligation.

**Business Ethics:** In a broad sense, ethics in business refers to the application of day-to-day moral and ethical norms to business. Business ethics are the principles and standards that determine acceptable conduct in business organisation.

**Requirements:** Being ethical in business requires acting with an awareness of -

- (a) The need for complying with rules (e.g) (i) laws of the land, (ii) customs and expectation of the community (iii) principles of morality (iv) policies of the organization and (v) general concerns such as the needs of others and fairness.
- (b) How the products, services and actions of a business enterprise, can affect its stakeholders (i.e. employees, customers, suppliers, shareholders and community society as a whole) either positively or negatively.

#### Question 5

*Explain the fundamental principles relating to ethics.*

#### Answer

The fundamental principles relating to ethics may be summarized as under:

1. **The Principle of Integrity:** It calls upon all accounting and finance professionals to adhere to honesty and straightforwardness while discharging their respective professional duties.
2. **The Principle of Objectivity:** This principle requires accounting and finance professionals to stick to their professional and financial judgment.
3. **The Principle of Confidentiality:** This principle requires practitioners of accounting and financial management to refrain from disclosing confidential information related to their work.
4. **The Principle of Professional Competence and due care:** Finance and accounting professionals need to update their professional skills from time to time in order to provide competent professional services to their clients.
5. **The Principle of Professional Behaviour:** This principle requires accounting and finance professionals to comply with relevant laws and regulations and avoid such actions which may result in discrediting the profession.

#### Question 6

*"To maintain social contract between society and business, the trusteeship relations are essential". Describe the role of business ethics in this reference.*

#### Answer

**Businesses as trustees:** Mahatma Gandhi, the father of the nation, had aptly said that trusteeship provides a means for transforming the present capitalist order of society into an egalitarian one. A business man has to act only as a trustee of the society for whatever he has gained from the society. Everything finally belongs to the society. Society bestows upon business the authority to own and use land and natural resources. In return the society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community.

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Business ethics is required to implement the laws of land, customs, expectations of community, principles of morality, etc. The products and services of an organization affect its employees, the community and society as a whole. Business ethics also subserve the management discipline. Business houses may also use their financial and public influence to address social problems like poverty, crime, equal rights, environmental problems, public health and education. Society at large has also come to realize that since businessmen are making profits by using the country's resources, they owe it to the country to work for its development. Sound workplace ethics ensure that a company's employees are highly motivated and identify themselves with their employer. Following ethical business practices safeguard a company from getting entangled with law enforcement agencies. A reputation for highly ethical behaviour also ensures increased sales and customer loyalty. Certain eco-friendly practices also reduce operation costs. Thus, society derives benefits as well as business prospers when businesses are ethically driven.

### Question 7

*State with reasons whether the following statements are correct or incorrect.*

*Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one.*

### Answer

**Correct:** Commerce without morality was developed into the idea of Trusteeship by Gandhiji. A businessman has to act only as a trustee of the society for whatever he has gained from the society. Everything, finally, belongs to the society. Hence, "Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one."

### Question 8

*Examine the following hypothetical situation and give a brief analytical note on it.*

*Mr. XYZ is a CEO of a pharmaceutical company. His R&D department, while experimenting with a chemical molecule, sees the possibility that the molecule may be developed into a drug for a rare, painful, life-threatening genetic disease that afflicts only one child in ten million. But to develop the drug, his company may have to invest huge sums of the shareholders' money, despite the drug not having wide salability. Is Mr. XYZ confronted by an ethical dilemma? How should he resolve the issue?*

### Answer

Mr. XYZ is in a situation where he has to choose between carrying on the development of a drug for a painful and life threatening disease which afflicts one in ten million and the action of spending huge sum of shareholders' money for such development. As we can see, both are positive and ethically right choices. As a socially responsible person he has to think in terms of eliminating a serious illness but at the same time he must be careful in dealing with shareholders' money. This is a classic case of an ethical dilemma. Such an ethical dilemma must be resolved by addressing the following points:

1. Defining the problem clearly.
2. How to define the problem if you stood on the other side of the fence?
3. How did the situation arise?
4. To whom are you loyal as a person and as a member of the organization?
5. What is your intention in making this decision?
6. How does this intention compare with the probable results?
7. Whom could your decision or action injure?
8. Can you discuss the problem with the affected parties before you make your decision?
9. Are you confident that your position will be as valid over a long period?
10. Could you disclose without any doubt your decision or action to your boss, your CEO, the Board of Directors, your family, society as a whole?
11. What is the symbolic potential of your action if understood? Misunderstood?
12. Under what conditions would you allow exceptions to your stand?

#### Question 9

*"To pay proper attention to business ethics is certainly beneficial in the interest of business. Describe four such benefits which may be obtained by paying attention to business ethics.*

#### Answer

**Benefits which may be obtained by paying attention to business ethics:** Ethics is the concern for good behaviour – doing the right thing. In business, self interest prevails and there is always inconsistency between ethics and business. But it is a well settled principle that ethical behaviour creates a positive reputation that expands the opportunities for profit. The awareness regarding products and services of an organization, and the actions of its employees can affect its stakeholders and society as a whole. Therefore to pay proper attention to business ethics may be beneficial in the interest of business. These benefits may be enumerated as follows:

- (1) In the recent past ruthless exploitation of children and workers, trust control over the market, termination of employees based on personalities and other factors had affected society and a demand arose to place a high value on ethics, fairness and equal rights resulting in framing of anti-trust laws, establishment of governmental agencies and recognition of labour unions.
- (2) Easier change management: Attention to business ethics is also critical during times of fundamental change. The apparent dilemma may be whether to be non profit or for profit. In such situations, often there is no clear moral compass to guide leaders about what is

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right or wrong. Continuing attention to ethics in the workplace sensitises leaders and staff for maintaining consistency in their actions.

- (3) Strong team work and greater productivity: Ongoing attention and dialogues regarding ethical values in the workplace builds openness, integrity and a sense of community which leads to, among the employees, a strong alignment between their values and those of the organisation resulting in strong motivation and better performance.
- (4) Enhanced employee growth: Attention to ethics in the workplace helps employees face the reality - both good and bad in the organisation and gain the confidence of dealing with complex work situations.
- (5) Ethical programmes help guarantee that personnel policies are legal: A major objective of personnel policies is to ensure ethical treatment of employees. In matters of hiring, evaluating, disciplining, firing etc. An employer can be sued for breach of contract for failure to comply with any promise. The gap between corporate culture and actual practice has significant legal and ethical implications. Attention to ethics ensures highly ethical policies and procedures in the work place. Ethics management programmes are useful in managing diversity. Such programmes require the recognition and application of diverse values and perspectives which are the basis of a sound ethics management programme. Most organisations feel that cost of mechanisms to ensure ethical programme may be more helpful in minimizing the costs of litigations.
- (6) Ethical programmes help to detect ethical issues and violations early, so that criminal acts "of omission" may be avoided.
- (7) Ethical values help to manage values associated with quality management, strategic planning and diversity management.

### Question 10

*Answer whether the statement is correct or incorrect with brief reasons.*

*In the long run those business firms which do not respond to society's needs favourably will survive.*

### Answer

**Incorrect.** 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 role and power it must respond to society's needs constructively.

### Question 11

*State with reasons whether the following statement is correct or incorrect:*

*Business ethics helps to promote public reputation.*

### Answer

**Correct:** 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 and striving to operate with the integrity and honour.

### Question 12

*State with reasons whether the following statement are correct or incorrect:*

*Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management.*

### Answer

Incorrect: Ethics programs help identifying the preferred values and ensuring that organizational behaviors are aligned with those values. This includes recording the values, developing policies and procedures to align behaviors with preferred values and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management strategic planning and diversity management. For example, total quality management initiatives include high priority on certain operating values, e.g. trust among stakeholders, performance, reliability, measurement and feedback.

### Question 13

*State with reasons whether the following statements are correct or incorrect:*

- (i) 'Fairness and Justice' are two different approaches as a source of ethical standards.*
- (ii) Inclusion of environmental consideration as a part of corporate strategy improves corporate performance.*

### Answer

- (i) INCORRECT: The given statement "Fairness and Justice" are two different approaches as a source of ethical standards is incorrect.*

*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 or if unequally, then fairly based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; may ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.*

- (ii) CORRECT: Inclusion of environmental consideration as a part of corporate strategy improves corporate performance is a correct statement.*

*Environmental consideration is a part of corporate strategy, which means incorporating environmental issues in the process of developing a product, in new investments and in the organizational set up. A good environmental practice*

*improves corporate performance. In many industries it has been found that environmental friendly practices have resulted in more saving; for example the process of recycling the waste. Thus, environmental considerations play a key role in corporate strategy. Markets of new millennium will be able to create wealth if they respond to the challenges of sustainable development, as unsustainable products will become obsolete.*

Question 14

*Explain any four sources of ethical standard.*

Answer

*Sources of Ethical Standards:*

- 1. The Utilitarian Approach: Some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected - customers, employees, shareholders, the community, and the environment. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.*
- 2. The Rights Approach (The Deontological Approach): Other philosophers and ethicists suggest that the ethical action is the one that best protects and respects the moral rights of those affected. 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. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights -including the rights to make one's own choices about what kind of life to lead, to be told the truth, not to be injured, to a degree of privacy, and so on-is widely debated; some now argue that non-humans have rights, too. Also, it is often said that rights imply duties-in particular, the duty to respect others' rights.*
- 3. 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-or if unequally, then fairly based on some standard that is defensible. We pay people more based on their harder work or the greater amount that they contribute to an organization, and say that is fair. But there is a debate over CEO salaries that are hundreds of times larger than the pay of others; many ask whether the huge disparity is based on a defensible standard or whether it is the result of an imbalance of power and hence is unfair.*
- 4. The Common Good Approach: The Greek philosophers have also contributed the notion that life in community is a good in itself and our actions should contribute to that life. This approach suggests that the interlocking relationships of society*

*are the basis of ethical reasoning and that respect and compassion for all others-especially the vulnerable-are requirements of such reasoning. This approach also calls attention to the common conditions that are important to the welfare of everyone. This may be a system of Laws, effective police and fire departments, health care, a public educational system, or even public recreational areas.*

5. *The Virtue Approach: A very ancient approach to ethics is that ethical actions ought to be consistent with certain ideal virtues that provide for the full development of our humanity. These virtues are dispositions and habits that enable us to act according to the highest potential of our character and on behalf of values like truth and beauty. Honesty, courage, compassion, generosity, tolerance, love, fidelity, integrity, fairness, self-control, and prudence are all examples of virtues. Virtue ethics asks of any action, "What kind of person will I become if I do this?" or "Is this action consistent with my acting at my best?"*

### Exercise

1. *Explain the Utilitarian Approach as the ethical standards?*

[Hints: Some ethicists emphasize that the ethical action is the one that provides the most good or does the least harm, or, to put it another way, produces the greatest balance of good over harm. The ethical corporate action, then, is the one that produces the greatest good and does the least harm for all who are affected - customers, employees, shareholders, the community, and the environment. The utilitarian approach deals with consequences; it tries both to increase the good done and to reduce the harm done.]

2. *Enumerate the nature of Ethics.*

[Hints: Simply stated, ethics refers to standards of behavior that tell us how human beings ought to act in the many situations in which they find themselves-as friends, parents, children, citizens, businesspeople, teachers, professionals, and so on. Thus Ethics is not a feelings or a religion or culturally accepted norms or is a science