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Business Ethics and Corporate Governance in India

Management

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ABSTRACT

Business ethics is the study of business situations, activities, and decisions where issues of right and wrong are addressed. Business ethics arises from considering the conditions under which modern business is conducted can be broadly described as concern for the social responsibility of business. The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities. Good corporate governance is the glue that holds together responsible business practices, which ensures positive workplace management, marketplace responsibility, environmental stewardship, community engagement, and sustained financial performance. This is even more true now as we work worldwide to restore confidence and promote economic growth. A well-governed company takes a longer-term view that integrates environmental and social responsibilities in analyzing risks, discovering opportunities and allocating capital in the best interests of shareowners. There can be no better way to restore public confidence in both businesses and markets and build a prosperous future. Creating business value to the role of any board is guiding corporate strategy and creating wealth for shareholders. Many new business opportunities are emerging to address corporate citizenship priorities. Forward-thinking businesses are best placed to benefit. Immediate benefits cited by leading companies include improved reputation, higher employee retention rates, greater productivity, and cost benefits through operational improvements and innovation in products and services.

INTRODUCTION TO BUSINESS ETHICS:

Business ethics, it has been claimed, is an oxymoron (Collins 1994). By an oxymoron, we mean the bringing together of two apparently contradictory concepts, such as in 'a cheerful pessimist' or 'a deafening silence'. To say that business ethics is an oxymoron suggests that there are not, or cannot be, ethics in business: that business is in some way unethical (i.e. that business is inherently bad), or that it is, at best, amoral (i.e. outside of our normal moral considerations). For example, in the latter case, Albert Carr (1968) notoriously argued in his article 'Is Business Bluffing Ethical' that the 'game' of business was not subject to the same moral standards as the rest of society, but should be regarded as analogous to a game of poker, where deception and lying were perfectly permissible.

To some extent, it is not surprising that some people think this way. Various scandals concerning undesirable business activities, such as the polluting of rivers with industrial chemicals, the exploitation of sweatshop workers, the payment of bribes to government officials, and the deception of unwary consumers, have highlighted the unethical way in which some firms have gone about their business. However, just because such malpractices take place does not mean that there are not some kinds of values or principles driving such decisions. After all, even what we might think of as 'bad' ethics are still ethics of a sort. And clearly it makes sense to try and understand why those decisions get made in the first place, and indeed to try and discover whether more acceptable business decisions and approaches can be developed. Revelations of corporate malpractice should not therefore be interpreted to mean that thinking about ethics in business situations is entirely redundant.

After all, as various writers have shown, many everyday business activities require the maintenance of basic ethical standards, such as honesty, trustworthiness, and co-operation (Collins 1994; Watson 1994). Business activity would be impossible if corporate directors always lied; if buyers and sellers never trusted each other; or if employees refused to ever help each other. Similarly, it would be wrong to infer that scandals involving corporate wrong doing mean that the *subject* of business ethics was in some way naïve or idealistic. Indeed, on the contrary, it can be argued that the subject of business ethics primarily exists in order to provide us with some answers as to *why* certain decisions should be evaluated as ethical or unethical, or right or wrong. Without systematic study, how are we able to offer anything more than vague opinions or hunches about whether particular business activities are acceptable? Whichever way one looks at it then, there appears to be good reason to suggest that business ethics as a phenomenon, and as a subject, is not an oxymoron. Whilst there will inevitably be disagreements about what exactly constitutes 'ethical' business activity, it is possible at least to offer a fairly uncontroversial defi nition of the subject itself. So, in a nutshell, here is what we regard the subject of business ethics as:

It is worth stressing that by 'right' and 'wrong' we mean morally right and wrong, as opposed to, for example, commercially, strategically, or financially right or wrong. Moreover, by 'business' ethics, we do not mean only commercial businesses, but also government organizations, pressure groups, not-for-profit businesses, charities, and other organizations.

Business Ethics and the Law:

Having defined business ethics in terms of issues of right and wrong, one might quite naturally question whether this is in any way distinct from the law. Surely the law is also about issues of right and wrong. This is true, and there is indeed considerable overlap between ethics and the law. In fact, the law is essentially an institutionalization or codify cation of ethics into specific social rules, regulations, and proscriptions. Nevertheless, the two are not equivalent. Perhaps the best way of thinking about ethics and the law is in terms of two intersecting domains (see Figure 1.1). The law might be said to be a definition of the minimum acceptable standards of behaviour. However, many morally contestable issues, whether in business or elsewhere, are not explicitly covered by the law. For example, just as there is no law preventing you from being unfaithful to your girlfriend or boyfriend (although this is perceived by many to be unethical), so there is no law in many countries preventing businesses from testing their products on animals, selling landmines to oppressive regimes, or preventing their employees from joining a union—again, issues which many feel very strongly about. Similarly, it is possible to think of issues that are covered by the law, but which are not really about ethics.

For example, the law prescribes whether we should drive on the right or the left side of the road. Although this prevents chaos on the roads, the decision about which side we should drive on is not an ethical decision as such. In one sense then, business ethics can be said to begin where the law ends. Business ethics is primarily concerned with those issues not covered by the law, or where there is no definite consensus on whether something is right or wrong. Discussion about the ethics of particular business practices may eventually lead to legislation once some kind

of consensus is reached, but for most of the issues of interest to business ethics, the law typically does not currently provide us with guidance. For this reason, it is often said that business ethics is about the 'grey areas' of business, or where, as Trevino and Nelson (2007: 3) put it, 'values are in conflict'. Ethical Dilemma 1 presents one such situation that you might face where values are in conflict. Read through this and have a go at answering the questions at the end. As we shall see many times over in this book, the problem of trying to make decisions in the grey areas of business ethics, or where values may be in conflict, means that many of the questions posed are equivocal. What this suggests is that there simply may not be a definitive 'right' answer to many business ethics problems. And as is the case with issues such as the testing of products on animals, executive compensation packages, persuasive sales techniques, or child labour, business ethics problems also tend to be very controversial and open to widely different points of view. In this sense, business ethics is not like subjects such as accounting, finance, engineering, or business law where you are supposed to learn specific c procedures and facts in order to make objectively correct decisions. Studying business ethics should help you to make better decisions, but this is not the same as making unequivocally right decisions.

Defining Morality, Ethics, and Ethical Theory:

Some of the controversy regarding business ethics is no doubt due to different understandings of what constitutes morality or ethics in the first place. Before we continue then, it is important for us to sort out some of the terminology we are using. In common usage, the terms 'ethics' and 'morality' are often used interchangeably. This probably does not pose many real problems for most of us in terms of communicating and understanding things about business ethics. However, in order to clarify certain arguments, many academic writers have proposed clear differences between the two terms (e.g. Crane 2000; Parker 1998b). Unfortunately, though, different writers have sometimes offered somewhat different distinctions, thereby serving more to confuse us than clarify our understanding.1 Nonetheless, we do agree that there are certain advantages in making a distinction between 'ethics' and 'morality', and following the most common way of distinguishing them, we offer the following definitions:

Morality is concerned with the norms, values, and beliefs embedded in social processes which define right and wrong for an individual or a community.

Ethics is concerned with the study of morality and the application of reason to elucidate specific rules and principles that determine right and wrong for a given situation. These rules and principles are called ethical theories.

According to this way of thinking, morality precedes ethics, which in turn precedes ethical theory. All individuals and communities have morality, a basic sense of right or wrong in relation to particular activities. Ethics represents an attempt to systematize and rationalize morality, typically into generalized normative rules that supposedly offer a solution to situations of moral uncertainty. The outcomes of the codify cation of these rules are ethical theories, such as rights theory or justice theory. A word of caution is necessary here. The emergence of the formal study of ethics has been aligned by a number of authors with the modernist Enlightenment project, and the idea that moral uncertainty can be 'solved' with recourse to human rationality and abstract reasoning. As we shall show in Chapters 3 and 4, this has come under increasing attack from a number of quarters, including feminists and postmodernists. However, it is important at this stage to recognize that ethics is about some form of rationalization of morality. The importance of this distinction will hopefully therefore become clearer, and will certainly become more pertinent, as we start to examine these and other theories (in Chapter 3), as well as assessing how they feed into ethical decision-making in business (in Chapter 4). Indeed, contributing to the enhancement of ethical decision-making is one of the primary aims of this book, and of the subject of business ethics more generally. In the next section, we shall briefly y review this and some of the other reasons why studying business ethics is becoming increasingly important today across the globe.

Why is Business Ethics Important?

Business ethics is currently a very prominent business topic, and debates and dilemmas surrounding business ethics have attracted a lot of attention from various quarters. For a start, consumers and pressure groups have increasingly demanded that fi rms seek out more ethical and ecologically sounder ways of doing business. The media has also kept a constant spotlight on corporate abuses and malpractices. And even firms themselves appear to be increasingly recognizing that being ethical (or at the very least, being seen to be ethical) may actually be good for business. Ethical issues confront organizations whatever line of business they might be in. for example, provides an illustration of how Sam Roddick has taken the unusual step of opening an ethical 'erotic boutique' aimed at the luxury end of the sex toys and erotic lingerie market. There are therefore many reasons why business ethics might be regarded as an increasingly important area of study, whether as students interested in evaluating business activities or as managers seeking to improve their decision-making skills. In summary, we can suggest the following reasons why a good understanding of business ethics is important:

1. The power and influence of business in society is greater than ever before. Evidence suggests that many members of the public are uneasy with such developments (Bernstein 2000). For instance, one recent poll of more than 20 leading economic nations revealed that almost 75% of residents believed large companies had too much influence on the decisions of their government (Cywinski 2008). Business ethics helps us to understand why this is happening, what its implications might be, and how we might address this situation.
2. Business has the potential to provide a major contribution to our societies, in terms of producing the products and services that we want, providing employment, paying taxes, and acting as an engine for economic development, to name just a few examples. How, or indeed whether, this contribution is made raises significant ethical issues that go to the heart of the social role of business in contemporary society. As a 2008 global survey conducted by McKinsey shows, about 50% of business executives think that corporations make a mostly or somewhat positive contribution to society, whilst some 25% believe that their contribution is mostly or somewhat negative (*McKinsey Quarterly* 2008).
3. Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as the founding editor of the *Journal of Business Ethics* has suggested (Michalos 1988), 'to improve the human condition'.
4. The demands being placed on business to be ethical by its various stakeholders are constantly becoming more complex and more challenging. Business ethics provides the means to appreciate and understand these challenges more clearly, in order that firms can meet these ethical expectations more effectively.
5. Few businesspeople have received formal business ethics education or training. Business ethics can help to improve ethical decision-making by providing managers with the appropriate knowledge and tools to allow them to correctly identify, diagnose, analyse, and provide solutions to the ethical problems and dilemmas they are confronted with.
6. Finally, business ethics is also extremely interesting in that it provides us with knowledge that transcends the traditional framework of business studies and confronts us with some of the most important questions faced by society. The subject can therefore be richly rewarding to study because it provides us with knowledge and skills that are not simply helpful for doing business, but rather, by helping us to understand modern societies in a more systematic way, can advance our ability to address life situations far beyond the classroom or the office desk.

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Implications of Sustainability for Business Ethics:
Given this extended set of expectations placed on business according to the triple bottom line of sustainability, there are clearly significant implications for how we should

look at business ethics. Issues of an ethical nature, be they plant closures, product accessibility issues, or industrial pollution, demand that we consider a diverse and complex range of considerations and concerns. However, to achieve genuine sustainability in any of the three areas, let alone in *all* of them, is perhaps expecting too much. After all, there are few, if any, products, businesses, or industries that can confi dently claim to be sustainable in the full sense of the word. However, with the notion of sustainability widely promoted by governments, businesses, NGOs, and academia, it is clearly vital that we understand its full implications and evaluate business ethics practices according to their performance along, and trade-offs between, the different dimensions of sustainability. As Elkington (1998) suggests, the TBL is less about establishing accounting techniques and performance metrics for achievements in the three dimensions,and more about revolutionizing the way that companies think about and act in their business. It is these challenges, as they are framed according to each of the corporation's stakeholders.

Implications of Sustainability for Corporate Governance:
Corporate citizenship — a commitment to ethical behavior in business strategy, operations and culture — has been on the periphery of corporate governance and board leadership, linked mainly to corporate reputation. However, in today's globalized and interconnected world, investors, creditors and other stakeholders have come to recognize that environmental, social, and governance responsibilities of a company are integral to its performance and long-term sustainability. Today, these concerns help determine profits. For companies to operate successfully and sustain growth, boards must incorporate these new dimensions into their core decision making processes. The global financial crisis has heightened the need for corporate boards of directors to provide well-informed strategic direction and engaged oversight that stretches beyond short-term financial performance. Doing so prepares companies to more comprehensively address risks, by anticipating potentially adverse impacts on people and the environment and managing tangible and reputational risks. It can also generate wealth by creating shareholder value through an increase in business opportunities and broader access to markets. A new vision of business is emerging — one where a set of core values, encompassing human rights, environmental protection and anti-corruption measures, guide the board's oversight, relationship with management, and accountability to shareowners.

Board Responsibilities:
Today's corporate citizenship — defi ned by a clear call to environmental, social and governance responsibility — links directly to three fundamental functions of boards and their directors' duties to the companies and shareowners they serve:

1. Protecting stakeholder rights and interests
2. Managing risk
3. Creating long-term business value

Effective corporate governance requires due diligence in rallying the support and commitment of the broad network of business stakeholders, including shareowners, employees, customers and communities. If stakeholders are adversely affected by a company's actions, shareowner value will suffer. With the growth in pension and insurance funds and other institutional investors, shareowners are increasingly also company stakeholders, such as employees or customers. Therefore, these groups' needs are increasingly interconnected.

Why is Corporate Governance Important?
Corporate governance refers to the way that Boards oversee the running of a company by its managers, and how Board members are held accountable to shareowners and the company. This has implications for company behavior not only to shareowners but also to employees, customers, those financing the company, and other stakeholders, including the communities in which the business operates. Research shows that responsible management of environmental, social and governance issues creates a business ethos and environment that builds both a company's integrity within society and the trust of its shareowners.

CONCLUSION:
In this, we have defined business ethics, and set it within a number of significant currents of thinking. First, we have shown the importance of business ethics to current business theory and practice, suggesting that knowledge of business ethics is vital in the contemporary business environment. Secondly, we have argued that business ethics has been fundamentally recontextualized by the forces of globalization, necessitating a distinctly global view of ethical problems and practices in business. Finally, we have identified sustainability as a crucial concept that helps to determine and frame the goals of business activities from an ethical perspective. We shall revisit these themes of globalization, international diversity, and sustainability many more times in order to expand, refine, and contextualize the initial arguments put forward here. Though, we shall move on to consider specifically the social role and responsibilities of the corporation, and examine the emerging concept of corporate citizenship.

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