

# Topic: Introduction Business Ethics

**Definition:** Business ethics, connotes the **form of applied ethics**, which studies ethical principles, morals and problems that take place in the business environment. It is nothing but the **integration of day to day morals and ethical norms to business** and applies to all types of business.

In finer terms, it implies the good or bad, right or wrong behaviour, in pursuing business, **determined on the basis of expected behavior** approved by the society. **E.g.** Charging reasonable prices from customers, just and fair treatment to workers, earning a legitimate profit, providing a good environment to employees, etc.

## Business Environment

**Definition:** Business Environment means a collection of all individuals, entities and other factors, which may or may not be under the control of the organisation, but can affect its performance, profitability, growth and even survival. Every business organisation operates in a distinctive environment, as it cannot exist in isolation. Such an environment influence business and also gets affected by its activities.

## Salient Features of Business Environment

1. **Dynamic:** The environment in which the business operates changes continuously because there is a wide variety of factors that exist in the environment, causing it to change its shape and character.
2. **Complex:** There are many forces, events and conditions that constitute business environment, arising from various sources. So, it is a bit difficult to understand the relative influence of a particular factor, on the operation of the organisation.
3. **Uncertain:** Uncertainty is an inherent characteristic of business environment because no one can predict what is going to happen in future.
4. **Multi-faceted:** A single change in the business environment, can be viewed differently by different observers because their perceptions vary.
5. **Far-reaching Impact:** The survival, growth and profitability, of a business enterprise, depends largely on the environment in which it exists. A small change in the environment has a far-reaching impact on the organisation in different ways.

6. **Relative:** The notion of business environment is relative since it varies from one location to another.

## Components of Business Environment

The Business Environment is broadly classified, into two categories:

1. **Internal Environment:** The factors which exist within the organisation, imparting strength or causing weakness to the organisation, comes under internal environment. It includes:
  - o Value System
  - o Vision and Mission
  - o Objectives
  - o Corporate Culture
  - o Human Resources
  - o Labor Union
- **External Environment:** External Environment consists of those factors which provide opportunity or pose threats to the business. It is further classified as:
  - o **Micro Environment:** The immediate periphery of the business that has a continuous and direct impact on it is called Micro Environment. It includes suppliers, customers, competitors, market, intermediaries, etc. which are specific to the business.
  - o **Macro Environment:** Macro Environment, is one such environment that influences the functioning and performance of every business organisation, in general. It comprises of demographic, socio-cultural, legal, political, technological, and global environment.

All business enterprises, functions within an environment, called as the business environment. An individual business firm survives and grows within the periphery of its environment. A firm is only a part of a big environment, and so there are only a few factors which are under the control of the firm. So, the firm has no other option, but to respond and adapt accordingly. If business persons possess a good understanding of the business environment, they can easily recognise, analyse and react to the forces that affect the firm.

## SALIENT FEATURES OF BUSINESS ETHICS

- It is the ethical standards which regulate business persons in performing business activities.
- It is both science and art.

- It relies on theological principles like good behaviour, sincerity, welfare of society and so on.
- It is universally applicable.
- It is based on social customs existing in the environment.
- It is dynamic in nature and constantly test the norms and moral principles.

Business ethics is concerned with the attitude of the businessperson in conducting business, by inculcating morality in his business. It propagates welfare of society, increases profitability, improves productivity and foster business relationship.

## Need for Business Ethics

- Stop business malpractices
- Safeguarding consumer's rights
- Gain confidence of customers
- Survival and growth of business
- Creating goodwill
- Healthy competition
- Consumer satisfaction.
- Building strong relationship with customers and clients

These are the set of principles and practices; that determine acceptable behaviour in the business organisation. It guides the managers and other executives in taking everyday business decisions. It stresses on the impact of the business decision on the stakeholders, such as employees, consumers, government, society, investors, shareholders and so on.

## Elements of Business Ethics

1. **Formal Code of Conduct:** Those organisations which undertake to inculcate ethical conduct in the business organisation, establish and implement the code of conduct, for their employees and members. These codes are the statement of organisational values.
2. **Ethics committee:** There are many organisations, which create the ethics committee, which is especially dedicated to maintaining ethics in the organisation. Such committees raise ethical concerns, develops and update the code of conduct, settle down ethical dilemmas, in the organisations.

3. **Ethical Communication:** Another major component is the development of an effective ethical communication system, which has a great role to play in making the ethics programme successful. It tends to educate employees regarding the ethical standards and norms of the organisation.
4. **Ethics office:** The next step, is the setting up an ethics office, to communicate and enact policies among various members of the organisation.
5. **Disciplinary system:** A disciplinary system should be formed, so as to handle the ethical contravention quickly and severely.
6. **Ethics training programme:** Another important aspect, is the ethics training programme, in which the employees of the organisation undergo training, and learn ethical norms of the company.
7. **Monitoring:** An ethical programme is considered successful and fruitful only when an effective monitoring committee, is created which looks after various processes and controls deviations.

The life of the business greatly depends on the ethics established and followed by the businessman and unethical practices pose a threat to the survival and growth of the business. Being ethical in business creates a positive reputation, that opens various opportunities for profit. Further, the techniques adopted to pursue business goals should also be pure, i.e. lawful, because the objective of business cannot be attained if it employs unfair means.

# Topic: Branches and Sources of ethics

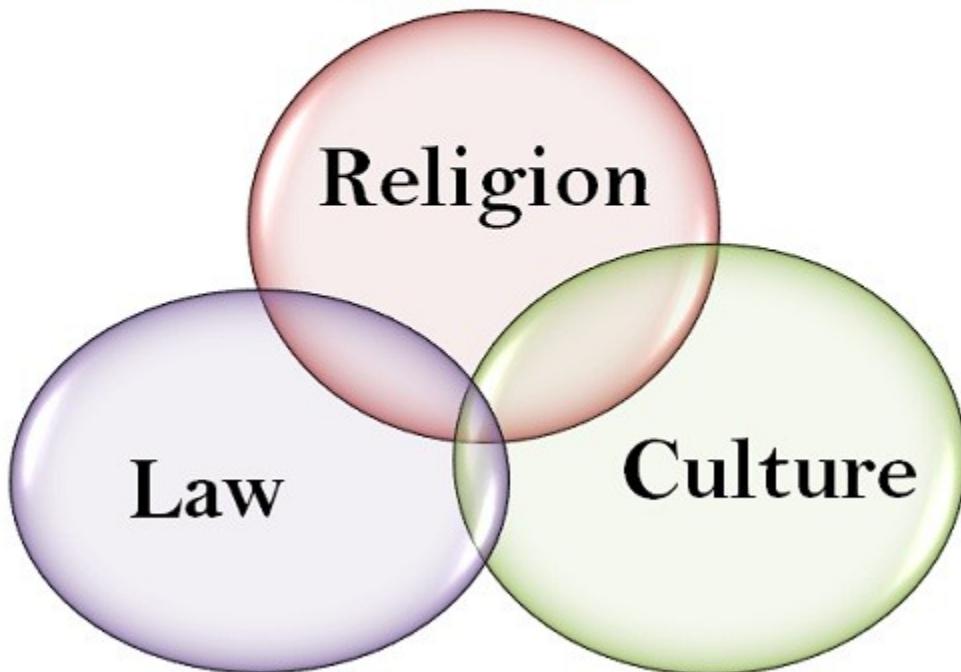
## Sources of Business Ethics

**Definition:** The **Business Ethics** refers to the system wherein what is right and wrong, just and unjust, good or evil is studied about the actions of the businessmen. In general, the “**ethics**” means a sense of what is fair and acceptable to the society; the same moral principles apply to the business ethics as well.

### Sources of Business Ethics

## Sources of Business

### Ethics



1. **Religion:** There are numerous religions followed by people and each religion talk about the nature of right and wrong in business as well as in each walk of life. Religion is the basis of an individual that he follows from his childhood and is deeply rooted in his behaviors. He understands about the fair and unfair, badness and goodness of actions and the consequences of these actions.

The **Principle of Reciprocity**, i.e., exchanging things with others for mutual benefits, is seen in all the religions such as Hinduism, Buddhism, Christianity, Islam, etc.

2. **Culture:** The other source of business ethics is the culture that an individual has to follow pertaining to certain guidelines prevalent in the society to which he belongs to. The culture implies the rules, standard, values that are transmitted from generations to generations.

These are the standard code of conduct to be followed by an individual that is permissible and acceptable to the community to which he belongs to from his childhood. The human civilization is cumulative of cultural experience that an individual passes through during his lifetime.

3. **Law or The Legal System:** Law is the code of conduct formulated by the legal system of the state and is to be followed by an individual to respect the societal interest. These are the strict rules and procedures that every business should abide by to conform to the ethical behavior of each. Although, the Law is reactive in nature and cannot cover all the cultural ethics as the law is created when the new evil emerges.

Thus, the Business Ethics are greatly influenced by these sources which vary from company to company and country to country, and this is the reason why these differ across the globe.

# Topic: Ethical Decision making and Ethical dilemmas

## Ethical Theories

**Definition:** The **Ethics** is the branch of philosophy that deals with the principles of morality and the well-defined standards of right and wrong that prescribe the human character and conduct in terms of obligations, rights, rules, benefit to society, fairness, etc.

In other words, the ethics encompass the human rights and responsibilities, the way to lead a good life, the language of right and wrong, and a difference between good and bad. This means it is concerned with what is right or wrong for the individuals and society. The term “**ethics**” have been derived from the Greek word “**ethos**” which means character, habit, disposition or custom. Several philosophers have propounded different types of ethical theories which are listed below:

1. **Teleological Ethical Theories**
2. **Deontological Ethical Theories**
3. **Virtue Ethical Theories**
4. **System Development Ethical Theories**

Further, ethics can be classified into three major study areas:

- **Meta-ethics** is concerned with the theoretical meaning of morality and ethical principles, i.e. what we understand when we talk about what is right or wrong.
- **Normative ethics** deals with the content of moral judgments i.e. determining the moral course of action and includes the criteria for what is right or wrong, good or bad, kind or evil, etc.
- **Applied ethics** is concerned with the actions which a person is obliged to perform in a particular situation.

Thus, ethics are the well-defined standards that impose obligations to refrain human beings from any misconduct, which could be harmful to the self as well as for the society.

## Teleological Ethical Theories

**Definition:** The **Teleological Ethical Theories** are concerned with the consequences of actions which means the basic standards for our actions being morally right or wrong depends on the good or evil generated.

## Types of Teleological Ethical Theories



1. **Ethical Egoism:** The ethical egoism is a teleological theory that posits, an action is good if it produces or is likely to produce results that **maximize the person's self-interest** as defined by him, even at the expense of others. It is based on the notion that it is always moral to promote one's own good, but at times avoiding the personal interest could be a moral action too. This makes the ethical egoism different from the **psychological egoism** which holds that people are self-centered and self-motivated and perform actions only with the intention to maximize their personal interest without helping others, thereby denying the reality of true altruism (sacrificing one's personal interest in the welfare of others).
2. **Utilitarianism:** The Utilitarianism theory holds that an action is good if it results in **maximum satisfaction for a large number of people** who are likely to get affected by the action. Suppose a manager creates an annual employee vacation schedule after soliciting the vacation time preferences from all the employees and honor their preferences, then he would be acting in a way that shall maximize the pleasure of all the employees.
3. **Eudaimonism:** Eudaimonism is a teleological theory which posits, that an action is good if it results in the **fulfillment of goals along with the welfare of the human beings**. In other words, the actions are said to be fruitful if it promotes or tends to promote the fulfillment of goals constitutive of human nature and its happiness. Suppose manager enforce employee training and knowledge standards at work, which are natural components of human happiness.

Thus, a moral theory that maintains that the rightness or wrongness of actions solely depends on their consequences is called as a teleological theory.

## Deontological Ethical Theories

**Definition:** The **Deontological Ethical Theories** hold that the actions are morally right independent of their consequences.

## Types of Deontological Ethical Theories



1. **Negative and Positive Rights Theories:** The negative rights theory asserts that an action is right if it protects the individual from harm or unwarranted interference from other people or the government while exercising his right. Suppose an individual has the right to use, sell or dispose of his personal car then the other persons have the correlative duty to not prevent him from doing whatever he wants to do with his car.

The positive rights theory posits that an action is right if it provides or tends to provide an individual with anything that he needs to exist. Suppose an individual has the right to adequate health care services to survive this means other agents, perhaps the government has the correlative duty to provide him with the necessary health care services.

2. **Social Contract Theories:** The social contract theories posit that people contract with each other to abide by the moral and political obligations towards the society in which they live. This theory is based on the notion that if there is no order and law in the society, then people will have unlimited freedoms, i.e. the right to all things and will resort to all misdeeds such as rape, murder, plunder, etc.

Thus, there will be an endless “war of all against all” and in order to overcome such situation people enter into an agreement with each other to give up some of their freedoms and accept the obligation to respect and safeguard the rights of the others. Thus, an individual gains the civil rights that constitute the social benefits that he is entitled to the extent he fulfills his due obligations towards the society.

3. **Social Justice Theories:** The social justice theories state that the action will be considered right if it confirms the fairness in the **distributive, retributive and compensatory dimensions** of cost and rewards. The distributive dimension means the perceived fairness in the distribution of social benefits and burden among the group members. The retributive dimension considers the punishment proportionate to the extent of crime while the compensatory dimension is the way people are compensated in relation to the injuries inflicted upon them.

For example, if the second-hand smoke hurts the passive or non-smokers at work, there should be a fair distribution of health risk burden and the proportionate punishment should be imposed on the party responsible for it. Also, the affected parties shall be compensated to the extent they have suffered the injuries.

Thus, a theory asserts that the rightness or wrongness of actions does not depend on the goodness or badness of their consequences.

## Virtue Ethical Theories

**Definition:** The **Virtue Ethical Theories** hold that ethical value of an individual is determined by his **character**. The character refers to the virtues, inclinations and intentions that dispose of a person to be ready to act ethically.

### Major Types of Virtue Ethical Theories



- Individual Character Ethics:** The individual character ethics hold that the identification and development of noble human traits help in determining both the instrumental and intrinsic value of human ethical interactions. These noble traits are courage, self-discipline, prudence, gratitude, wisdom, sincerity, understanding, benevolence, etc.
- Work Character Ethics:** The identification and development of reflective, practitioner, noble traits at works such as creativity, honesty, loyalty, honor, trustworthiness, civility, dependability, shared work pride, empathy, etc. determine the intrinsic and instrumental ethical quality of work life.

**For example,** Suppose a manager is facing global competition, huge productivity expectations and requires an effective teamwork, then his work character behavior should be such that he is considered as a role model for task accomplishment and his considerate relations with everyone at the workplace.

- Professional Character Ethics:** The professional character ethics hold that self-regulation, loyalty, impartial judgment, altruism, truthfulness, public service determine the intrinsic and instrumental ethical quality of an individual associated with some communities.

**For example,** if a business manager of a firm of doctors detects the double billing for the OT's services, then his ethical professional behavior will enforce him to inform about this to the doctors-in-charge to get the problem solved. And in case the problem still persists, then he will act as a whistleblower and inform about this to the public outside and will not be

silent until the problem is rectified. He does all this because of his loyalty towards the professional code of ethics.

Thus, the Virtue Ethical Theories are based on the notion that developing a sound character is what the life is all about. The character builds a substantive moral foundation for one's actions.

It is believed that a person with the strong character has imbibed emotional, intellectual, moral and social virtues to achieve the self-discipline and do the right thing or want what is actually good for him. Whereas, the person with weak character finds himself doing all the wrong things, wanting what is truly harmful and making excuses for all his ill doings.

## System Development Ethical Theories

**Definition:** The **System Development Ethical Theories** state that the extent to which organization system is sensitive to the need to develop a work culture supportive of ethical conduct determines the ethical value of actions.

### Major Types of System Development Ethical Theories



1. **Personal Improvement Ethics:** The personal improvement ethics posits that the action is good if it is intended to promote the individual's personal responsibility for the continuous learning, improvement, holistic development and moral excellence.

**For example,** the employees in order to gain expertise in their work enroll in the company's training programmes with a view to improving themselves as well as the organization's functioning.

2. **Organizational Ethics:** The organizational ethics hold that the action is right if it confirms the development of the formal and informal organizational processes which in turn enhances the procedural outcomes, respectful caring, innovation in ethical work culture and systematic justice.

**For example,** If there is no employee complaints Redressal system in the organization and also the employees do not have a voice system for feedback then it is the responsibility of the manager to implement such system and give a voice to the employee. By doing so, the manager supports individual and organizational moral development and reduce the intense resistance to the overall moral development.

3. **Extraorganizational Ethics:** The extra organizational ethics asserts that the action is right if it promotes or tends to promote the collaborative partnerships and respect the global and domestic constituencies representing the diverse political, economic, legal, social ecological and philanthropic concerns that affect the firm.

**For example,** it is the social responsibility of a manager to consider all the factors external to the organization such as political, legal, social, environmental, etc. that can affect the organizational business processes.

Thus, the managers who cautiously assess the moral conduct of his employees and retribute (punish) their wrong doings then he is said to have successfully developed the system of ethics. In case, the manager relies exclusively on the character of his employees and do not implement morally supportive Intra-organizational systems and stable processes; then the organization is exposed to the future ethical risk.

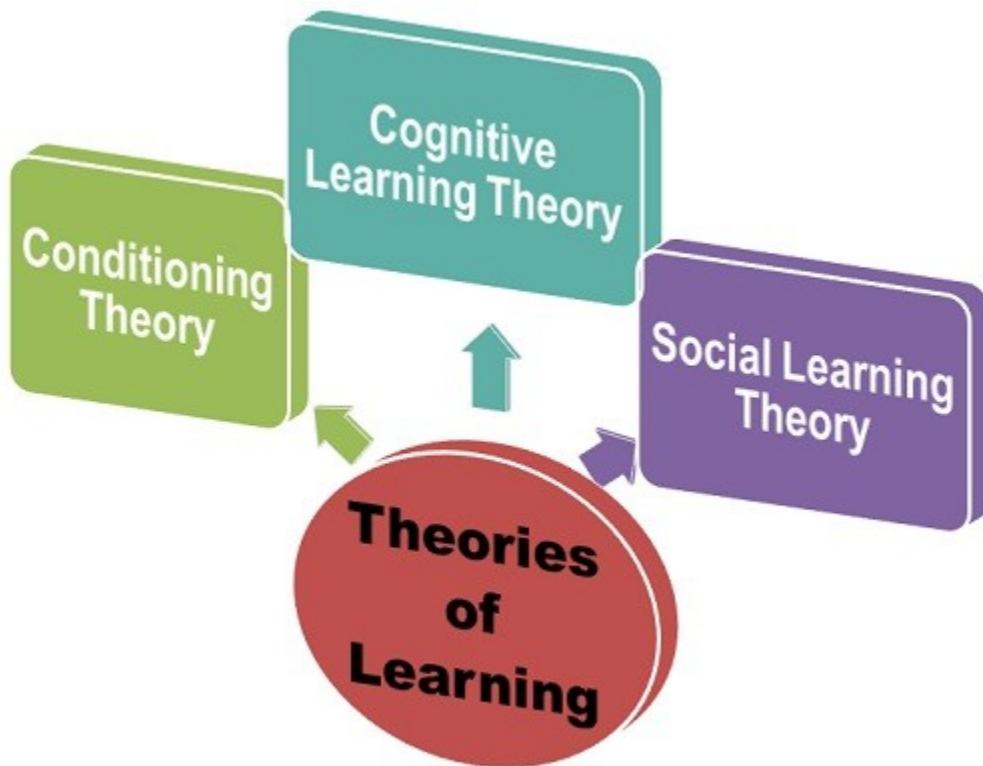
# Topic: Approaches and Theories of Ethics

## Theories of Learning

**Definition:** The **Learning** is the enduring change in the behavior brought about as consequences of experience. Simply, learning is the acquisition of new behaviors. It is agreed that learning involves changes in the behavior, that we practice in our daily lives and which becomes a permanent part of our existing set of behaviors.

Several experts are still skeptical about the process of how the new behavior is acquired and how any individual can influence the other person's behavior through teaching. This has resulted in the development of several theories of learning. The theory is the set of factors or variables that explain the reason for the existence of theory, i.e. for what objective the theory is formulated. Many theories of learning are old and well established while many other theories are in its evolutionary stage.

The Theories of human learning can be grouped into three categories:



1. [Conditioning Theory](#)
2. [Cognitive Learning Theory](#)
3. [Social Learning Theory](#)

Many psychologists believe, that behavioral change must be permanent as any temporary change in the behavior due to any reason is not a part of learning. Also, any change in the behavior may not be necessarily an improvement over the previous behavior, since an individual also learns the bad habits, prejudices, stereotypes, work restrictions, etc. while dealing with different situations or experiences.

## Social Learning Theory

**Definition:** The **Social Learning Theory** is given by Albert Bandura, who believed that individual learns behavior by observing the others. Simply, by observing the other person's behavior, attitude, and the outcome of that behavior, an individual learns how to behave in a given situation, depending on the consequences observed.

The social learning theory acts a bridge between the behavioral and cognitive theory, as it emphasizes the integrative nature of cognitive, behavioral and environmental determinants. This means social learning theory agrees with some part of behavioral and some part of cognitive theories. But however, Badura felt that these theories are not sufficient in explaining the elements therein fully and therefore, believed that learning can also take place via vicarious or modeling.

**What is Vicarious or Modelling?** The Vicarious or modeling is a process that essentially involves the observational learning. It is based on the assumption, that discrete stimulus-response consequences connections do not result in learning, but instead learning can take place through imitating the behaviors of others.

Bandura believed, that most of the behavior displayed by the individual are learned either deliberately or inadvertently through the influence of the model, a person who is being observed. Thus, a social learning theory asserts that learning takes place in two steps:

1. The person observes how others behave and then forms a mental picture in his mind, along with the consequences of that behavior.
2. The person behaves, what he has learned and see the consequences of it, if it is positive he will repeat the behavior or will not do it again, in case the consequence is negative.

The second point may be confused with the operant conditioning, but here an individual performs as per the mental image acquired by observing the others, instead of a discrete response-consequences connections in the acquisition of new behavior. Thus, modelling is one step ahead of the operant conditioning.

## Cognitive Learning Theory

**Definition:** **Edward Tolman** has contributed significantly to the **Cognitive Learning Theory**. According to him, individuals not only responds to stimuli but also act on beliefs, thoughts, attitudes, feelings and strive towards goals.

In other words, An individual creates a cognitive map in his mind, i.e. an image of the external environment, preserves and organizes information gathered, as a result of the consequences of events encountered during the learning process. Thus, the organism learns about the event and objects on the basis of a meaning assigned to stimuli.

Tolman was the first behaviorist who challenged the conditional theory on the belief that stimulus-response theory is unacceptable, as reinforcement was not necessary for the learning to happen and asserted that behavior was mainly cognitive. He believed that the environment offers several experiences or cues which are used to develop the mental image i.e. cognitive map.

Thus, cognitive learning theory is based on the cognitive model of human behavior, i.e. it emphasizes on the free will and positive aspects of human behavior. Cognition refers to the individual's thoughts, feelings, ideas, knowledge and understanding about himself and the environment. Thus, an organism applies this cognition in learning which results in not merely the response to a stimulus, but the application of internal image of the external environment, so as to accomplish the goal.

Tolman has conducted an experiment to elucidate the cognitive learning theory. He trained a rat to turn right in the 'T' maze in order to obtain food. One day, he started a rat from the opposite part of the maze, according to the operant conditioning theory, the rat should have turned right due to the past conditioning, but instead, it turned towards where the food was kept.

Thus, Tolman concluded that rat formed a cognitive map in its mind to figure out where the food has been placed, and reinforcement was not a precondition for learning to take place.

# Social Learning Theory

**Definition:** The **Social Learning Theory** is given by Albert Bandura, who believed that individual learns behavior by observing the others. Simply, by observing the other person's behavior, attitude, and the outcome of that behavior, an individual learns how to behave in a given situation, depending on the consequences observed.

The social learning theory acts a bridge between the behavioral and cognitive theory, as it emphasizes the integrative nature of cognitive, behavioral and environmental determinants. This means social learning theory agrees with some part of behavioral and some part of cognitive theories. But however, Badura felt that these theories are not sufficient in explaining the elements therein fully and therefore, believed that learning can also take place via vicarious or modeling.

**What is Vicarious or Modelling?** The Vicarious or modeling is a process that essentially involves the observational learning. It is based on the assumption, that discrete stimulus-response consequences connections do not result in learning, but instead learning can take place through imitating the behaviors of others.

Bandura believed, that most of the behavior displayed by the individual are learned either deliberately or inadvertently through the influence of the model, a person who is being observed. Thus, a social learning theory asserts that learning takes place in two steps:

1. The person observes how others behave and then forms a mental picture in his mind, along with the consequences of that behavior.
2. The person behaves, what he has learned and see the consequences of it, if it is positive he will repeat the behavior or will not do it again, in case the consequence is negative.

The second point may be confused with the operant conditioning, but here an individual performs as per the mental image acquired by observing the others, instead of a discrete response-consequences connections in the acquisition of new behavior. Thus, modelling is one step ahead of the operant conditioning.

# Topic: Business Morality and Whistle Blowing

## Whistle Blowing

**Definition:** When a former or the existing employee of the organization raise his voice against the unethical activities being carried out within the organization is called as whistle blowing and the person who raise his voice is called as a whistle blower.

The misconduct can be in the form of fraud, corruption, violation of company rules and policies, all done to impose a threat to public interest. The whistle blowing is done to safeguard the interest of the society and the general public for whom the organization is functioning.

The companies should motivate their employees to raise an alarm in case they find any violation of rules and procedures and do intimate about any possible harm to the interest of the organization and the society.

### Types of Whistle Blowing

1. **Internal Whistle Blowing:** An employee informs about the misconduct to his officers or seniors holding positions in the same organization.
2. **External Whistle Blowing:** Here, the employee informs about the misconduct to any third person who is not a member of an organization, such as a lawyer or any other legal body.

Most often, the employees fear to raise a voice against the illegal activity being carried out in the organization because of following reasons:

- Threat to life
- Lost jobs and careers
- Lost friendships
- Resentment among workers
- Breach of trust and loyalty

Now, the question comes in the mind that which offenses are considered valid for whistle blowing and for which the protection is offered by the law. Following are the acts for which the voice can be raised and are law protected:

1. Fraud
2. Health and safety in danger
3. Damage to the environment
4. Violation of company laws
5. Embezzlement of funds
6. Breach of law and justice

**Note:** The personal grievances such as workplace harassment, discrimination, bullying, etc. is not covered under the whistle blowing law unless it is in the public interest.