UNIT 13: INTRODUCTION TO BUSINESS ETHICS

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13.1 LEARNING OBJECTIVES

After going through this unit, you will able to:

- define meaning and characteristics of business ethics
- explain the elements or principles of business ethics
- ontline the need for business ethics
- describe the factors affecting business ethics
- understand ethical and unethical behaviour
- know about ethics in global context.

13.2 INTRODUCTION

The word ‘ethics’ is derived from the Greek Word ‘ethos’ which refers to character or ideal standard of behaviour.

According to common usage, the terms moral, good, right, just, honest etc. all are synonymous with ethical. In general, ethics deals more

with good than with evil. However, same action may be moral or immoral, depending upon the school of moral thought. Again, what is moral in our society may be immoral in another.

In simple woods, ethics specify, what is good or bad, fair or unfair, right or wrong? When applied to business, ethics mean the business practices which are desirable from the point of view of the society.

In this unit we will discuss the concept, elements needs and factor's affecting business ethics. We will also discuss the unethical business behaviour and some theaories of business ethics.

13.3 CONCEPT OF BUSINESS ETHICS

Business ethics are just an extension of the general concept of ethics. It can be defined as socially determined moral principles which govern business activities.

B. O. Wheeler defines the term business ethics as follows:

"Business ethics is an art and science of maintaining a proper harmonious relationship with society, its various groups and institutions as well as recognising the moral responsibility for the rightness or wrongress of business."

A business is a part of the society and so it should follow the ethical or moral norms of the society. It should be guided by the principles which are considered right by the society. It is expected of every business firm to integrate ethical values with the business operations.

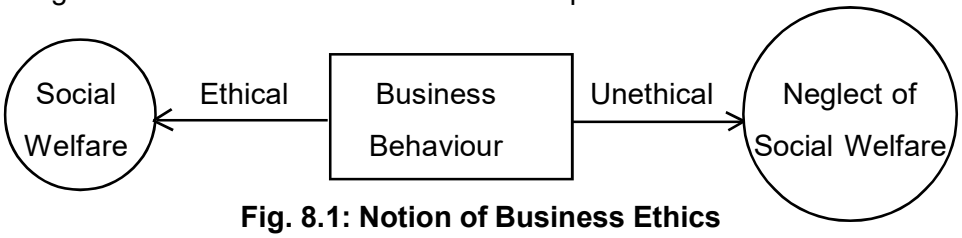


Fig. 8.1: Notion of Business Ethics

Examples of Business Ethics

Every business is expected to carry its operations in an ethical manner or socially destirable way.

A few examples of ethical business practices are:

i) To charge fair prices from the customers.

ii) To use fair weights for measurement of commodities.
iii) To pay taxes to the government honestly.
iv) To charge reasonable profits from the customers.
v) To give fair treatment to the workers.

The following characteristics emerge from the discussion and analysis of the definition of business ethics:

i) Business ethics are, in a way, a type of self-imposed discipline.
ii) They are moral principles which guide business behaviour.
iii) They imply an idea of honesty which guides the businessmen as to the rightness or wrongness of their decisions and actions.
iv) The basic philosophy of business ethics is maximum serial welfare through functioning of business exterprises.

13.4 PRINCIPLES/ELEMENTS OF BUSINESS ETHICS

Some of the basic elements of business ethics while running a business enterprise are:

1) **Top Management Commitment:** Top management has a very important role to guide the entire organisation towards ethical behaviour. The CEO and other top level managers must be openly and strongly committed towards ethical conducts and guide people working at middle and low level to follow ethical behaviour.
2) **Publication of a 'Code':** Generally ethical organisations define a code of conduct and set of ethics for all the employees in the organisation. These principles are defined in a written document called code. These ethics cover various areas such as health and safety in the work place. fair dealing in selling and marketing activities etc.
3) **Establishment of Compliance Mechanism:** To make sure that actual decisions match with a firm's ethical standards, suitable mechanism should be established, e.g. corporate ethics in training, recruitment, selection etc.

   The employees of the organisation must be free to report about the matters of unethical behaviour in the organisation.

4) **Involving Employees at all Levels:** While making ethical programmes and policies, employees must be involved because these have to practised by them only. By forming small groups of employees the ethical policies can be discussed by them and we can examine their attitude towards these policies.

5) **Measuring Results:** Although its is very difficult to measure the ethical results but it must be verified and audited that how far work is being carried on according to ethical standards. From time to time the top level must meet the employees to set the future plan of action.



CHECK YOUR PROGRESS

Q.1: State whether the following statements are True or False:

i) The word 'ethics' is derived from the Latin word 'ethos'.

ii) Business ethics are a type of self-imposed discipline.

ii) To pay taxes to the Government honestly is unethical.

iv) The basic philosophy of business ethics is maximum social welfare.

v) Top management has no role to play in business ethics.

Q.2: State two features of business ethics.

i) .....

ii) .....

13.5 NEED FOR/SIGNIFICANCE OF BUSINESS ETHICS

The need for business ethics is evident throughout the world. Professional codes or code of conducts have been developed by the trade associations so that business community and professional people exhibit ethical behaviour for safety and welfare of the people.

Business ethics are needed for the following reasons:

1) **Improve the Confidence of Customers:** Publication of a code of ethics is likely to improve the confidence of customers, clients,

employees etc. in the quality of service they may expect.

2) **Govern the Interrelationship of the Members:** Business codes govern the interrelationship of the members. Busniess cannot be carried on without trust in th eethical standards.
3) **Protection of Interests:** The interest of all those who deal with business, i.e. stockholders, employees, customers, competitors, dealers and suppliers need to be protected from the unethical ways of dealing and exploitation.
4) **Organisation of Powerful Consumer Associations:** Consumers are no longer at the mercy of the business firms. They have organised powerful associations to discipline the business firms. To avoid any confrontation with the consumers' associations, it is advisable for the business to follow ethical practices.
5) **Confrontation with Major Groups of Social Issues:** Business today is confronted with major groups of social issues like environmental protection, energy crisis, people-oriented management etc. These issues being interrelated, need that business should feel some obligation for meeting these issues.
6) **Intervention of Government:** Various laws reflect the ethics of society. If a business is not ethical it will attract the intervention of government and court of law.

13.6 FACTORS AFFECTING BUSINESS ETHICS

The following are the main determinants of business ethics:

1) **Social Values:** Social values refer to moral principles or moral values or beliefs of society. The society in which people have high moral values, in that society the businessman also has to practise ethical behaviour as social forces excercise considerable influence on business ethics.
2) **Personal Values:** The businessman with high moral values and principles excercise ethical behaviour. The personal beliefs of individuals working in an organisation also influence business ethics.

Generally employees follow their superiors and tend to adopt their values and actions. The behaviour of business rivals and associates also shapes the business ethics.

3) **Industry Norms:** Some industries and trade follow a set code of conduct. The industries have an ethical climate which governs the code of conduct of their employees. With trend towards professionalsm there is improvement in ethical behaviour of managers. The professional managers normally tend to have higher ethical standards as compared to non-professional managers.

4) **Government Rules and Regulations:** The rules and regulations framed by the government force the businessmen to follow ethical behaviour and excercise high code of conduct. For example, it is compulsory for liquor manufacturing and tobacco manufacturing companies to write statutory warning on the product that 'comsumption of liqnor or tobacco is injurious for health or causes cancer.'

5) **Legislation:** The government can excercise control over businessmen and can force them to follow ethical behaviour by passing an Act or law. For example, consumer protection Act, Essential Commodities Act etc are passed by the Government to keep a check on the unethical behaviour of the businessmen.



CHECK YOUR PROGRESS

Q.3: State whether the following statements are True or False:

i) Professional code of conducts have been developed by the trade associations.

ii) Business can be carried on without trust in the ethical standards.

iii) Social values refer to moral values or beliefs of society.

iv) Generally employees donot follow their supperiors.

v) A Government has no cantrol over businessmen.

Q.4: What do you mean by intervention of Government?

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13.7 UNETHICAL BUSINESS BEHAVIOUR

Corruption and unethical behaviour go together and exist side by side. Corruption is encouraged because business cannot wait and has to be kept going as an existing concern while government red-tape takes time. The varions sections of society practise unethical behaviour for fulfilment of their own goals and interests. Some examples are given below:

A) Unethical Behaviour to Workers:

i) Overlooking industrial safety norms in order to get work done.

ii) Denying legitimate promotion.

iii) Discremination among workers on the basis of caste, sex or religion.

iv) Inhuman treatment to poor workers.

B) Unethical Behaviour to Consumers:

i) Indulging in vulgar and false advertising to attract consumers.

ii) Neglating after sale service.

iii) Supplying lesser weight at higher prices etc.

C) Unethical Behaviour to Investors/Shareholders:

i) Witholding meaningful information.

ii) Indulging in unhealthy speculation.

iii) Witholding payment of dividends etc.

D) Unethical Behaviour to Government:

i) Keeping two sets of books to evade taxes.

ii) Supply wrong or misleading information to Government departments.

iii) Deliberately non-cooperating with the state in implementation of its economic and social policies.

E) Unethical Behaviour to Society at Large:

i) Bribing public officials to obtain undue favours.

ii) Causing environmental pollution such as air, water, sound

pollution etc.

iii) Black marketing and hoarding of goods.

iv) Production of things injurious to health of people etc.

13.8 ETHICS VS. LAW

Ethical behaviour is above the behaviour required by law. Both law and ethics decide what is right and what is wrong. Law reflect the ethical or moral values of society, that is what conduct is permitted and what is not permitted in the society and if one is breaking the law then one is punished or penalised. The business ethics also decides what is th expected conduct of businessman and what is not expected by the society. Some unethical aspects of business are also punishable such as adulteration, black marketing etc. but some acts are considered unethical which are not punishable under law. For example, unduly high price charged by the businessman is unethical but it is not punishable under law. That is why we say ethics are above the law.



CHECK YOUR PROGRESS

Q.5: State whether the following statements are True or False:

i) Inhuman treatment to poor workers is an unithical behaviour.

ii) Neglating after sales service is an ethical behaviour.

iii) Withholding payment of dividends to shareholders is ethical.

iv) Supplying wrong information is to government is ethical.

v) Black marketing and hoarding of goods is unethical.

Q.6: Identify two unethical behaviour of business to the society–

i) .....

ii) .....

13.9 THEORIES OF ETHICS

There are four theories or views on business ethics. They are–

1) Theory of Utilitarian View.
2) Theory of Rights View.
3) Theory of Justice View.
4) Theory of Integrative Social Contracts.

They are explaned below:

1) Theory of Utilitarian View: The utilitarian view of ethics says that ethical decisions are made on the basis of their outcomes or consequences. Utilitarian theory uses a quantitative method for making ethical decisions. For example, a plant manager may decide to lay off 20 percent of workforce from the plant because it will increase the plants profitability, improve job security for the remaining 80 percent.

Utilitarian theory encourages efficiency and productivity. However, it can result in biased allocations of resources. Utilitarian can also result in the rights of some stakeholders being ignored.

2) Theory of Rights View: This theory is concerned with respecting and protecting individual liberties and privileges such as the right to privacy, freedom of conscience, free speech, life and safety etc. The positive side of this theory is that it protects individuals, basic rights. But it has a negative side for organisations. It can present obstacles to high productivity and efficiency by creating a work climate that is more concerned with protecting individuals' right than with getting the job done.

3) Theory of Justice View: The next view is the theory of justice view of ethics. Under this approach, managers are to impose and enforce rules fairly and impartially and do so by following all legal rules and regulations. For example, a manager may provide the same rate of pay to individuals who are similar in their levels of skills, performance or responsibility irrespective of their gender, personality, race etc.

Using standards of justice also has pluses and minuses. It protects the interests of those stakeholders who lack power. However, it may make employees reduce risktaking, innovation and productivity.

4) **Theory of Integrative Social Contracts:** This theory proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view of ethics is based on the integration of two 'contracts' :
   i) General social contract that allows businesses to operate and defines the acceptable ground rules,
   ii) More specific contract among members of a community that addresses acceptable ways of behaving.

For example, in deciding what wage to pay workers in a new factory, managers following the integrative social contracts theory would base the decision on existing wage levels in the community. This theory of business ethics suggests that managers need to look at existing ethical norms in industries and companies in order to determine what constitutes right and wrong decision and actions.

Most business people follow the utilitarian theory of ethics. This is because this approach is consistant with such business goals as efficiency, productivity and profits. However, trends towards individual rights, social justice and community standards mean that managers need ethical standards based on non-utilitarian criteria. The result, of course, is that managers inereasingly find themselves struggling with ethical dilemmas.

13.10 ETHICS IN GLOBAL CONTEXT

Social and cultural differences between countries are important environmental factors that determine ethical and unethical behaviour. For example, the manager of a Maxican firm bribes several high ranking Government officials in Maxico city to secure a profitable Government contracts. Such a practice would be seen as unethical, if not illegal, in the United States. But it is a standard business practice in Mexico.

Should Coca-Cola employees in Saudi Arabia adhere to US ethical

standards or should they follow local standards of acceptable behaviour? The problem is that some practices are considered improper in the United States while the same is proper in other countries.

In the case of payments to influence foreign officials or politicians, there is a law to guide US managers. The foreign corrupt practices Act makes it illegal for US firms to knowingly corrupt a foreign official. In some Latin American countries, for example, government bureaucrats are paid ridiculously low salaries because custom dictates that they receive small payments from those they serve. Payoffs to these bureauerats 'grease the machinery' of government and ensure that things get done. The foreign corrupt practices does not expressly prohibit small payoffs to foreign government employees whose duties are primarily administrative or clerical when such payoffs are an accepted part of doing business in that country.

It is important for individual managers working in foreign culture to recognise the various social, cultural and political and legal influences on business. Global organisation must clarify their ethical guidelines so that employees know what is expected of them while working in a foreign location. This adds another dimension to making ethical judgements.

Nine Principles of Global Business

A) Human Rights:

Principle 1: Support and respect the protection of international human rights within their sphere of influence.

Principle 2: Make sure business corporations are not complicit in human rights abuses.

B) Labour Standars:

Principle 3: Freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: The elimination of all forms of forced and compulsory labour.

Principle 5: The effective abolition of child labour.

Principle 6: The eliminations of discrimination in respect of

	employment and occupation.
C)	**Environment:**
	Principle 7: Support a precautionary approach to environmental challenges.
	Principle 8: Undertake initiatives to promote greater environmental responsibility.
	Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Source : The Global Compact website, August 14, 2000.

There are nine principles for doing business globally in the areas of human rights, labour standards and environment Managers can do a number of things if they are serious about reducing unethical behaviours in their organisations:

i) They can seek to hire individuals with high ethical standards.
ii) Establish codes of ethics and decision rules.
iii) Lead by example.
iv) Provide ethics training.
v) Conduct social audits.
vi) Provide support to individuals facing ethical dilemmas.

When all or most of them are implemented as part of a comprchensive ethics programme, they have the potential to significantly improve an organisations ethical climate.



13.11 LET US SUM UP

- The wond 'ethics' is derived from the Greek word 'ethos' which refers to character or ideal standard of behaviour.
- Business ethics are just an extension of the general concept of ethics. It can be defined as socially determined moral principles which govern business activities.
- There are some basic principles of ethics to be followed while

running a business enterprise.

- Business ethics are needed for improve the confidence of customers, govern the interrelationship of the members, rotect the interest of stakeholders, organise powerful consumer associations etc.
- There are four theories or views on business ethics they are Theory of Utilitarian View, Theory of Rights View, Theory of Justice View and Theory of Integrative Social Contracts.



13.12 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.



13.13 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: i) False, ii) True, iii) False, iv) True, v) False.

Ans. to Q. No. 2: Two features of business ethics are–

i) They are moral principles which guide business behaviour.
ii) The basic philosophy of business ethics is maximum social welfare.

Ans. to Q. No. 3: i) True, ii) False, iii) True, iv) False, v) False.

Ans. to Q. No. 4: Various laws reflect the ethics of society. If a business is not ethical it will attract the intervention of Government and court of law.

Ans. to Q. No. 5: i) True, ii) False, iii) False, iv) False, v) True.

Ans. to Q. No. 6: Two unethical behaviour of business to the society are–

i) Bribing public officials to obtain undue favours.



ii) Black marketing and Hoarding of goods.

13.14 POSSIBLE QUESTIONS

A. Short Questions (Answer each question in about 150 words)

Q.1: What do you understand by business ethics?

Q.2: What are the characteristics of business ethics?

Q.3: Discuss the principles of business ethics.

Q.4: Explain the need for business ethics.

Q.5: Discuss in brief the main determinants of business ethics.

B. Long Questions (Answer each question in about 300-500 words)

Q.6: Explain unethical behaviour of business with some examples.

Q.7: Make a comparison between ethics and law.

Q.8: Discuss in brief the various theories on business ethics.

Q.9: Write a note on ethics in the global context.

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