

# Business Ethics

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# INTRODUCTION

- ▶ Business ethics studies appropriate business policies and practices regarding potentially controversial subjects, including corporate governance, insider trading, bribery, discrimination, corporate social responsibility, fiduciary responsibilities, and much more.
- ▶ The law often guides business ethics, but at other times business ethics provide a basic guideline that businesses can follow to gain public approval.

# KEY POINTS

- ▶ Business ethics refers to implementing appropriate business policies and practices with regard to arguably controversial subjects.
- ▶ Some issues that come up in a discussion of ethics include corporate governance, insider trading, bribery, discrimination, social responsibility, and fiduciary responsibilities.
- ▶ The law usually sets the tone for business ethics, providing a basic guideline that businesses can choose to follow to gain public approval.

# UNDERSTANDING BUSINESS ETHICS

- ▶ Business ethics ensure that a certain basic level of trust exists between consumers and various forms of market participants with businesses.
- ▶ For example, a portfolio manager must give the same consideration to the portfolios of family members and small individual investors as they do to wealthier clients. These kinds of practices ensure the public receives fair treatment.

# UNDERSTANDING BUSINESS ETHICS

- ▶ The concept of business ethics began in the 1960s as corporations became more aware of a rising consumer-based society that showed concerns regarding the environment, social causes, and corporate responsibility.
- ▶ The increased focus on "social issues" was a hallmark of the decade.
- ▶ Since that time, the concept of business ethics has evolved. Business ethics goes beyond just a moral code of right and wrong; it attempts to reconcile what companies must do legally vs. maintaining a competitive advantage over other businesses.
- ▶ Firms display business ethics in several ways.

# PRINCIPLES OF BUSINESS ETHICS

- ▶ It's essential to understand the underlying principles that drive desired ethical behaviour and how a lack of these moral principles contributes to the downfall of many otherwise intelligent, talented people and the businesses they represent.

# PRINCIPLES OF BUSINESS ETHICS

- ▶ **Leadership:** The conscious effort to adopt, integrate, and emulate the other principles to guide decisions and behaviour in all aspects of professional and personal life.
- ▶ **Accountability:** Holding yourself and others responsible for their actions. Commitment to following ethical practices and ensuring others follow ethics guidelines.

# PRINCIPLES OF BUSINESS ETHICS

- ▶ Integrity: Includes other principles like honesty, trustworthiness, and reliability. Someone with integrity consistently does the right thing and strives to hold themselves to a higher standard.
- ▶ Respect for others: To foster ethical behaviour and environments in the workplace, respecting others is a critical component. Everyone deserves dignity, privacy, equality, opportunity, compassion, and empathy.



# PRINCIPLES OF BUSINESS ETHICS

- ▶ **Honesty:** Truth in all matters is key to fostering an ethical climate. Partial truths, omissions, and under or overstating don't help a business improve its performance. Bad news should be communicated and received in the same manner as good news so that solutions can be developed.
- ▶ **Respect for laws:** Ethical leadership should include enforcing all local, state, and federal laws. If there is a legal grey area, leaders should err on the side of legality rather than exploiting a gap.

# PRINCIPLES OF BUSINESS ETHICS

- ▶ **Responsibility:** Promote ownership within an organization, allow employees to be responsible for their work, and be accountable for yours.
- ▶ **Transparency:** Stakeholders are people with an interest in a business, such as shareholders, employees, the community a firm operates in, and the family members of the employees. Without divulging trade secrets, companies should ensure information about their financials, price changes, hiring and firing practices, wages and salaries, and promotions are available to those interested in the business's success.

# PRINCIPLES OF BUSINESS ETHICS

- ▶ **Compassion:** Employees, the community surrounding a business, business partners, and customers should all be treated with concern for their well-being.
- ▶ **Fairness:** Everyone should have the same opportunities and be treated the same. If a practice or behaviour would make you feel uncomfortable or place personal or corporate benefit in front of equality, common courtesy, and respect, it is likely not fair.

# PRINCIPLES OF BUSINESS ETHICS

- ▶ **Loyalty:** Leadership should demonstrate confidentiality and commitment to their employees and the company. Inspiring loyalty in employees and management ensures that they are committed to best practices.
- ▶ **Environmental concern:** In a world where resources are limited, ecosystems have been damaged by past practices, and the climate is changing, it is of utmost importance to be aware of and concerned about the environmental impacts a business has. All employees should be encouraged to discover and report solutions for practices that can add to damages already done.

# WHY IS BUSINESS ETHICS IMPORTANT?

- ▶ There are several reasons business ethics are essential for success in modern business. Most importantly, defined ethics programs establish a code of conduct that drives employee behaviour—from executives to middle management to the newest and youngest employees. When all employees make ethical decisions, the company establishes a reputation for ethical behaviour. Its reputation grows, and it begins to experience the benefits a moral establishment reaps:

# WHY IS BUSINESS ETHICS IMPORTANT?

► Its reputation grows, and it begins to experience the benefits a moral establishment reaps:

- Brand recognition and growth
- Increased ability to negotiate
- Increased trust in products and services
- Customer retention and growth
- Attracts talent
- Attracts investors

# WHY IS BUSINESS ETHICS IMPORTANT?

- ▶ When combined, all these factors affect a business' revenues. Those that fail set ethical standards and enforce them are doomed to eventually find themselves alongside Enron, Arthur Andersen, Wells Fargo, Lehman Brothers, Bernie Madoff, and many others.

# What is Business Ethics?

- ▶ Business ethics concerns ethical dilemmas or controversial issues faced by a company.
- ▶ Often, business ethics involve a system of practices and procedures that help build trust with the consumer.
- ▶ On one level, some business ethics are embedded in the law, such as minimum wages, insider trading restrictions, and environmental regulations.
- ▶ On another, business ethics can be influenced by management behaviour, with wide-ranging effects across the company.



# The difference between Personal and Professional Ethics

- ▶ Professional ethics refer to the guidelines you follow in respect to the interactions and workflows in your professional life.
- ▶ While personal ethics may influence your professional ethics, there may be instances where the two clash causing a moral conflict.

# The difference between Personal and Professional Ethics

- ▶ For example, A teacher may suspect one of her students is being neglected at home. Instead of addressing concerns directly with the student or the parent, the teacher may have to follow the process for raising concerns outlined by the school district.

# What is an Ethical Dilemma?



# What is an Ethical Dilemma?

- ▶ An ethical dilemma (ethical paradox or moral dilemma) is a problem in the decision-making process between two possible options, neither of which is absolutely acceptable from an ethical perspective.
- ▶ Although we face many ethical and moral problems in our lives, most of them come with relatively straightforward solutions.

# What is an Ethical Dilemma?

- ▶ On the other hand, ethical dilemmas are extremely complicated challenges that cannot be easily solved.
- ▶ Therefore, the ability to find the optimal solution in such situations is critical to everyone.
- ▶ Every person may encounter an ethical dilemma in almost every aspect of their life, including personal, social, and professional.

# How to Solve an Ethical Dilemma?

- ▶ The biggest challenge of an ethical dilemma is that it does not offer an obvious solution that would comply with ethical norms.
- ▶ Throughout the history of humanity, people have faced such dilemmas, and philosophers aimed and worked to find solutions to them.

# How to Solve an Ethical Dilemma?

► The following approaches to solve an ethical dilemma were deduced:

1. Refute the paradox (dilemma): The situation must be carefully analysed. In some cases, the existence of the dilemma can be logically refuted.
2. Value theory approach: Choose the alternative that offers the greater good or the lesser evil.
3. Find alternative solutions: In some cases, the problem can be reconsidered, and new alternative solutions may arise.

# Sources of Ethical Behaviour

- ▶ Ethics in general refers to a system of good and bad, moral and immoral, fair and unfair.
- ▶ It is a code of conduct that is supposed to align behaviours within an organization and the social framework.
- ▶ But the question that remains is, where and when did business ethics come into being?



# Sources of Ethical Behaviour

- ▶ Primarily ethics in business is affected by three sources - **culture, religion and laws** of the state.
- ▶ It is for this reason we do not have uniform or completely similar standards across the globe.
- ▶ These three factors exert influences to varying degrees on humans which ultimately get reflected in the ethics of the organization.
- ▶ For example, ethics followed by Infosys are different than those followed by Reliance Industries or by Tata group for that matter. Again ethical procedures vary across geographic boundaries.

# Sources of Ethical Behaviour

## ► Religion

- It is one of the oldest foundations of ethical standards.
- Religion wields varying influences across various sects of people.
- It is believed that ethics is a manifestation of the divine and so it draws a line between the good and the bad in the society.
- Depending upon the degree of religious influence we have different sects of people; we have sects, those who are referred to as orthodox or fundamentalists and those who are called as moderates.
- Needless to mention, religion exerts itself to a greater degree among the orthodox and to lesser extent in case of moderates. Fundamentally however all the religions operate on the principle of reciprocity towards ones fellow beings!

# Sources of Ethical Behaviour

## ► Culture

- Culture is a pattern of behaviours and values that are transferred from one generation to another, those that are considered as ideal or within the acceptable limits.
- No wonder therefore that it is the culture that predominantly determines what is wrong and what is right.
- It is the culture that defines certain behaviour as acceptable and others as unacceptable.
- Human civilization in fact has passed through various cultures, wherein the moral code was redrafted depending upon the epoch that was.

# Sources of Ethical Behaviour

## ► Law

- Laws are procedures and code of conduct that are laid down by the legal system of the state. They are meant to guide human behaviour within the social fabric.
- The major problem with the law is that all the ethical expectations cannot be covered by the law and specially with ever changing outer environment the law keeps on changing but often fails to keep pace.
- In business, complying with the rule of law is taken as ethical behaviour, but organizations often break laws by evading taxes, compromising on quality, service norms etc.

# Code of Personal Ethics for Employees,

- ▶ A code of ethics is a guide of principles designed to help professionals conduct business honestly and with integrity.
- ▶ A code of ethics document may outline the mission and values of the business or organization how professionals are supposed to approach problems, the ethical principles based on the organization's core values and the standards to which the professional is held.

# Code of Personal Ethics for Employees,

- Here is an example of a personal code of ethics:
  - I will treat others as I wish to be treated.
  - I will be honest and transparent in my personal and professional life.
  - I will always put forth my best effort, and I will maintain a healthy work-life balance.
  - I am dedicated to continually improving myself.
  - I will keep my promises and honor my commitments.
  - I will remain accountable for my shortcomings or mistakes.
  - I will always uphold my beliefs.
  - I appreciate my life and will be grateful for it every day.

# Code of Personal Ethics for Employees,

- ▶ I will treat others as I wish to be treated.
- ▶ I will be honest & transparent in my personal and professional life.

