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Principles of Business Ethics

Learning Objectives

After reading this chapter, you will be able to

- ◆ Define business ethics
- ◆ Distinguish between Business Ethics and Morality
- ◆ Understand Ethical Dilemmas
- ◆ Explain how businesses can promote Ethical Behaviour
- ◆ List the benefit of Business Ethics

"Whether men understand it or not, they are impelled by that power behind to become unselfish. That is the foundation of morality. It is the quintessence of all ethics, preached in any language, or any religion, or by any prophet in the world. "Be thou unselfish", "Not 'I', but 'Thou'" - that is the background of ethical codes."

Swami Vivekananda

7.1 Introduction

Corporate scandals such as Enron are illustrative of the relationship between ethics and business. Investigation into the fraud committed by corporate senior executive officers as well as the stress on the employees, who have to follow the unreasonable and sometimes illegal orders of their superiors have also come to the fore in recent times. In a general sense, ethics is the concern for good behaviour - doing the right thing. Human beings have always been puzzled with moral questions of right and wrong behaviour; struggling to develop a system that produced the maximum good for the individual and for the group. They understood the importance of "right" behavior and realized that there was danger of extinction if violent acts and pilferage were not curtailed. Over time, codes of conduct were developed to ensure survival. These codes were for nurturing children, forming of family and tribal units, hunting rituals and so on. Thus, a system of acceptable behavior was formed. One example that comes to mind most readily is the Ten Commandments from the Bible. Other traditions and religions have comparable sacred or ancient texts that have guided people's actions in all areas, including business, for centuries, and still do.

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At all times, wise men and religions all over the world have considered "value centred perfection" and not "material success" as the ultimate goal of every human being. Unfortunately with passage of time, we started witnessing a degradation of values-ethics, forgetting the wise teachings; associating material success and fame as highest achievement. According to *Vedanta* one of the world's most ancient religious philosophies based on the *Vedas*, the sacred Hindu scriptures of India, it is crucially important that our thoughts and actions be governed by ethical values and habits.

Vedanta, is in agreement with Socrates in holding the view that the practice of virtue should be preceded by a rational understanding of the implications and the nature of virtue. It says that *Viveka* (understanding) should precede *Vairagya* (dispassion) and the practice of *Shatsampat* (six ethical virtues – tranquility, training, withdrawal, forbearance, faith and focus), are cultivated to stabilize the mind and emotions. "The knowledge of the importance of virtue does not deter people from moving to the evil side of things. This is the unknown illusion covering the consciousness of man, says the *Vedanta*.

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.

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 and the third dicta deal with the sphere of Economics. Tolstoy and Ruskin inspired Gandhi on the idea of bread-labour. The Bhagavad Gita also declares that he who eats without offering sacrifice eats stolen food. Gandhi put this into practice at his community centers. The third maxim was developed into the idea of *Trusteeship* by Gandhiji. 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. "Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one". 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. True knowledge leads to the development of one's character where one evolves his 'Rational self.' 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 sin to worship without sacrifice. Gandhiji's everyday prayer was a recitation of the virtues of an ideal person as depicted in the Bhagvad Gita. His prayer addressed to better one's own self, the conscience, the true self. There is little doubt that unethical behaviour results in unspeakable restlessness, tension, secret fear and loss of peace.

7.2 Ethics and Morals

The word 'Ethics' is derived from the Ancient Greek *ēthikos*- meaning 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. It has many definitions. According to one "ethics are the principles of conduct governing an individual or a group". Another describes "ethics as relating to what is good or bad, and having to do with moral duty and obligation."

Let us draw a distinction between Ethics and Morals. The word "Moral" is defined as relating to principles of right and wrong. Although both words are broadly defined in contemporary English as having to do with right and wrong conduct, the root word for ethics is the Greek "ethos," meaning "character", while the root word for Moral is Latin "mos," meaning "custom." Character and custom, however, provide two very different standards for defining what is right and what is wrong. Character is a personal attribute, while custom is defined by a group over time. People have character. Societies have custom. To violate either can be said to be wrong, within its appropriate frame of reference.

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 without social consent (like a court order). Moral norms can usually be expressed as general rules and statements such as "always tell the truth." and are typically first absorbed as a child from family, friends, school, religious teachings and other associations. Morals work on a smaller scale than ethics, more reliably, but by addressing human needs for belonging and emulation, while ethics has a much wider scope.

7.3 Nature of Ethics

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. It is helpful to identify what ethics is NOT: Ethics is not the same as feelings. Feelings provide important information for our ethical choices. Some people have highly developed habits that make them feel bad when they do something wrong, but many people feel good even though they are doing something wrong. And often our feelings will tell us it is uncomfortable to do the right thing if it is hard.

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Ethics is not religion. Many people are not religious, but ethics applies to everyone. Most religions do advocate high ethical standards but sometimes do not address all the types of problems we face. Ethics is not following the law. A good system of law does incorporate many ethical standards, but Law can deviate from what is ethical. Law can become ethically corrupt, as some totalitarian regimes have made it. Law can be made to be a function of power alone and designed to serve the interests of narrow groups. Law may have a difficult time designing or enforcing standards in some important areas, and may be slow to address new problems.

Ethics is not following culturally accepted norms. Some cultures are quite ethical, but others become corrupt or blind to certain ethical concerns (as the United States was to slavery before the Civil War or to using atomic weapons on civilians in Hiroshima and Nagasaki). "When in Rome, do as the Romans do" is not a satisfactory ethical standard.

Ethics is not science. Social and natural science can provide important data to help us make better ethical choices. But science alone does not tell us what we ought to do. Science may provide an explanation for what humans are like. But ethics provides reasons for how humans ought to act. And just because something is scientifically or technologically possible, it may not be ethical to do it.

Why Identifying Ethical Standards is Hard

There are two fundamental problems in identifying the ethical standards we are to follow:

1. On what do we base our ethical standards?
2. How do those standards get applied to specific situations we face?

If our ethics are not based on feelings, religion, law, accepted social practice, or science, what are they based on? Many philosophers and ethicists have helped us answer this critical question. They have suggested at least five different sources of ethical standards we should use.

Five Sources of Ethical Standards

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.

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.

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.

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.

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?"

Putting the Approaches Together: Each of the approaches helps us determine what standards of behavior can be considered ethical. There are still problems to be solved, however.

The first problem is that we may not agree on the content of some of these specific approaches. We may not all agree to the same set of human and civil rights.

We may not agree on what constitutes the common good. We may not even agree on what is a good and what is a harm.

The second problem is that the different approaches may not all answer the question "What is ethical?" in the same way. Nonetheless, each approach gives us important information with which to determine what is ethical in a particular circumstance. And much more often than not, the different approaches do lead to similar answers.

Making Decisions: Making good ethical decisions requires a trained sensitivity to ethical issues and a practiced method for exploring the ethical aspects of a decision and weighing the considerations that should impact our choice of a course of action. Having a method for ethical

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decision making is absolutely essential. When practiced regularly, the method becomes so familiar that we work through it automatically without consulting the specific steps.

The more novel and difficult the ethical choice we face, the more we need to rely on discussion and dialogue with others about the dilemma. Only by careful exploration of the problem, aided by the insights and different perspectives of others, can we make good ethical choices in such situations.

Business Ethics: Should a business entity be ethical? Experts often retort that business ethics is a contradiction in terms because of the inherent inconsistency between ethics and the self-interested motive of profit. On the contrary it is now a well accepted fact that ethical behaviour creates a positive reputation that expands the opportunities for profit. An organisation is not only its buildings, assets, capital or even profit. It is living and creative, evolving over time and having a vision about its future role in society, nation and the world. In the broad sense ethics in business is simply the application of everyday moral or ethical norms to business. Being ethical in business requires acting with an awareness of how the products and services of an organization, and the actions of its employees, can affect its stakeholders and society as a whole and developing codes of conduct for doing business in an ethical manner. While values and moral development are part of personal development, organizational factors can also affect ethical behaviour. The strength of an organization's culture influences ethical behaviour. An organizational culture most likely to encourage high ethical standards is one that is high in risk tolerance, control, and conflict tolerance. Managers in such cultures are encouraged to be aggressive and innovative, are aware that unethical practices will be discovered, and feel free to openly challenge expectations they consider to be unrealistic or personally undesirable. Amongst the thinkers of modern times, an invaluable contribution to practising business ethically is provided by Mahatma Gandhi, the father of our nation. He sought to unite mankind in common pursuit of justice and establishment of a moral order in world-society. He advised our countrymen to observe truthfulness in business and reminded them that their responsibility was greater since their conduct would be seen as a reflection of their country.

7.4 Need for Business Ethics

"Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one" said Mahatma Gandhi. According to him, "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 businesses the authority to own and use land and natural resources. In return, society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community. Society may also expect that organisations to honour existing rights and limit their activities within the bounds of justice. So, under this 'social contract' between society and business, what rules should guide the behavior of business enterprises? What are the minimal duties of business professionals? Business ethics provides this guidance, including the consequences and complications of their actions. Thus business ethics is that set of principles or reasons which

should govern the conduct of business – whether at the individual or collective level by the application of ethical reasoning to specific business situations and activities.

Being ethical in business requires acting with an awareness of: The need for complying with rules, such as the laws of the land, the customs and expectations of the community, the principles of morality, the policies of the organization and such general concerns as the needs of others and fairness.

- ◆ How the products and services of an organization, and the actions of its members, can affect its employees, the community and society as a whole.

Business ethics has come to be considered a management discipline, especially since the birth of the social responsibility movement in the 1960s. In that decade, social awareness movements raised expectations of businesses to use their massive financial and public influence to address social problems such as poverty, crime, environmental protection, equal rights, public health and improving education. An increasing number of people asserted that because businesses were making a profit from using the country's resources, they owed it to the country to work to improve society. Many researchers, business schools and managers have recognized this broader constituency, and in their planning and operations have replaced the word "stockholder" with "stakeholder," meaning to include employees, customers, suppliers and the wider community.

In the above framework we can define business ethics as "the principles and standards that determine acceptable conduct in business organizations." Learning to recognise ethical issues is the most important step in understanding business ethics. An ethical issue is an identifiable problem, situation or opportunity that requires a person to choose from among several actions that may be evaluated as right or wrong, ethical or unethical. In business such a choice often involves weighing monetary profit against what may be appropriate conduct .

7.5 Ethical Dilemma

Learning to recognize ethical issues is the most important step in understanding business ethics. An ethical issue is an identifiable problem, situation, or opportunity that requires a person to choose from among several actions that may be evaluated as ethical or unethical. This will often involve an apparent conflict between moral imperatives, in which to obey one would result in transgressing another. Many business issues may seem straight forward and easy to resolve by choosing the one option which appears to be the clear choice, but in reality, one is faced with having to make a choice from various alternatives in which more than one option seems "right" resulting in an ethical dilemma. In business, more than anywhere else, we are faced with moral and ethical decisions daily. Not only are we faced with questions between right and wrong, but between right and right. According to Joseph Badaracco, Professor at Harvard Business School, "We have all experienced situations in which our professional responsibilities unexpectedly come into conflict with our deepest values. We are caught in a conflict between right and right. And no matter which option we choose, we feel like we've come up short." Ethical dilemmas faced by managers are often highly complex with

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no clear guidelines. For *example*, if you are a salesperson, when does offering a gift to a customer become a bribe rather than sales promotion? Codes of ethics that seek to influence moral behaviour of a group have a long tradition. Codes of Ethics are the most widespread means by which companies communicate their ethical standards to the employees or professionals. These are formalised rules and standards that describe what is expected from them. The Hippocratic Oath, which still governs the ethical behaviour of medical practitioners was drawn up more than two thousand years ago.

A slogan on an ethics poster for Boeing states the profound truth about ethical dilemma : "Between right and wrong is a troublesome grey area." Each person must weigh alternatives and make choices in light of personal values and goals, but also with consideration to organizational and professional success. Decisions have to be made that are optimal and that we can live with in the long run. An analysis of the relationship between ethical behavior and effective leadership reveals that it is a matter of choosing both the ends and the means. A business enterprise must be profitable in order to survive. At the same time, the means by which they achieve those ends are increasingly important. Placing value on short term gains at the detriment of long term results often ends in disaster .

Some guidelines¹ to address ethical dilemmas are given below:

1. Define the problem clearly.
2. How would you 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 organisation?
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? If misunderstood?
12. Under what conditions would you allow exceptions to your stand?

7.6 Benefits of Business Ethics

There are many benefits of paying attention to business ethics:

1. *Improved society*: A few decades ago, children and workers were ruthlessly exploited. Trusts controlled some markets to the extent that prices were fixed and small businesses

¹ Excerpt from "Ethics Without The Sermon" by Laura L. Nash, Harvard Business review-November-December, 1981

stifled. Influence was applied through intimidation and harassment. Then society reacted and demanded that businesses place high value on ethics, fairness and equal rights resulting in framing of anti-trust laws, establishment of Government agencies and recognition of labour unions

2. *Easier Change management:* Attention to business ethics is critical during times of fundamental change - times like those faced presently by businesses, whether non profit or for-profit. During times of change, there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff for maintaining consistency in their actions.

3. *Strong teamwork and greater productivity:* Ongoing attention and dialogue regarding values in the workplace builds openness, integrity and community, all critical ingredients of strong teams in the workplace. Employees feel a strong alignment between their values and those of the organization 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 organization and gain the confidence of dealing with complex work situations.

5. *Ethics programs help guarantee that personnel policies are legal:* A major objective of personnel policies is to ensure ethical treatment of employees , For *example*, in matters of hiring, evaluating, disciplining, firing, etc., an employer can be sued for breach of contract for failure to comply with any promise it made, so the gap between stated corporate culture and actual practice has significant legal, as well as ethical implications. Attention to ethics ensures highly ethical policies and procedures in the workplace. Ethics management programs are also useful in managing diversity. Diversity programs require recognizing and applying diverse values and perspectives which are the basis of a sound ethics management program. Most organisations feel that it is far better to incur the cost of mechanisms to ensure ethical practices than to incur costs of litigation later.

6. *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.

7. *Ethics programs help to manage values associated with quality management, strategic planning and diversity management.* Ethics programs help identifying preferred values and ensuring that organizational behaviors are aligned with those values. This includes recording the values, developing policies and procedures to align behaviours 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.

8. *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 honor.

Thus managing ethical values in businesses besides optimizing profit generation in the long term, legitimizes managerial actions, strengthens the coherence and balance of the organization's culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise's values and messages. Finally and most essentially, proper attention to business ethics is the right thing to do.

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