

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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## A DESCRIPTIVE STUDY ON BUSINESS ETHICS

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## ABSTRACT

*Ethics in Business has gained momentum over the last few decades with the advent of competition. A decade ago competition was relatively low. However, with the increase in struggle at an alarming rate, some business organizations are resorting to unethical practices which are ultimately harming the human kind and their values. There is a growing realisation all over the world that ethics is very essential for any business to grow. Ethics and business go together; it means if there are good ethics, there is good business. Even the government of every nation across the world is stressing upon business corporate to be ethical and follow ethical practices. "In law a man is guilty when he violates the rights of others, but in ethics, he is guilty if he only thinks of doing so." Hence, higher education must pay more attention to helping students understand how to lead ethical lives. The aim of this study is to investigate the common sources of ethics and to understand the impact of business ethics over the organization as well on the nation by analysing its pros and cons.*

## KEYWORDS

business organizations, competition, ethics, human kind, unethical practices.

## INTRODUCTION

Business ethics are gaining impetus day by day. The concept of LPG i.e. liberalization, privatization and globalization has changed the concept of doing business. They have added creative and innovative ideas to business which has simplified the procedures of carrying out business at the global level. But, it has also invited a series of by-products in terms of crime, scams, corruption, favouritism, nepotism and loss of faith. Thus, business ethics has become the need of the hour.

Business ethics matters here because a lot of evidences have proved that unethical behaviour, not only cost a company, its reputation, but also deteriorates the image of a country globally e.g. in the Satyam Scandal, India's global image was tarnished. So, it is very necessary for every business organization to follow and practice some sort of ethics like transparency, honesty, integrity, respect, honour, truthfulness etc.

It has been seen that ethical behaviour towards both business and society has benefitted a firm a lot. For instance, take the case of Starbucks, which is being considered as one of the world's most ethical companies (Smith, 2012). It is an American global coffee company and Italian-styled coffeehouse chain, based in Seattle, Washington with 19,972 stores in 60 countries. Over the past 10 years, Starbucks stock (SBUX) has increased in price by 2,200%. Starbucks has made the list of Most Admired Companies in the U.S., the list of 100 Best Companies to Work for, the list of 100 Best Corporate Citizens, the list of the World's 50 Most Innovative Companies, and the list of the World's Most Ethical Companies. According to CEO Howard Schultz, Starbucks' commitment to social responsibility has played a significant role in producing this phenomenal growth.

On the other hand, unethical behaviour brings a portion of the cost for the organization. For example, Wal-Mart very often finds itself slapped with lawsuits that accuse it of predatory pricing, or pricing products too low to drive competition out of business and gain a monopoly in local markets. Among several lawsuits, the one in 2003 struck, where Germany's High Court ruled Wal-Mart's low-cost pricing strategy "undermined competition."

Wal-Mart also faced charges of monopoly, by making suppliers dependent on them and forcing them to indulge in self-defeating practices, such as pressuring them to sell goods below cost or at prices lower than they would get elsewhere.

Wal-Mart regularly faces lawsuits from employees accusing the company of forcing them to work overtime without pay and denying them health insurance. The allegations against Wal-Mart are so numerous that it is a common example of bad ethics.

As a result, in India, in an attempt to check corruption and ensure transparency among business communities, the Confederation of Indian Industry (CII) released a "code on business ethics" for its member companies on July 2011. The code is intended to strengthen the institutional framework that would help drive ethical practices in the organization.

## LITERATURE REVIEW

- ❖ Sivaraam Duraisamy and Dr. V. R Nedunchezian in their publication remark that Ethical behaviour of the firms decides not only their brand, but also the image of the country. Ethical behaviour is decided by consistently following some of the recommended standards accepted by the firm, community, laws, regulations and agreements.
- ❖ According to Hunt and Vitell (1986) the individual ethical perception of the situation is influenced by a sum of cultural, organizational and industrial environment along with personal experiences.
- ❖ Dr. Poonam Kain and Dr. Sonika Sharma in their study of Business Ethics as Competitive Advantage for Companies in the Globalized Era advise that both legally and strategically, India will benefit from improving business ethical standards.
- ❖ Zubin Mulla (2013), in his publication Corporates in India Cannot Afford to be Ethical states that political corruption and administrative corruption has grown to the level that "Corporates in India cannot afford to be ethical".
- ❖ Rania Ahmed Azmi (2006) in the paper Business Ethics as Competitive Advantage for Companies In the Globalization Era suggests that "An integrity approach to business can yield strengthened competitiveness: it facilitates the delivery of quality products in an honest, reliable way.
- ❖ Azim Premji (2012), in his article Capacity building helps ethical behaviour mentions the real threat to the business is from within, from poor ethical standards and lack of integrity that can incalculable harm. He also mentions that the business integrity is directly related to the future of the company. In the last decade the response from the business community to integrity violations and breaches is growing wider and stronger.
- ❖ Mrs. Anita Verma in her study on Role of Ethics in Business Scenario advocates that "Every business organization should follow the basic elements of ethics like respect, honour, integrity, customer satisfaction, persistence, passion, risk taking, transparent, result oriented, truthful, honest, responsible towards it different stakeholders etc. then only a strong organization can be created".

## OBJECTIVES OF THE STUDY

The main aim of this research paper is to get acquainted with the concept of business ethics and to understand its impact on business organization by analysing its benefits and limitations. And to know the various sources from which the business people can learn business ethics.

## RESEARCH METHODOLOGY

The main source of information in this research study is secondary data. To achieve the aforesaid extensive literature review was done. Data is gathered from secondary sources sourced from published reports, journals, research articles etc.



## BUSINESS ETHICS CONCEPT

The word ethics have come from the Greek word, "ethos" meaning character. Here, the word character includes both the individual's character and community's culture. It can be defined as "a specialized study of moral right and wrong that concentrates on moral standards as they apply to business institutions, organizations, and behaviour".

The institute of Global ethics has defined ethics as "obedience to the unenforceable." Ethics is an attempt to distinguish right from wrong, good from bad or desirable conduct from an undesirable one depending upon a particular set of circumstances.

According to Cater Mcnamara "Business ethics are generally coming to know what is right or wrong in the workplace and doing what is right- this is in regard to the effects of products/services and in relationship with stakeholders".

## NATURE OF ETHICS

- Business ethics are a specialized study of moral standards. Here, moral standards mean moral right and wrong that are applicable to business organizations, corporate and industrial institutions.
- It is a form of applied ethics which not only analyse moral norms and standards, but also attempts to apply the findings of this analysis to the business.
- It is concerned with the professional conduct of the businessman which reflects the capacity of businessman as to what extent they inculcate moral values in the corporate decision making process and how their decisions affect the various stakeholders of the society like customers, employees, shareholders, government, community and environment.
- It is the basic framework for doing business which should not be enforced by law. It must be more like self-discipline.
- It is an activity based concept that encompasses quality production of goods and services, employee welfare, consumer and environment protection, prevention of exploitation and fair treatment in society.

## SOURCES OF ETHICS

It is being considered that there are three basic sources of ethics which affects the business ethics. These are religion, culture and laws of a state. Since these factors are not same across the globe, hence, the ethics in business also keep on fluctuating depending upon the type of religion and culture being followed by the country people and the legal rules being framed by the government of that specific nation. For instance, what is being prohibited in Hindu religion may not be in another religion.

### ➤ RELIGION

Religion is the oldest and most important source of ethics. Every religion teaches what is right and what is wrong not only in business, but also in other walks of life. It is believed that ethics are a sign of almighty which helps an individual to distinguish between the right and wrong. Ethics is important both for business and management. Every religion preaches that the wrong doers always have to pay back their dues sometime or the other so, one should not be casual about it. Religious principles play an important role in shaping an individual's economic behaviour. For instance, in Sharia law followed by Muslims, banking precisely prohibits charging interest on loans.

### ➤ CULTURE

According to Edward Burnett Taylor, culture is "that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society." Culture serves as a guide and shapes the behaviour of people. It defines acceptable and unacceptable actions. As the religion varies from nation to nation, similarly the culture also varies. What is acceptable in one culture may not be in another. For instance, while doing business with Chinese people, one must exhibit a lot of respect and honour because they regard, respect and honour as vital values in their culture. Showing dishonour may result in cancellation of business deal.

### ➤ LAW

Laws are the system of rules laid down by the legal system of a country in order to govern the behavior of its people. If in business people adhere to the rules and regulations of the law, it is considered as ethical behavior. But if they resort to practices like black marketing, hoarding, tax evasion which is prohibited by law in the state, it is regarded as unethical behavior which is punishable under the law. For example, between 1986 and 1990, activists of London Greenpeace distributed pamphlets with the title "What's Wrong with McDonald's? Everything They Don't Want You to Know" and the wordings "McDollars, McGreedy, McCancer, McMurder, McProfits, McGarbage," because McDonald's promoted Third World poverty, sold unhealthy food, exploited workers and children, tortured animals, and destroyed the Amazon rain forest. The court held McDonald's guilty of exploiting children through advertising tactics, serving dangerously unhealthy food, paying workers low wages, indulging in union busting activities worldwide, and ignoring animal cruelty perpetrated by its suppliers.

## ADVANTAGES

Ethics in business have an important impact which determines the overall success of the organization in both short and long run.

### ✓ PROFITABILITY

The profitability of a company is directly linked to its corporate image and reputation which comes with consistent ethical behaviour and by following ethical practices. If an organization has created a good image in the market by following the road of ethics, definitely is going to attract the investors both from the national and international market to buy its stock. This will ultimately increase the profitability of the company both in the short and long run.

### ✓ BETTER DECISION

Managers act as a role model for their employees. When they are operating in an ethical manner their employees will also follow them. They will make better decisions based on the principles of ethics. They will be high on integrity, honesty, loyalty and morals. This will benefit both organization and nation.

### ✓ BUILDS A GOOD IMAGE

The foundation of a building based on ethical behaviour enhances the image of the company in the eyes of the community. This helps in attracting and retaining the talented manpower in the organization, creating and maintaining stability within the organization.

### ✓ STRONG BOND BETWEEN EMPLOYER AND EMPLOYEE

When management behaves ethically, employees also follow them. Thus, running a business in an ethical manner from top to down creates a strong bond between the employer and employee. This helps in avoiding the management and trade union problems like strikes and lockouts.

### ✓ LONG TERM GROWTH AND SUCCESS

Stable profits are better as compared to large profits now. Sometimes the lust for big success, in the present based on unethical behaviour brings a lot of uncertainties for the future. Hence, here business ethics act as a guiding factor in determining the long term profitability and success of the company.

### ✓ COMPETITIVE ADVANTAGE

Ethics brings competitive advantage for the company. It builds confidence among the consumers regarding their brands and products. They trust their brands and remain loyal to them.

## IMPACT OF UNETHICAL BEHAVIOR ON BUSINESS IN INDIA

India has been rocked by a flood of scams in the recent past and as a consequence, India is finding its reputations and credibility destroyed due to practices that are harmful and illegal. The government is losing integrity abroad, and reports of corruption are only going to keep investors away. Here is a list of some most shameful scams that hit the country over the years.

**1) 2012 COAL BLOCK ALLOCATION SCAM**

The coal scam clearly shows our nation's shot to shame. It has already been termed as the mother of all scams, as the black money involved here has swallowed all the other previous scams. The report on the coal scam by CAG (Comptroller and Auditor General), an authority established by the Govt. of India, who audits all the receipts and expenditures by the central government as well as the state governments) of India, has accused the Government of India for illegally and irregularly providing our nation's coal deposits to private and state run entities instead of auctioning them in the public. And this has resulted a loss of a whopping 1,86,000 crore rupees to our national treasury in the period 2004 – 2009. There have been estimates released by the media that the actual loss was 10,60,000 crore rupees. And what is more sickening is this that during the period of five years, all the major coal dealings in the country went right under the nose of our Prime Minister.

**2) 2010 COMMONWEALTH GAME SCAM**

The open scam and loot that took place during the Commonwealth Game is probably one of the most shameful incidents in Indian history. It certainly disgraced the nation in front of other countries and an international audience. According to estimations, 70000 crore INR was spent on the game of which only half the amount was actually spent for the event. The investigation performed by Central Vigilance Commission revealed that various hefty payments were made in the name of non-existent parties and voluntarily delay was made in the preparation process which collective lead to misuse of the funds.

**3) 2010 2G SPECTRUM POLITICAL SCAM**

The much speculated about 2G Spectrum Scam has been one of the most expensive scams in the nation's record. Former telecom minister Mr. A. Raja was the person who skilfully siphoned 1.76-lakh crore INR by evading the 2G licensing norms. He awarded the 2G accounts at the price rate of 2001 instead of the increased rate in 2008. As a result, India lost an unbelievable huge amount of money, and this might have a severe effect on the country's economy.

**4) 2009 SATYAM SCAM**

The recent scam that took place in Satyam Computer Service, which is considered one of the most promising IT companies in India, certainly surprised the investors, foreign clients and Indian masses. The 14000 crore worth Satyam fraud is the largest corporate scam in the history of India.

The company's chairperson Ramlinga Raju accomplished his fraudulent actions throughout a decade and kept everyone else in the dark. However, the Indian government's intervention in this matter saved a number of young workers from unemployment and finally the company was taken over by Tech Mahindra

**5) 2001 STOCK MARKET SCAM**

Ketan Parekh is a former stockbroker from Mumbai, was involved in circular trading throughout the time period and with a variety of companies, including Global Trust Bank and Madhavpura Mercantile Co-operative Bank. He was sent to jail with two others for swindling Rs48 crore from a unit of Canara Bank in a 1992. He has been debarred from trading in the Indian stock exchanges till 2017.

**6) 1996 FODDER SCAM**

Fodder Scam, popularly known as the 'Chara Ghotala' took place in 1996, in Bihar. In this **major corruption in India** an uncouth connection was detected in the production of "vast herds of fictitious livestock" for which animal husbandry gears, medicine and fodder worth 900 crore INR was allegedly procured. It was indeed a major waste of nation's funds and caused severe damage to the legal and economic situation of the country.

**7) 1980-90S BOFORS SCAM**

Bofors scam is accepted as the hallmark in the list of top 10 corruptions in India. It took place in the 1980s. The well-known NRI family Hinduja's connection was identified in the Bofors scam. They were accused of taking bribe from Bofors, the largest arms manufacturing corporation of Sweden for a contract they won to supply 155 mm field howitzer to India. A shocking report broadcast by the Swedish radio to reveal the scam. This was a sensitive issue as the matter was related to India's security. However, with the political heads involved in this scam, no proper punishment was given to the offenders.

**DISADVANTAGES**

Lack of ethics in business brings a wealth of problems not only for business, but also for the society and nation.

**➤ LOSS OF COMPANY CREDIBILITY**

Lack of ethics in business creates a bad image of the company in public. This results in harm of credibility and loss of key customer base. Even if a business recovers from news about its lack of ethics, it takes a lot of time and money to restore its image and consumer confidence.

**➤ HARMFUL EFFECT ON EMPLOYEE PERFORMANCE**

A lack of ethics has an adverse effect on employee performance. In some cases, employees are so concerned about making money that they ignore the rules and procedures of the organization. This can lead to careless errors that result in delay in completion of tasks assigned. Moreover, employees who act ethically and follow the rules sometimes feel demotivated since their interest is being ignored and they are left behind, which often leads to a decrease in performance.

**➤ ADVERSE IMPACT ON EMPLOYEE RELATIONS**

When a manager of an organization shows unethical behaviour, he loses respect in the eyes of his employees, which results in an unsuccessful business because business can't be run without respected leader. It also creates tension and lack of trust among employees, which is detrimental to a business.

**➤ INVITES LEGAL ISSUES.**

An organization who fails to comply with the state guidelines often faces loss in terms of fines and penalties. Financial gains made from breaking laws can lead to costly legal battles which overall affects the profitability and credibility of the firm

**LIMITATIONS****❖ REDUCES FREEDOM TO MAXIMIZE PROFIT**

Decisions based on ethics may sometime restrict a company from the scope of future expansion, merger or acquisition which would have brought a great deal of success to the organization, if followed.

**❖ COSTLY**

According to attorney Michael G. Daigneault, implementing and maintaining an ethics compliance program is an expensive and time consuming process because ethics policies need to be updated continuously according to the changing organization's culture. It also demands organizational resources and appointment of an ethics officer very often for its proper administration.

**❖ LACK OF ACCESSIBILITY TO STRATEGIES**

Ethical business may not adopt such strategies which are unethical. In a period of harsh conditions, for example, economic crises they will not adopt such practices which will tarnish their image and hence, resist change. They behave more like stagnant entities without bothering about better or worse.

**RECOMMENDATION & CONCLUSION**

Ethical issues in business have become more critical today as before. The 21st century has brought a greater complexity to business in terms of globalization, technological changes and competition. Thus, the study of business ethics is remarkable. It is not possible for any law to cover every unforeseen event. At such times, an ethical businessman is expected to keep aside his greed and follow ethical practices because behaving ethically is widely considered as good business practice.

So it is being recommended to understand ethics from scratch otherwise it can hamper your business and can even leave you with a bad impression. Such things will ultimately isolate you from your customers, suppliers, shareholders and society. Ethics play a crucial role in guaranteeing your business success. It provides guidance to a businessman while dealing with customers, building relationship with clients, maintaining integrity in the society, protecting business, goodwill which will have a noticeable effect on the success of your business.

Hence, adopting an ethical approach in doing business is essential not only in ensuring long term success and growth of the organization, but also for the well-being of the society as well as the nation as whole. It has been seen that lack of planning and fault often leads to unethical behaviour. To prevent this mishap it is being advised to set realistic goals for employees. If employees are being asked to meet unexpected goals, they might engage themselves in unethical behaviour

to reach those goals. Properly train them and monitor their performance from time to time so that they do not fall in their performance and take credit for completing tasks that were left uncompleted.

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