1 Concepts and Theories of Business Ethics

Syllabus

Concepts and theories of Business Ethics : Definitions of Ethics, Personal ethics and Business ethics, Morality and law, How are moral standards formed ? Religion and Morality, Morality, Etiquette and Professional codes, Indian Ethical Traditions.

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1.1 Introduction of Business Ethics

Definitions of Ethics

- **Morals** are values that we attribute to a system of beliefs that help the individual define right versus wrong, good versus bad.
- **Values** can be categorized into three areas : Moral (fairness, truth, justice, love, happiness), Pragmatic (efficiency, thrift, health, variety, patience) and Aesthetic (attractive, soft, cold, square).
- **Ethics** is the study of what we understand to be good and right behavior and how people make those judgments.
- An ethic, by definition, is a set of moral principles. The word derives from the Greek ethos - which in turn is "the characteristic spirit or attitudes of a community, people, or system."

1.1.1 Personal Ethics and Business Ethics

- Personal ethics deals with how we treat others in our day to day lives. It refer to the set of moral values that form the character and conduct of a person.
- Business ethicists ask, "What is right and wrong, good and bad, harmful and beneficial regarding decisions and actions in organizational transactions?"
- Business ethics applies to all aspects of business conduct and outlines the norms and values that govern ethical actions and behaviors of individuals in the business organization.
- The definition of business ethics is the set of moral rules that govern how businesses operate, how business decisions are made and how people are treated. In business, there are many different people you have to answer to: customers, shareholders and clients.
- Ethics involves understanding the differences between right and wrong thinking and actions, and using principled decision making to choose actions that do not hurt others.
- The top five most frequently observed types of misconduct were: misuse of company time (33%), abusive behavior (21%), lying to employees (20%), company resource abuse (20%), and violating company Internet use policies (16%).
- Types of misconduct with the largest increases included : sexual harassment, substance abuse, insider trading, illegal po litical contributions, stealing, and environmental violations.
- Many employees still do not report misconduct that they observe, and fear of retaliation is increasingly valid. "When all employees are asked whether they could

question management without fear of retaliation, 19 percent said it was not safe to do so."

- Making good ethical decisions are just as important to business success as mastering management, marketing, finance, and accounting decisions. While education and training emphasize functional areas of business, business ethics is often viewed as easy to master, something that happens with little effort.
- These exists two distinct approaches of engineering ethics. One emphasizes typical every day problems that can take on significant proportions in an engineer's life is known as micro ethics.
- The other type of engineering ethics addresses societal problems that are often not addressed until they affects on regional or national scale is known as macro ethics. In an engineer's personal or professional life both micro ethics and macro ethics affects one another.
- The personal values and judgements affect individual engineering decisions, and considered these to be the unique factors that characterize the engineer as a moral agent.

1.1.2 Morality and Law

- Morality : rules of right conduct concerning matters of greater importance. Violations of such can bring disturbance to individual conscience and social sanctions.
- Law : rules which are enforced by society. Violations may bring a loss of or reduction in freedom and possessions.
- A fundamental principal of morality : people should try in so far as possible to continue to progress in the moral life. Moral rights may be overlap on human rights, professional rights, contractual rights and employee rights. Human rights possessed by virtue of being people or moral agents.
- All engineers are entitled to all the rights and freedoms set forth. In human rights, without distinction of any kind such as color, age, gender, race, language, religion, political or other opinion, national or social origin, property or other status.
- Fig. 1.1.1 shows relationship between laws and morality.
- Law is essentially a set of rules and principles created and enforced by the state whereas morals are a set of beliefs, values and principles and behaviour standards which are enforced and created by society

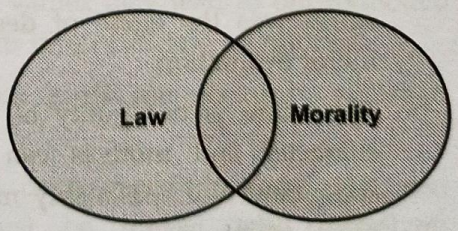

Fig. 1.1.1 Relationship between laws and morality

- It is not necessary that something legal is obviously moral. Legal means allowed by the state. For eg. : capital punishment, abortion, etc. Hence, ethics and law are not always the same.
- Both, law and morality, have a common origin. In fact, morals gave rise to laws. The state put its own sanction behind moral rules and enforced them. These rules were given the name law.
- Morality in business has to start in how it treats its employees. If workers aren't managed fairly, there is no reason for them to treat customers right. A formal mission statement is a great way to put forth ethical precepts, especially if workers see that those principles are applied to everyone. Benefits packages and profit sharing are great ways to offer incentives to employees because the fate of the company becomes their own.
- Ethics is applicable universally amongst all human beings. It can not be different between different societies and over long periods of time. In short, ethics is universal.
- Morals are those edicts of do's and don'ts that are instilled in a person from childhood onwards by the society.
- These get communicated and imbibed via the mother, the family, the schools and the local norms of behaviour.
- The religion to which the family happens to belong plays a large role in this process of instilling norms of thinking and behaviour.
- **An action that is legal can be morally wrong.** For example, it may have been perfectly legal for the chairman of a profitable company to lay off 100 workers and use three-quarters of the money saved to boost his pay and that of the company's other top manager, but the morality of his doing so is open to debate.
- Acts, agents and the character or motives of agents are the objects of moral evaluation. However, only certain agents have their acts, character or motives morally evaluated.
- For example, the statement "the storm was responsible for three deaths and heavy property damage" means that the storm caused these outcomes. Although the storm was the agent of destruction, the actions of the storm are not subject to moral evaluation.
- The storm is not guilty of murder or even manslaughter. Those whose actions, character and motives can be morally evaluated are called moral agents. A competent and reasonably mature human being is the most familiar example of a moral agent.

1.1.3 Differences between Law and Morality

Sr. No.	Law	Morality
1.	Sanctions are invariably imposed for the infringement of a legal obligation	There is no official sanction for immoral behaviour, although society often creates its own form of censorship
2.	Law is deliberately changed by Parliament and/or the courts	Morality cannot be deliberately changed, rather it evolves slowly.
3.	Legal principles need to incorporate a degree of certainty	Morality is invariably much more flexible and variable

1.1.4 How are Moral Standards Formed ?

- Morals are formed out of a person's values. Values are the foundation of a person's ability to judge between right and wrong. Morals build on this to form specific, context-driven rules that govern a person's behaviour. They're formed from a person's life experience and are subject to opinion.
- A moral standard refers to the norms which we have about the types of actions which we believe to be morally acceptable and morally unacceptable. Specifically, moral standards deal with matters which can either seriously harm or seriously benefit human beings.
- The validity of moral standards comes from the line of reasoning that was taken to back or support them, and thus are not able to be formed or changed by particular bodies of authority.
- **Why We Need Values and Morals ?**
- It is important to carefully consider your values for several reasons :

1) They could guide your life minute by minute towards noble goals, rather than your life being controlled by self-serving motives, customs, accidental occurrences, bad habits, impulses, or emotions. You have to know where you are going before you can get there.
2) Values and morals can not only guide but inspire and motivate you, giving you energy and a zest for living and for doing something meaningful.
3) Sensitivity to a failure to live up to your basic values may lead to unproductive guilt or to constructive self-dissatisfaction which motivates you to improve.
4) High values and some success meeting those goals are necessary for high self-esteem.
5) Professed but unused values are worthless or worse-phony goodness and rationalizations for not changing. We must be honest with ourselves,

recognizing the difference between pretended (verbalized) values and operational (acted on) values. Of course, no one lives up to all their ideals, but values that only make us look or feel good (including being religious) and do not help us act more morally must be recognized as self-serving hypocrisy.

How Moral Problems Arise

- A product goes through various engineering stages like design, manufacture, testing, sales and service. These stages are carried out or supported by specialized engineer. Various activities are grouped or inter-related with each other.
- Because of ignorance or intentionally the product may be unsafe, not useful also the product may be intentionally designed for early obsolescence. When such a product is circulated in market many people may be affected. Such problems may arise because of temptations of bribes and any forms of corruption.

Examples on Engineering Ethics :

A) An inspector declares a instrument not to be used from safety point of view but his superior may view this as minor infraction of safety regulation and may permit the use of equipment. The inspector may be objected and was threatened with disciplinary action.

B) An electronic company engaged in manufacturing of a popular new item. The product is not yet ready but its advertisement is very impressive. The prospective customers get attracted and rush to the dealer, when they don't get the product, they believe that it was available off the shelf and the product is drawn away from competing lines.

C) A chemical plant dumping wastes in land fill hazardous substances found their way into the underground water table. The plant's engineer is well aware by the situation but did not change the disposal method because the competitor is following the same cheap method. No law is prohibiting by doing so. Plant supervisor's view is that it is the responsibility of local government to identify the problem and penalize the defaulters.

- All above examples show how ethical problems arise most often due to differences in judgement and expectations. The engineer may face different contrary opinions from within the organization, from various social and local authorities.

1.2 Religion and Morality

- People often assume that moral and religious convictions are functionally the same thing.
- All societies need moral codes in order to survive. Without moral rules there is disharmony and chaos that no society can long survive. The question for this

century is where are these codes to come from? Upon what foundation will society build its ideas of what is right and what is wrong, of what is expected of human beings and of what is to be disapproved and possible prohibited and punished ?

- The term religion signifies a way of life which is deemed conducive to the realisation of the ultimate spiritual and of life. In so far, a distinction is drawn, it is at times thought valueless for a religionist to think that there is some kind of dependence of morality upon religion.
- This conflict of moral and religious rules has given rise to some practical consequences. For, in a society where morality is not clearly separated from religion, religiosity is often taken as immorality.
- There are different ways in which one could tie morality and religion.
- For example : One might argue that there's a necessary link between religion and morality because of the role religion plays in moral motivation. The reason is that if one believes that some god exists and one wants to please it, then one will behave in a certain way, whether god exists or not.
- One might argue that the belief in a god who will punish and reward us in the afterlife on the basis of our deeds is a necessary component of moral motivation.
- Religion can play a supporting role by reinforcing human nature but it is not the origin of morality.
- Morals are judgments, standards and rules of good conduct in the society. They guide people toward permissible behavior with regard to basic values.
- Mahatma Gandhi's mission was not only to humanise religion but also to moralise it. He would reject any religious doctrine, which was in conflict with morality.
- According to Gandhi religion and morality are inseparably bound up with each other. To Gandhi, "There is no religion higher than truth and Righteouness." Morality is prized by almost all the great religions of the world. The emphasis on morality, by Gandhi helped his ideas to acquire a universalistic outlook.
- Religious morality demands universal answers to incredibly complex moral questions. Abortion, for example, is often cited as the clearest case.
- Mother Theresa claimed in her Nobel Prize acceptance speech that abortion is the greatest evil in the world, and many religious individuals spend a great deal of their time attempting to overturn or supporting legislation that bans specific types of abortions.

1.3 Morality, Etiquette and Professional Codes

- Etiquette is concerned with social norms of behaviour and is largely cultural rather than moral. It is mainly concerned with 'manners'.
- Ethics refer to a set of moral principles that relates to the difference between good and bad. Etiquette is a customary code which indicates the proper and polite way to behave in society.
- The main difference between ethics and etiquette is that ethics relate to principles or conscience whereas etiquette is related to behaviour.
- Etiquettes refers to any special code of behaviour or courtesy e.g. it is usually considered bad etiquettes to chew with one's mouth open. Rules of etiquettes are generally non-moral in nature.

1.3.1 Professions

- Usually the word profession is used as a synonym for 'occupation' or 'job'. And if one earns through some activity then he is called as professional. But now a days profession word is applicable only to certain occupations which meets following speciality.

  a. Knowledge b. Organization c. Public good.

  a. **Knowledge** : When the activity involves exercising sophisticated skills, theoretical knowledge judgement and freedom to take unique decisions. And requires extensive formal education, technical studies in certain areas and humanistic studies. Generally professional requires continuing education and updating knowledge.

  b. **Organization** : Dedicated societies and organizations controlled by members of the profession are playing a major role in setting standards, new upcoming trends for the profession, drafting codes of ethics, enforcing standards of conduct and representing the profession before the society and government.

  c. **Public good** : The profession serves some important aspect of public good indicated in the codes of ethics. For example, medicine is directed towards promoting health, law for protecting public's right similarly engineering towards promoting the public's health, safety and welfare.

- Any profession is dedicated on moral ideals. The moral ideals specify virtue i.e. desirable feature of character. Virtues are desirable ways of relating to other individuals, groups and organizations. Virtues involve motives, attitudes and emotions.

1.3.2 Management and Ethics

- Organization management are often responsible for making a variety of business decisions. Those affected by decisions can be either internal or external stakeholders. Part of management's responsibility when making decisions is to act ethically.
- Business ethics often involves following ethical or moral principles defined by society. Companies will need to internalize these principles so managers have a framework for ethical decisions.
- Implement a written code of ethics for managers to follow. The ethical principles contained in the code can be descriptive or normative. A descriptive code requires managers to question what people think is right and follow that pattern when making decisions. Normative ethics uses the ethics from society to help managers make decisions by focusing on the end result.
- Lack of management will cause disorder, confusion, wastage, delay, destruction and even depression. Successful management means managing men, money and material in the best possible way according to circumstances and environment.
- Most of the Indian enterprises today face conflicts, tensions, low efficiency and productivity, absence of motivation, lack of work culture, etc. This is perhaps due to the reason that managers are moving away from the concept of values and ethics.
- The focus of attention of the management must be the fulfillment of the people involved in the production and the consumer or the product. Profit maximization must not be the ultimate goal of management. To develop a humanistic management model, the following points must be adopted :
  1. Co-ordination in the working unit as in a well-knit family.
  2. Co-operative and motivation management.
  3. Healthy employer-employee relationship.
  4. No exploitation of labour.
  5. Ensuring job satisfaction by correct appraisal of human labour.
  6. Effectively integrating individual competencies.
  7. Participative mode of management.

1.3.3 Normative Theories

- A normative theory to business ethics examines what ought to occur in ethical decision making. The word "normative" is equivalent to an ideal standard.

- Normative theories were first proposed by Fred Siebert, Theodore Peterson and Wilbur Schramm in their book called "Four Theories of the Press".
- A normative theory in business ethics revolves around the standards of behavior within the firm as well as within the industry. These normative rules and standards are based on individual moral values as well as the collective values of the organization.
- The normative approach for business ethics is concerned with general ethical values implemented into business. Concepts like fairness and justice are highly important in a normative structure. Strong normative structures in organizations are positively related to ethical decision making.
- Normative approach is the inquiry which includes to identify the values that should guide individuals and groups. It aims to justify the normally desirable norms or standards that suppose to guide individuals or groups. The normative questionaries include what ought to be and what is good.
- The examples of normative questions are -
  i) How far does the obligation of engineers to protect public safety extend in given situations ?
  ii) When should engineer highlight on dangerous practices of the employers for whom they work ?
  iii) Whose values supposed to be primary in making judgements about acceptable risks in designing a public transport system ?
  iv) Which particular laws and organizational procedures affecting engineering practice are normally warranted ?
  v) What moral right should engineers have in order to fulfill their professional obligations ?
  vi) What are the reasons engineers have obligation to their employers, clients and society ?

1.4 Ethical Theories in Relation to Business

1.4.1 Egoism

- Ethical egoism is a normative theory. It defines right or acceptable actions as those that maximize a particular person's self-interest as defined by the individual
- Ethical egoism is the view that people ought to pursue their own self-interest, and no one has any obligation to promote anyone else's interests.

- All major ethical theories have recognized the importance of self-interest. For example, utilitarians take into account one's own good, as well as the good of others. Duty ethics take into account duties to ourselves.
- Right ethicists emphasize on our rights to pursue our own good. Virtue ethicists stresses on importance of self-respect, which implies looking after one's own needs.
- Also all theories insists on balance of self-interest and moral responsibility to others. Ethical egoism challenges all these theories. Ethical, since it is theory about morality and egoism, because it says that it is the sole duty of each of us to maximize his own good.
- Ethical egoist would point that given their talents and situation, they adopted an overlay narrow view of their own interest. Self interest is what is good for oneself in long run.
- Ethical pluralism : Ethical pluralism indicates that there may be alternative moral perspectives that are reasonable but no one of which is accepted completely by all people.
- Ethical relativism : Ethical relativism is that view when the actions are morally right when they are approved by law or custom and are wrong when they violate laws and customs.
- Depending on the egoist, self-interest may be construed as physical well-being, power, pleasure, fame, a satisfying career, a good family life, wealth, or something else.
- Ethical egoism cannot be coherently equated with selfishness because it is often in one's self-interest to help others or to refrain from harming them.
- Ethical egoism is not a very popular moral philosophy. This is because it goes against certain basic assumptions that most people have regarding what ethics involves. Two objections seem especially powerful.
- Ethical egoism has no solutions to offer when a problem arises involving conflicts of interest. Many ethical issues are of this sort. For example, a company wants to empty waste into a river; the people living downstream object. Ethical egoism advises that both parties actively pursue what they want. It doesn't suggest any sort of resolution or common-sense compromise

1.4.2 Psychological Egoism

- Psychological egoism is the theory that all our actions are basically motivated by self-interest. Psychological egoism is the view that everyone is always motivated to act in his or her perceived self-interest.

- Psychological egoism defines how we are as human beings. It is the prime idea that selfless acts do not exist. It is the belief that all people are selfish.
- For example if you help an old lady cross the street and it makes you feel good, a psychological egoist will say that it is selfish because it made you feel good.
- According to a psychological egoist, humans are naturally selfish and we have no other option but to think of ourselves. Psychological egoism claims that when people choose to help others it is because of the personal benefits they themselves obtain or expect to obtain from doing so.
- Psychological vs. Ethical Egoism: So, whereas ethical egoism says that we OUGHT to be selfish, psychological egoism says only that we ARE in fact selfish.
- Psychological egoists typically reply to this by pointing out that people ONLY ever do what they DESIRE to do. No one has ever done something that they did not want to do and this proves that psychological egoism is correct.

1.4.3 Difference between Ethical Egoism and Psychological Egoism

Sr. No.	Ethical Egoism	Psychological Egoism
1.	Ethical egoism emphasizes the fact that people should act for their self-interest.	Psychological egoism emphasizes the fact that people act primarily out of self-interest
2.	Ethical egoism is a normative theory	It is descriptive theory
3.	Ethical egoism only claims that we should or ought seek our self-interest, even though all persons might not do so	Psychological egoism makes no claim as to how one should act
4.	Recommends how human behaviour or action should be.	Describe reason for human behaviour and actions.

1.4.4 Utilitarianism

- Utilitarianism is a normative ethical theory that places the locus of right and wrong solely on the outcomes of choosing one action/policy over other actions/policies.
- It is the view that we ought to produce the most good for the most people, giving equal consideration to every one affected.
- Utilitarians believe they should make decisions that result in the greatest total utility, or the greatest benefit for all those affected by a decision. For instance, one might use a utilitarianism perspective to argue for companies who legally sell harmful products, such as tobacco, guns, or alcohol.

- In making ethical decisions, utilitarians often conduct cost-benefit analyses that consider the costs and benefits to all affected parties.

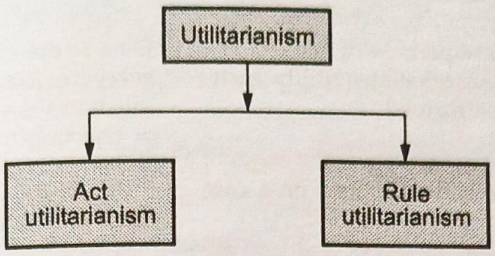

Fig. 1.4.1 Relationship between laws and morality

- **Act utilitarianism :** Act utilitarianism focuses on individual actions, rather than general rules. An act is right if it is likely to produce maximum good for most people involved in the particular situation. Mill expressed that happiness is the only intrinsic good. All other good things are instrumental good as they provide means for happiness.
- **Rule utilitarianism :** As per this view we always act on those rules that if generally followed, would produce the most good for most people. Individual actions are right when they conform to such rules.
- Rule utilitarians determine behavior on the basis of rules designed to promote the greatest utility rather than by examining particular situations.
- There are three fundamental principles that utilitarianism follows to create an ethical structure for society.
  a) Actions are right and only right if the consequences of them maximize whatever is good or anything that is "bad."
  b) The only thing that is good in society is happiness.
  c) Actions are only correct if they can maximize pleasure for the majority of everyone
- **Example :** Imagine that there is a situation where five patients in a hospital will die without an organ transplant. The patient in room 1 needs a heart, the patient in room 2 needs a liver, the patient in room 3 needs a kidney, and so on. The person in room 6 is in the hospital for routine tests, and his tissue is compatible with the other five patients. Furthermore, a specialist is available to transplant his organs into the other five, but he will die as a result of this operation that will save the lives of the five others. There is no other way to save any of the other five patients.
- **Act utilitarian's** generally think it is permissible to kill one innocent to save the five in all three cases. This is because you should always do the most good, and five persons alive are better than one person alive

1.4.5 Difference between Act and Rule Utilitarianism

Sr. No.	Act utilitarianism	Rule utilitarianism
1.	Looks at the consequences of each individual act and calculates utility each time the act is performed.	Loos at the consequences of having everyone follow a particular rule and calculates the overall utility of accepting or rejecting the rule
2.	Act utilitarian considers actions on a case by case basis.	Rule utilitarian considers general rules NOT particular actions.
3.	In some instances the action may maximize happiness, but in others it may not.	It maximizes happiness then it should always be followed, even when doing so does not maximize happiness.
4.	It is very specific to certain situation.	It can be generalized.
5.	The principle of utility ↓ Assessment or choice of action	The principle of utility ↓ Moral norms ↓ Assessment or choice of action

1.4.6 Kantianism

- Immanuel Kant, a famous ethicists describes duty ethics as right actions are those required by a list of duties such as - be honest, keep your promises, don't inflict suffering on other people, be fair, show gratitude for kindness extended by others.
- John Rawl, leading ethicist describes duty ethics as valid principles of duty are those that would be voluntarily agreed upon by rational persons in an imaginary contracting situation.
- All rational people will agree the situation to abide by two basic moral principles -
  1. Each person is entitled to the most extensive amount of liberty compatible with equal amount for others.
  2. Differences in social power and economic benefits are justifed only when they are likely to benefit every one.
- Kantians believe "human life is valuable because humans are the bearers of rational life" (O'Neill 414). In other words, humans are free rational beings capable of rational behavior and should not be used purely for the enjoyment or happiness of another.

- Kant treats happiness and morality as two disparate notions. He introduced the concept of a categorical imperative, irrespective of whether or not abiding by it directly increases happiness. The formulations of the categorical imperative provide us with laws by which to abide to maintain human freedom and autonomy through reasoning about one's duties to humankind, not what makes one happy.
- Kant calls his fundamental moral principle the Categorical Imperative. An imperative is just a command.
- Kantian ethics provide a human-centric ethical framework placing human existence and capacity at the centre of a norm-creating philosophy that guides our understanding of moral conduct.
- Kant's works may be criticised for being dense and opaque, but his ultimate aim was practical philosophy that may lead to the creation of norms or rules capable of practical implementation.
- Kant's basic idea is something like this. If I say you can taste my wine, I should be able to taste yours. Moral actions are rational, immoral actions are irrational.
- In short, we act ethically if we freely conform our will to the moral law which it understands as the categorical imperative. The imperative prescribes action that are rationally consistent. If we act in this way, we may not be happy, but we will be moral. We will have done our duty.
- Example : First, theft by employees, managers, and customers is a major problem in business. Suppose that an employee, angry at the boss for some justi?ed reason, considers stealing from the ?rm. Could a maxim which permitted stealing be universalized? It could not.
- Because goods and services are in limited supply and universal collective ownership is impossible, the institution of private property has developed. If a maxim that permitted stealing were universalized, there could be no private property.
- If everyone were free to take from everyone else, then nothing could be owned. Given the practical necessity of some form of private property, a universalized maxim that permitted stealing would be selfdefeating. Thus, if the employee steals from the boss, the theft is morally wrong.

1.4.7 Difference between Kantianism and Utilitarianism

Sr. No.	Kantianism	Utilitarianism
1.	It is method of deontological.	It is method of consequentialist.
2.	The motive is important and not the end result.	The end justifies the means and actions are judged on the result not on the intentions or motives.

3.	It is ethics of duty	It is ethics of welfare
4.	Kantianism believes that democracy overlocks the minorities and individuals.	It is one of the building blocks of democratic system.

1.4.8 Normative Theory of Business Ethics

- The three leading normative theories of business ethics are
  1. Stockholder theory 2. Stakeholder theory 3. Social contract theory

1. Stockholder Theory

- The stockholder theory asserts that the investors in a business essentially run the show. They advance capital to their managers, who make decisions exclusively for the sake of acquiring further wealth.
- The stockholder theory admits to no social responsibility: maximizing the return on investment is the only goal of the business. It supports a utilitarian theory that ensures optimal financial gain above all else.

2. The Stakeholder Theory

- The stakeholder theory suggests there are differences between individual groups within an organization, such as the employees, investors, and suppliers
- The stakeholder theory holds that a business should also take into consideration the needs and wants of its customers, suppliers, owners and employees. Though the ultimate goal of this model is also to maximize the firm's financial success, the theory holds that the interests of the stockholders must sometimes be sacrificed in an effort to ensure a company's survival.
- With stakeholder theory, there's a difference in the priorities for stakeholders, either internal or external. Internal stakeholders can include employees, investors or owners. External stakeholders include those that are affected by a company's decisions, such as suppliers or creditors.
- The stakeholder theory is based on Immanuel Kant's philosophy that all people are to be treated with respect and consideration and allowed to participate by openly voicing their opinions as equal partners.
- Stakeholder theory asserts that managers have a duty to both the corporation's shareholders and "individuals and constituencies that contribute, either voluntarily or involuntarily, to wealth-creating capacity and activities, and who are therefore its potential beneficiaries and/or risk bearers
- The fundamental distinction is that the stakeholder theory demands that interests of all stakeholders be considered even if it reduces company profitability

3. **Social Contract theory**

- This theory claims that all business should be dedicated to improving the interests of humanity as a whole, by functioning in a manner that considers the well-being of consumers and employees, not just stockholders but without violating any rules of integrity.
- Under this theory a business must function with an obligation to "social welfare and justice." Though the social contract theory is not considered an actual "contract," it holds business ventures to very high standards by "imposing significant social responsibilities

1.5 Indian Ethical Traditions

- Indian ethics is one of the great traditions of moral thought in world philosophy whose insights have influenced thinkers in early Greece, Europe, Asia, and the New World.
- Many Indian companies now have recognized the importance of integrity, transparency, and open communications. They believe that the goodwill resulting from adopting and successfully implementing a code of business ethics will, in the long run, translate into economic gains. Human values refer to the orientation towards what is considered desirable or preferable by people living in a society.
- Most companies started ethics programs to be compliant with the Guidelines. Over the past 10 years, it has evolved from a reactive to a more proactive approach to corporate ethics.
- In the past year, with the recent failure of many global companies due in large part to ethics violations, it has become obvious that proactively managing corporate ethics is good business, and directly affects the bottom line.
- Indian Ethics will play a very central role in the development of culture of the country in general mainly focusing on village culture like when the seasons of festival time they should make different types of Rangoli, Dances, Cock Fights, Paddy fields, most wonderful thing is greenery these all are to make our culture to be proud.
- Though the Gita is a part of the Mahabharata , it is considered to be the essence of the Upanishads, bringing out their moral philosophy, and is venerated as a scripture along with Vedas and Upanishads. Because of its small size and simple language, many more Hindus know about the Gita than about Vedas and Upanishads.

Review Questions

1. *Define ethics, morals and value.*
2. *What is personal ethics and business ethics ?*
3. *Describe difference between law and morality.*
4. *How are moral standards formed ?*
5. *What is normative theories ?*
6. *Explain difference between ethical egoism and psychological egoism.*
7. *Explain ethical theories in relation to business*
8. *What is utilitarianism ? Explain types of utilitarianism. List the difference between act and rule utilitarianism.*
9. *Describe Kantianism with example.*
10. *What are the three leading normative theories of business ethics ? Explain.*

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2 Business Ethics

Syllabus

Business Ethics : Principles of personal Ethics, Principles of Professional ethics, Evolution of Ethics Over the years, Honesty, Integrity and Transparency are the touchstones of Business Ethics, Distinction Between Values and Ethics, Roots of unethical Behaviour, Ethical Decision – Making

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2.1 Principles of Personal Ethics

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2.1 Principles of Personal Ethics

- A personal ethics statement is a great way to let customers know what you stand for, and why it's a good idea to do business with you.
- Personal ethics sometimes called as morality. It includes your personal values and moral qualities.
- It is influenced by family, friends, culture, religion, education and many other factors.
- Personal ethics can change and are chosen by an individual.
- Honesty is the human quality of communicating and acting truthful and with fairness, as best one is able. It is related to truth as a value. This includes listening, reasoning and any action in the human repertoire - as well as speaking.
- Personal ethics principles are as follows :
  1. Give respect to other people autonomy.
  2. A caring person is considerate, kind, compassionate and generous
  3. Empathy is one's ability to recognize and understand the of another
  4. The six pillars of character are trustworthiness, respect, responsibility, fairness, caring, and citizenship
- As with beliefs and values, personal ethics can differ widely from person to person.
- Beliefs and values often motivate a person by defining what they see as being important. In turn, they influence a person's attitudes, and how they behave.
- Personal ethics are standards by which a person judges behaviour as being 'right' or 'wrong'.
- Ethical expectations often take the form of principles such as:
  1. concern for the well-being of others
  2. respect for others
  3. trustworthiness and honesty
  4. compliance with the law
  5. preventing harm to others

2.2 Principles of Professional Ethics

- Profession means "The occupation which one professes to be skilled and follow a vocation in which professed knowledge of some branch of learning is used in its application to the affairs of others, or in the practice of an art based upon it".

Professional Ethics

- Regardless of profession or the field of work one belongs to, ethics is an important part of work. The success or the expected results depend on how the workers deal with the situations. Whether ethically or unethically. If they are dealt ethically, the chances are positive for growth and development.
- Good ethics is a fundamental requirement of any profession. It is integral to the success of the business as well. Ethics is a system of moral principles governing the appropriate conduct of a person or a group. Maintaining good ethics is being consistent with the principles of correct moral conduct constantly.
- "Good ethics is good business.", as it not leads to run the business successfully, but it also provides many ways for growth and development by leaving a good impression about an organization in the market.
- An organization strives continually to be in pursuit of its goals while benefiting the employees in building up their high competencies. In this direction, the adherence to high ethical standards of the employees can be very much contributory to the impressive achievements of business goals being turned out as planned and intended.
- Five fundamental principles of professional ethics for all professional accountants: Integrity , Objectivity, Professional Competence and Due Care , Confidentiality and Professional Behaviour

2.3 Evolution of Ethics Over the Years

- Ethics is a human universal. People have moral values: that is, they accept standards according to which their conduct is judged either right or wrong, good or evil.
- The particular norms by which moral actions are judged vary to some extent from individual to individual, and from culture to culture, but value judgments concerning human behavior are passed on in all cultures.
- Business ethics evolved from a myriad of changes that occurred over time. Ethics is a common way to determine what it means to be an upstanding citizen, a decent individual, an active participant as a parent, and is an effective tool for someone with excellent leadership skills.
- Ferrell et al. defined the term "ethics" as the analysis of the nature and basis of morality where moral judgments, standards, and rules of conduct are identified and addressed. Business ethics, therefore, consists of the values, ideals, and standards that guide behavior in a business climate.
- The field of ethics involves systematizing, defending and recommending concepts of right and wrong behavior. In any organization, from top management to

employees at all levels, ethics is considered as everybody's business. It is not just only achieving high levels of economic performance, but also to conduct one of business's most important social challenges, ethically, at the same time simultaneously.

2.4 Need of Business Ethics

- Business ethics differ from industry to industry, and nation to nation. The nature of a business's operations has a major influence on the ethical issues with which it must contend.
- The importance of business ethics reaches far beyond employee loyalty and morale or the strength of a management team bond. As with all business initiatives, the ethical operation of a company is directly related to profitability in both the short and long term.
- Conducting business ethically is critical to a company?s success in the marketplace. Customers, suppliers and employees will not support a company that is involved in fraudulent, dishonest or unethical practices. Setting high standards of integrity in business relations and promoting their adherence by employees will enable the company to merit the confidence and support of its customers and the public at large.
- While business practices may change over time, our commitment to the highest standards of integrity should remain constant and unblemished.
- Conducting business ethically is critical to success in the marketplace. It means more than obeying the law; it means that high standards of integrity must underlie every activity we undertake. It is up to the engineer to apply these guidelines to the best of their ability in their own individual situation.
- When ethical guidelines are followed, trust is developed between the employees and management, as well as the public and the corporation. Thus, business ethics leads to a more productive workplace.
- Business ethics are extremely important for any organization. A company that authentically promotes and fosters ethical practices will :
  1. Attract investors and customers alike
  2. Build and maintain its reputation
  3. Enhance productivity
  4. Increase employee and customer loyalty
  5. Reduce business risk

2.5 Honesty, Integrity and Transparency are the Touchstones of Business Ethics

- **Honesty** is the human quality of communicating and acting truthful and with fairness, as best one is able. It is related to truth as a value. This includes listening, reasoning and any action in the human repertoire - as well as speaking.
- Superficially, honesty means simply, stating facts and views as best one truly believes them to be. It includes both honesty to others, and to oneself and about ones own motives and inner reality
- **Integrity** is the unity of character based on moral values. Consistency in attitudes, emotions and conduct in relations to morally justified actions and values are also the part of integrity of individual.
- **Values** decide the standard of behaviour of the persons. Some universally accepted values are freedom justice and equality. Other principles of values are love, care, honesty, integrity, self respect etc
- General characteristics of values :
  1. Values are individual in nature.
  2. Values are comprised of personal concepts of responsibility, entitlement and respect.
  3. Values are shaped by personal experience, may change over the span of a lifetime and may be influenced by lessons learned.
  4. Values may vary according to an individual's cultural, ethnic and/or faith based background.
- Transparency is about information. It is about the ability of the receiver to have full access to the information he wants, not just the information the sender is willing to provide.
- Transparency embodies honesty and open communication because to be transparent someone must be willing to share information when it is uncomfortable to do so.
- Transparency is an individual being honest with himself about the actions he is taking. Transparency is also the organization being upfront and visible about the actions it takes, and whether those actions are consistent with its value.
- Honesty, integrity and transparency are the Touchstones of Business Ethics according to Fernando. It is observed that the ethical corporate behaviour is nothing but a reiteration of an ancient wisdom that "honesty is the best policy".
- The collapse of some businesses in recent times comes as a result of lack of practice of basic principles of integrity by the managers, lack of transparency in

operations leading to accounting, which could ensure safety and protect the interest of all stakeholders.

- Transparency therefore promotes accountability and provides information for citizens about what their government and its agents are doing as well as information to the company managers, customers, employees and investors.
- Businesses and industries increasingly find themselves facing external pressure to improve their ethical track record.
- There are a number of reasons why businesses should act ethically:
  1. To protect its own interest;
  2. To protect the interests of the business community as a whole so that the public will have trust in it;
  3. To keep its commitment to society to act ethically;
  4. To meet stakeholder expectations;
- The advantages of ethical behaviour include:
  1. Higher revenues - demand from positive consumer support
  2. Improved brand and business awareness and recognition
  3. Better employee motivation and recruitment
  4. New sources of finance - e.g. from ethical investors
- The disadvantages claimed for ethical business include:
  1. Higher costs - e.g. sourcing from Fairtrade suppliers rather than lowest price
  2. Higher overheads - e.g. training & communication of ethical policy
  3. A danger of building up false expectations
- Businesses can also build trust between the business and consumers. If consumers feel that a business can be trusted, they will be more likely to choose that business over its competitors.
- Some businesses choose to use certain aspects of business ethics as a marketing tool, particularly if they decide to highlight a popular social issue.
- **Trustworthiness :** Achieving trustworthiness typically involves being transparent and honest in all actions and communications. Being trustworthy can have a positive impact both internally and externally. Consumers appreciate openness, as it provides them with insight into how a business operates and conceptualizes the work that they do. Employees also appreciate this quality in a business that they work for.
- Fairness : Treating customers and employees with a sense of fairness and justice is a key type of ethics.

2.6 Values and Ethics

- Ethics is based on a set of moral and ethical values.
- Values are the essence of life. Values are like the building blocks which are used to form a firm structure. The building blocks are set into position by several workers to construct a building. In the same way, the values inherited from family, society, environment, culture and other influencing factors, if rightly placed, then they raise up a firm individual.
- The Sanskrit word for value, Ishta, means 'the object of liking'. The word 'Value' originates from the Latin word 'Valerie' which means "to be strong and vigorous" Human values refer to orientations towards what is considered desirable by people living in a society. The term 'value' is defined as "that which is "desired".

Human Values Vs Moral Values :

- Moral values regard mattters of right and wrong whereas human values help a person to distinguish between right and wrong.
- Moral values are constant and unchanging whereas human values change from person to person and from time to time.
- Moral values are for self development and self discipline whereas human values is about how we treat others in society.
- Moral values can be taught whereas human values are inherited values and are intact in all of us.

2.6.1 Distinction Between Values and Ethics

- Ethics and values are important in every aspect of life, when we have to make a choice between two things, wherein ethics determine what is right, values determine what is important.
- Ethics are unwritten laws, but since they are not formal laws, breach of ethics is not punishable by law. Therefore, it is personal values that help a person respect and uphold ethics.

Sr. No.	Values	Ethics
1.	Value is defined as the principles and ideals, that helps them in making judgement of what is more important.	Ethics refers to the guidelines for conduct that address question about morality.
2.	What is important ?	What is right ?
3.	It differs from person to person	Usually considered as universal.

4.	It determines extent of rightness or wrongness of our options.	It determines level of importance.
5.	Values are basic beliefs.	Ethics are guidelines or rules
6.	Values are influenced by family background, culture, religion, community, etc	Ethics are influenced by different professions, organization, institute, etc.
7.	Values tell us what we want to do or achieve in our life	Ethics helps us in deciding what is morally correct or incorrect, in the given situation.
8.	Values strongly influence the emotional state of mind	Ethics compels to follow a particular course of action.

2.7 Roots of Unethical Behaviour

- Unethical behavior is an action that falls outside of what is considered morally right or proper for a person, a profession or an industry. Individuals can behave unethically, as can businesses, professionals and politicians.
- There are certain factors that make the employees think and act in unethical ways. Some of the influencing factors are 'pressure to balance work and family, poor communications, poor leadership, long work hours, heavy work load, lack of management support, pressure to meet sales or profit goals, little or no recognition of achievements, company politics, personal financial worries

Examples of Unethical Behavior in the Workplace

1. **Misusing company time :** This is a common ethical dilemma that many businesses face. Many employees misuse company time in a variety of ways, whether it's surfing the internet during business hours, taking extended breaks, altering time sheets, or similar. Misusing company time is unethical because the employee is being paid a salary for work that they did not complete or time they did not dedicate to their job.
2. **Lying :** Lying to your employees or customers is the biggest way to break trust. Trust is the best source of dedication and loyalty that any business has. Once that trust is broken, it is extremely difficult to get it back. For example, if a company has a high-performing employee who is asking for a promotion, they may say that there is no room in the budget for a promotion this year. A few months later, another employee may receive a promotion. Telling obvious lies isn't just unethical – it will drive people away from your business.

2.8 Ethical Decision - Making

- Ethical decision-making considers positive values and principles for successful business relationships beyond economics for successful business relationships and results.
- Strong ethical decision-making ability is important for every employee in every kind of business in order to have practices and a culture that demand more than just economic results.
- Ethical decision making means doing things the right way by paying attention to moral values like responsibility and fairness, trust and good citizenship to avoid significant business failures.
- Ethical decision-making can reduce risks, minimise brand damage and create value. Moreover, organisations with a strong ethical standpoint are more likely to attract a new generation of ethically-minded consumers and jobseekers.
- Ethical decision making is a very tough prospect in this dog-eats-dog world. However in the long run, all will have to fall in and play fair. The clock is already ticking for the unscrupulous corporates.
- To conduct ethical business : Is it legal and Is it balanced ?
- **Is it legal ?** The purpose of this question is to get you to look at existing standards. The legality of the decision should be examined not just from the civil law perspective, but also in regards to company policies or standards. If the answer to this first question is "no", there isn't much need to ask the following two.
- **Is it balanced ?** The purpose of this question is to activate your sense of fairness and rationality. Will the decision be fair or will it heavily favor one party over another, in the both the short and long-term? Decisions that produce big winners, at the expense of making others big losers, often come back to haunt individuals and organizations. It's not always possible to make decisions where everybody wins, but leaders should strive to avoid major imbalances over the course of their relationships.

2.8.1 Corporate Governance Ethics

- Ethical Corporate Governance refers to the processes and policies that a company has in place to deal with issues concerning how it is administered and conducts day to day business.

- It is important to remember that companies exist primary to create a product or service, which is used to generate profit. However that intention must be balanced with controls that ensure a company pursues profit without crossing over the line into the realms of unethical behaviour.
- A corporate governance policy should also cover the expected conduct of senior members of a company, for example the chief executive officer, board of directors and other senior management, who are often seen as exempt from the normal policies applied in the company.
- Corporate governance is a multi-faceted subject with many layers of complexity. An important part of corporate governance deals with accountability, fiduciary duty and mechanisms of auditing and control.
- Ethical climate is required in any organization. It is produced by a combination of formal organization and policies. An ethical climate is not a thing, but a process.
- An ethical climate is either developing or deteriorating, enriching itself or impoverishing itself. It needs constant care and attention.
- Managers have the authority and the responsibility to resolve or prevent damaging conflicts. The managers task is to create climates in which conflicts are addressed constructively.
- The ethical climate is also strongly affected by the strategic choices of the form, its organizational structure, hiring policies, performance standards, reporting and information system, reward and incentive programs and internal controls.
- Management task is to design organizations and procedures that make it easier rather than harder to do the right thing.
- Conflict among the persons differ according to the level of management and particular corporate setting.

How ethics can make corporate governance more meaningful ?

- Following are the facts that will help the managers to maintain corporate ethics in the organization :
  1. Act with honesty and integrity, avoiding actual or apparent conflict of interest in personal and professional relationships.
  2. Provide information that is accurate, complete, objective, relevant, timely and understandable to ensure full, fair, accurate, timely, understandable disclosure in reports and documents that companies file with or submit to, the regulators.
  3. Comply with applicable laws, rules and regulations of the country, region and local governments, and other appropriate public and private regulatory agencies in all material respects.

4. Act in good faith, responsibility, with due care, competence and diligence without misrepresenting material facts or allowing one's independent judgment to be subordinated.
5. Respect the confidentiality of information acquired in the place of one's work except when authorized or otherwise legally obligated to disclose. Confidential information regard in the course of one's work will not be used for personal advantage.
6. Share knowledge and maintain skills important and relevant to stakeholder's needs. Proactively promote and be an example of ethical behavior as a responsible partner among peers, in the work environment and the community.

Review Questions

1. *Explain principles of personal ethics.*
2. *Discuss principles of professional ethics.*
3. *What is need of business ethics ?*
4. *What is the relation between honesty, integrity and transparency of business ethics ?*
5. *List the general characteristics of values.*
6. *What are the advantages and disadvantages of ethical behaviour ?*
7. *Explain distinction between values and ethics.*
8. *What is an unethical behaviour ? Explain with example.*
9. *How ethics can make corporate governance more meaningful ?*

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