

PPB
Crash course
Module-D



Lecture – 1

ETHICS, BUSINESS ETHICS & BANKING: AN INTEGRATED PERSPECTIVE

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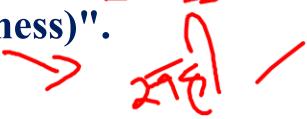
VALUES AND ETHICS

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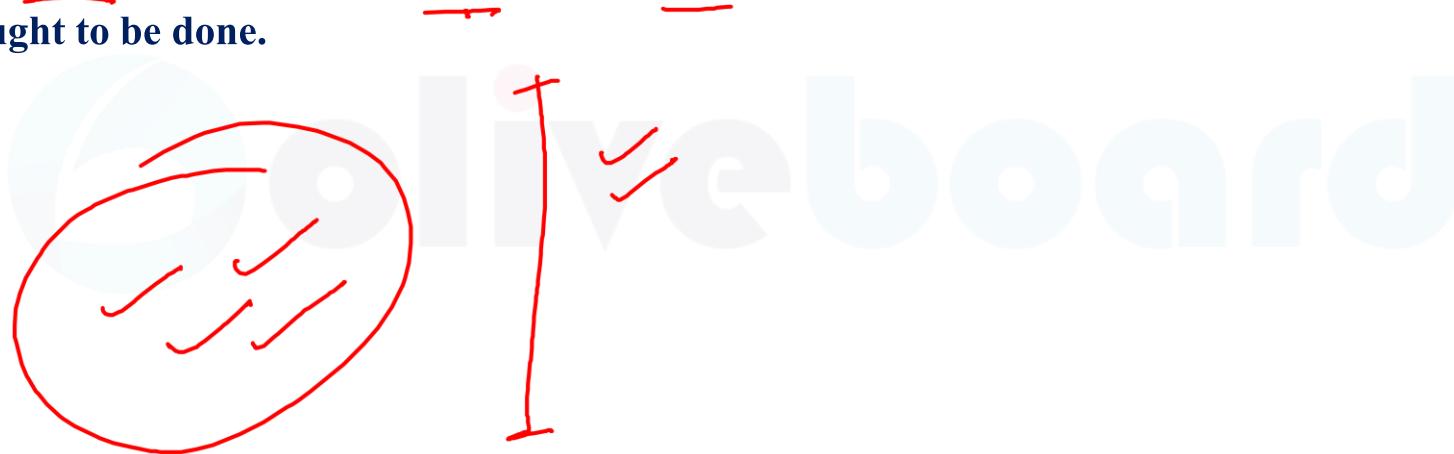
Basic values are those which are at the core of being human. Values are stable long-lasting beliefs about what is important to someone. These are qualities one chooses to embody to guide one's actions and conduct.

Merriam-Webster defines "Ethics" as:

- "the discipline dealing with what is good and bad and with moral duty and obligation".
- "a set of moral principles: a theory or system of moral values".
- "the principles of conduct governing an individual or a group".
- "a set of moral issues or aspects (such as rightness)".



So, ethics is a set of moral standards and values acceptable in a society and guides human behaviour. It holds people from taking decisions that may be harmful to others or the society. Ethical principles are universal in nature. Ethics is prescriptive in nature - deals with what must be or ought to be done.



ETHICS AND BUSINESS VALUES

'Business values' is an informal term and explains the core principles or standards that guide the way business is done. They sum up what your business stands for. They are the core values or standards that influence the organisational culture and drive how and why of the organisation's actions.



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'Business ethics' means established principles that guide behaviour in the world of business.

E^l Investors, employees, customers, interest groups, legal system, and the community often determine whether a specific action is right or wrong, ethical or unethical. Although these groups are not necessarily right, their judgments influence society's acceptance or rejection of a business and its activities.

<i>Business Ethics</i>	<i>Business Values</i>
Ethics refers to the guidelines for conduct, that address questions about <u>morality</u>	Values refers to the <u>principles and ideals</u> , which help in making judgment of what is more <u>important</u> .
Moral principle system	Induce thinking
Define - What is <u>morally correct or incorrect</u> in the given situation?	Determine - What we want to do or achieve?
Indicate - Magnitude of rightness or wrongness of one's options.	Indicate - Level of significance.

Table 51.1 Difference between Business Ethics and Business Values

10-15 mins. - module ->
20 mins.

BUSINESS ETHICS - DEFINITION, PRINCIPLES AND PRACTICE

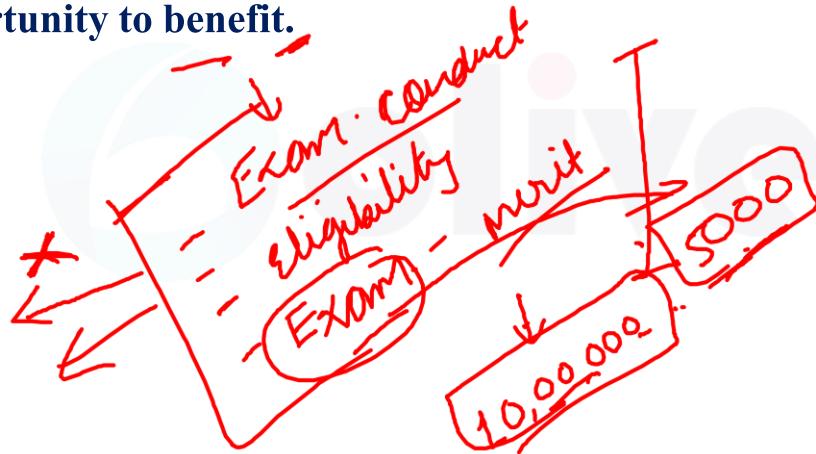
- According to Adam Smith, in a capitalist economy, both customer and industry co-exist for the benefit of each other. Ethics involves both internal stakeholders (employees) as well as the external stakeholders (investors, lenders, and customers).
- Ethics in business also covers inter-corporate relationships. Business is a part of society and business firms affect everyday human life. So, a business organization cannot estrange itself from the principles of good and bad in society.
- Ethics covers each and every aspect of business and applies to all decision-making and operational activities.

(i) **Dignity:** An important principle is to treat others with utmost respect regardless of differences. All people should be treated with equal respect and dignity regardless of sex, race or national origin. Employees should not be considered just as a means to an end.

Dignity

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(ii) Fairness: Fairness is about concern with actions, processes, and consequences that are morally right, honourable, and equitable. Fairness establishes moral standards for decisions affecting others. It does not mean that everybody gets what they want, but everybody has an equal opportunity to benefit.



(iii) Honesty: Honesty means being truthful and straightforward. It is largely linked to an individual rather than a situation. Integrity is linked to honesty - to have consistency of honesty. That is, being honest is generalized to all situations.

'Straight'

(iv) **Openness:** The concept of openness is that things should be as they are supposed to be, and not concealed in some manner. That is not concealing that which should be revealed.

(v) **Reputation/goodwill:** Goodwill is one of the most important assets of a business, and also one of the most difficult to rebuild should it be lost. Business should work on building a good reputation, along with high morale for its staff.

(vi) **Prudence:** It is the ability of a business to make right decision, which is gained over a period of time from experiences and knowledge, Business requires prudence to exercise a degree of judgment that makes the situation no worse, but rather improves the circumstances.



(vii) **Concern for Others:** Every business takes birth, survives and grows with the consent and co-operation of the society. Being an integral part of the society, it makes the business morally responsible towards the society. It has to fulfil its responsibility towards both internal groups and external groups.

Philosophy of Trusteeship'

- Mahatma Gandhi explained that the capitalist should realise that the wealth in their hands is the fruit of hard work, toil, efforts and sacrifice of the workers and other sections of the society. The capitalist, therefore, should act as "trustee".
 - Peter Singer has strongly espoused a similar view that each of us with wealth surplus to his or her essential needs should be giving most of it to the people suffering from poverty so dire as to be life threatening". This philosophy of trusteeship has its origin in "Bhagwat Gita", which tells about "Aparigraha" (non-possession) and 'Nishkam Karmyoga' (selfless work). Trustees have to create, preserve and increase wealth without expecting the enjoyment of wealth.

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Business Ethics Practices in India -Corporate Governance

- ❑ Ethics as a concept in the Indian business evolved during the 1980s, following rise of corrupt business practices. Major unethical issues were also on rise such as bribery, deceptive advertising, price collusion, product hazards, and environment degradation, Business confidence started to decline.
- ❑ Directors of a firm are responsible for creating wealth and happiness for all the stakeholders of an organization and improvising by using corporate governance.
- ❑ It is their duty to avoid ethical misconduct and also to provide leadership to prevent ethical misconduct in the organization.

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- ❑ For this, most companies have developed formal systems of accountability, oversight, and control-known as corporate governance.
- ❑ In India, with the formation of SEBI in 1992, and addition of clause 49 (listing agreements) in 2005, business ethics gained the centre stage of business operations. Several Committees have been set up, the latest was the Uday Kotak Committee set up by SEBI.

Corporate Governance in India

The standard banking code of conduct includes following factors also-

- **Integrity**-means that there is no intention to treat the business partner in an immoral way.
- **Neutrality**-means refrain from any kind of biased behaviour.
- **Reliability**-means to provide information to its customers that is understandable, clear and accurate. It should perform customer service in minimum time frame and impeccably - without a glitch.
- **Transparency**-means to keep its customers clearly updated about their rights and obligations and all aspects of the products and services offered to them. Also, banks must offer customers a particular product or service suitable to their requirement and profile.

ETHICAL FOUNDATION OF BEING A PROFESSIONAL

Professionals have a certain set of acquired skills and specific qualifications. For a professional, the most valuable virtue is ethical decision-making with moral judgment. Professionals have to prescribe standards for themselves, but they are accountable to the overall society.

Duties of a professional include -Integrity in dealing, Honesty in actions along with being truthful, Humane values, Thoughtfulness in decision making. Objectiveness in actions, Responsibility towards employer and customer, and Leadership qualities at the work place.



Ethical Issue for Professionals

- Strong moral values help professionals in crisis situation.
- It helps them in coming up with suitable solutions when they are facing ethical dilemmas.
Practicing high ethical standards are essential elements of professionalism.
- An ethical dilemma is a situation, which requires an individual to choose among actions that may need evaluation as just or unjust.
- Dilemma arises either due to conflict between the personal values and the organizational values or conflict with the social values. For instance, (a) an issue that might impair independence and objectivity or (b) priority of transaction, for example customer over employer, (c) monetary benefits received following completion of a deal.

ETHICS AT THE INDIVIDUAL LEVEL

VALUES, NORMS, BELIEF AND THEIR ROLE

Values

- Values are concept of desirable behavior.
- These are internalized standards or principles, which evaluate-what is embraced by an individual. As values describe what is desirable, it must be desirable for all and not just for selected few.
- Such standards are relatively few.
- These influence an individual's evaluation of many objectives encountered in everyday life.
- Values are derived from moral principles determining individuals' judgment about good, right or desirable.

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- Also, the **true values** must have universal command and acceptability. .
- Values are internalized as our core beliefs; this is because right from our childhood, we are continuously taught certain values by our parents, family members, teachers, etc. and the rest of the society.
- Values are derived from norms in our society, religion and culture. We continue to learn values even subconsciously, and these get imbibed in our personality. Our individual perceptions influence our attitudes, which guide our behavior. Thus, whatever we think and act is in synchronization with our value system. Values are beliefs that people use to give meaning to their lives.



(a) Characteristics of values

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- Values provide standards of competence and morality.
- Values are not large in number and we have a few selective values.
- Values outdo specific objects situation or persons: are measure of evaluation applicable to all.
- Values are relatively perpetual and resilient to change, and changes happen over a long time.
- Values are at the core of a personality, steering decisions and actions that direct human behaviour.
- Values have content along with strength and distinctive features that make each individual distinctive.



(b) Values Classification

Terminal Value- A terminal value is an ultimate goal, which we desire to achieve in our lifetime. It is enduring belief that a certain end-state of existence is worth striving for and attaining.

Instrumental Values-It is a tool or means for acquiring a terminal value. Thus, instrumental values are, in the simplest words, the modes of behaviour. These are the core values and permanent in nature.



Norms

— set of rules

- ☐ Norms are expectations of proper behaviour and not the requirements of that behaviour.
Norms are the ways an individual expects all the people to act in a given situation. They are inconsistent but universal.



Beliefs

- ❑ A belief is some thought considered to be true by a person, Beliefs could arise out of some certainties of life, or some probable events or consequences, or simply out of faith in some ideas.





Value - Conflict in an Organization

Value differences and conflicts are caused by two discrete, whether perceived or actual, incompatible belief systems. Values explain what is "good" or "bad," "right" or "wrong," "just" or "unjust." Differing values need not cause conflict, though these would create divergence. For instance, if any discrepancy occurs between the individual values and corporate culture, then the friction between the individual and organization where he works is inevitable. However, if the divergence is managed it can be resolved.

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THE GOLDEN RULE

The moral principle known as the 'The Golden Rule' has been espoused by many humanists, which otherwise is also known as the ethic of reciprocity. The Golden rule suggests that people should aspire to treat each other as they would like to be treated themselves - with tolerance, consideration and compassion. It suggests that one should treat inferiors, as you would want superiors to treat you.

There are three Golden rules of ethics, which establish the foundation of human moral values.

✓ Everything you want others to do to you, you should do to others.

✓ Do not do to others that you do not wish them to do to you.

✓ Do not do anything to others, which, if done to you can cause harm to you.

These rules provide us a screening test for finding out the validity of what we decide as core values

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ETHICAL REASONING AND REAL-WORLD APPLICATION

Ethical reasoning is the process of recognizing, which decisions require ethical judgments, determining potential reasonable course of action, finding support for potential course of action, and then selecting the course of action best supported.

Ethical reasoning has the same basic structures that underlie all reasoning. If we are to reason well ethically, we must learn to identify and assess our use of these basic intellectual structures in ethical reasoning. Here is the basic idea: We think for a purpose; Within a point of view, Based on assumptions leading to implications and consequences. We use ideas and theories to interpret data, facts, and experiences in order to answer questions, solve problems, and resolve issues.

Theory of moral judgment: Lawrence Kohlberg, in his theory of moral judgement, explained that moral judgment is based on the concept of objectivity, justice and fairness.





ETHICAL DILEMMAS: RESOLVING ETHICAL DILEMMAS

Everyone wishes to follow the right conduct always. When actions are overtly right or wrong, it is easier to make choices. For example, to choose between lie and truth, arrogance and modesty, etc. A simple Ethical dilemma occurs when there is a clash between the two rights. The problem is how to decide which right is more right than the other right. Say, if a particular product division of a company has become unprofitable - If the unit is continued, losses will mount up and it may become a burden on other units. If the unit is closed, the people working in it will lose their jobs.

Both the rival actions seem as right.

- ✓ 1. Significant value - conflicts among differing interests.
- ✓ 2. Real alternatives that are equally justifiable.
- ✓ 3. Significant consequences on stakeholders in situation.



Resolving Dilemmas

Ethical dilemmas are resolved by searching out innovative solutions.

- Work through all three approaches to resolve the dilemma, namely:

✓ End-result based thinking - do what gives the greatest good for maximum people.

✓ Rule based thinking-follow the rule strictly.

✓ Care based thinking-treat others with love and compassion. Do to others, you would like them do to you.

Following are the organization factors-

- The company policies, rules, work-procedures and systems.
- The organizational culture and shared values.
- The organizational structure, authority-orientation and hierarchy in the organization.
- The attitude of top management and the precedents developed in this respect.

Following are the individual factors:

- The manager's perception of the job.
- The personal background and characteristic influencing his/her approach.
- The personal value system and code of ethics defining what is right or wrong.

A FRAMEWORK FOR ETHICAL DECISION-MAKING

It is important to recognise the ethical elements that are embedded in daily activities in a bank.

Our decisions have implications on the bank's revenues, cost, profitability, etc. and would sometimes naturally attract everyone's attention.

It is, therefore, imperative, for the employees to not only remain ethical while making such decisions, but ensure that they are perceived by all others also-internally or externally-as ethical in their decision-making.

Traditionally, ethical decision-making has involved weighing of four factors as under:

- ✓ The desired outcome of a decision;
- The means used to achieve the desired outcome;
- ✓ The motivation behind the decision; and
- The possible consequences of decision.

Taken together, the lenses make it easier to evaluate the ethical content of even routine decisions:

1. Purpose - Will this action serve a worthwhile purpose?
2. Principle - Is this action consistent with relevant principles?
3. People - Does this action respect the legitimate claims of the people likely to be affected?
4. Power-Do we have power to take this decision?

(Source: Organisational Ethics: A Practical Approach by Craig E Johnson)

Three more undermentioned lenses can be added to make decision-making even easier:

5. Prescription - Does the action violate any of the Bank's policy, regulation or law?
6. Public-Can I share the action with media tomorrow?
7. Person-Am I setting a good example for others?

Thank You



Comment Your Feedback

