Business Ethics: A Myth or Reality

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Abstract:
"To survive, even to prosper, is not enough. We hanker to leave a footprint in the sands of time. We need to associate with a cause in order to give purpose to our lives. The pursuit of a cause does not have to be prerogative of charities. Nor does a mission to improve the world make business into a social agency. By creating new products, spreading technology and by raising productivity, enhancing quality and improving service, business has always been the active agent of progress.” Charles Handy (Harvard Business Review 2002)

Business is a social activity and, like all social activities it could not function unless certain moral prerequisites are fulfilled. An analysis of these and of the social and business structures conducive to morality form an important and frequently neglected aspect of business ethics. Further, morality of individual should not be separated from the morality of business procedures and institutions, and to my mind both should be judiciously integrated to the extent, possible.

1. THE MYTH OF AMORAL BUSINESS:
The myth of Amoral Business expresses a popular, widespread view of global business. Like most myths, it has several variations. Many people believe the myth, or somewhat believe it. It expresses a partial truth and the same time it conceals a good deal of reality.
The myth describes how many American businesses and many American businessmen and women perceive themselves and are perceived by others: business is concerned primarily with profit. To earn a profit, a business produces goods or provides services and engages in buying and selling. According to the myth, however, businesses and people in business are not explicitly concerned with ethics. They are not unethical or immoral; rather, they are amoral insofar as they feel that ethical considerations are inappropriate in business. After all, business is business. They are opposed to moralizing.
One of the interesting variations on the theme is that because many businesses are not explicitly concerned with ethics, some of them act unethically. One need only think of the many unsavory scandals that make newspaper headlines—accounts of bribery, misrepresentation white-collar crime, kickbacks, unsafe products, and insider manipulation of markets. Equally well known are the damages that some industries have wreaked on the environment and the prevalent disregard for the common good. According to the myth, businesses act unethically not because of a desire to do evil, but simply because they want to make a profit and therefore disregard some of the consequences of their actions.

Scandals, environmental issues, and energy problems have all helped the reality surface now and then, but no new myth of Moral Business has resulted. For despite some progress made by business in developing ethical codes or instituting ethics training programs, most people do not yet believe that business has made ethics a primary concern and an overriding value in its decisions. What then is the hidden reality? What is the true relation of ethics and business, which is only slowly emerging? What are the indications of its emergence?

Take the last question first. The breakdown of the Myth of Amoral business has been signaled in three fairly obvious ways: by the reporting of scandals and the concomitant public reaction to these reports; by the formation of popular groups such as the environmentalists and the consumerists; and by the concern of business in ethics, as expressed in conferences, magazines and newspaper articles, and by the burgeoning of corporate codes of ethical conduct.

2. **ETHICAL ISSUES:**
   
   This section briefly describes four highly visible ethical issues facing corporate America. These issues have been associated with the major ethical scandals of the early twenty-first century. The issues are presented to provide concrete examples of the types of misconduct that should be identified and prevented through organizational ethics programs and ethical leadership.

2.1 **Conflict of Interest:**
   
   A conflict of interest exists when individuals must choose whether to advance their own interest of their organization, or the interests of some other group or individual. An illustrative alleged conflict of interest occurred when Citigroup made a $1 million donation
to the 92nd street YMCA nursery school in Manahattan as an alleged quid pro quo so that financial analyst Jack Grubman’s children could attend the exclusive school. Grubman, an analyst for Salomon Smith Barney, supposedly upgraded his rating for AT&T stock to help Sanford Weill, CEO of Citigroup, and the parent nursery school to gain admission for Grubman’s children. Although Grubman denied elevating his rating for AT&T to gain his children’s admission, they were in fact enrolled. To avoid conflicts of interest, employees must be able to separate their private interests from their business dealings. American companies were ranked fifth, behind Canada, Germany, Netherlands, and the United Kingdom in complying with anti-corruption laws. Bribes also have been associated with the downfall of many managers, legislators, and government officials.

2.2 Fraud:
When individuals engage in deceptive practices to advance their own interests over those of their organization or some other group, charges of fraud may result. In general, fraud is any false communication that deceives manipulates, or conceals facts to create a false impression. Fraud is considered a crime, and conviction may result in fines, imprisonment, or both. According to Neese, Ferrel, and Ferrel (forthcoming), fraud costs U.S. organizations more than $600 billion per year; the average company losses about 6 percent of total revenue to fraud and abuses committed by its own employees. The most common fraudulent activities reported by employees about their co-workers are stealing office supplies and shop-lifting, claiming to have worked extra hours, and stealing money or products. Communications that are false or misleading can destroy stakeholders’ trust in an organization and may at times even be considered fraudulent. False and misleading advertising is increasingly a key issue in organizational communications. Abuses in advertising can range from exaggerated claims and concealed facts to outright lying. Such abuses range from the unethical, which they clearly are, to the illegal.

2.3 Discrimination:
Another important organizational ethics issues is discrimination. Once dominated by white males, the U.S. workforce currently includes significantly more females, African-Americans, Hispanics, and other minorities, as well as disabled and older workers. Within the next fifty years, Hispanics will make up 24% of the population, whereas African-Americans will make up 15% and Asians and Pacific Islanders 9%. These groups have traditionally faced
discrimination and high unemployment rates and have been denied opportunities to assume leadership roles in corporate America.

2.4 Outsourcing, Slavery, and Child Labour:
Outsourcing is the practice of a company manufacturing or contracting all or parts of its product abroad. Through outsourcing a company can purchase what it needs more cheaply abroad than making it itself, or if it manufactures the outsourcing a company can purchase what it needs more cheaply abroad than making it itself, or if it manufactures the product itself, it does so using cheaper labor than is available at home. Outsourcing takes advantages of differentials in labour cost. Although outsourcing by American companies is condemned by some because it transfers jobs from the United States. In itself it is not unethical. Nonetheless, some practices involved in outsourcing are unethical. The international Labor Office claims that 25% of children between the ages of 10 and 14 are working not only in Asia but also even in parts of Western Europe. Child labor is not simply a matter of children working. Often they are paid nothing or are charged more for their room and board than they earn, making them bonded servants working long hours in extremely poor conditions. They are in effect slaves. Anti-Slavery International claims that worldwide more than 100 million people are in effect slaves and 16 million of them are in China alone.

3. EMERGING TRENDS OF BUSINESS ETHICS
3.1 Ethics as a Business Goal:
Inducing ethical behavior and/or reducing unethical behavior are business goals no different from increasing profits or satisfying customers. Boards should expect these ethics-related goals to be on the corporate agenda. If progress is not being made towards creating and maintaining an ethical culture, boards must require that executives determine why and take corrective action, either by enforcing current standards more strictly or by setting higher standards. If a code is merely window dressing and not genuinely part of the corporate culture, it will accomplish very little. Corporations involved in recent high-level scandals, such as Enron and WorldCom, often had codes of ethics that were not integrated into the corporate culture.
3.2 Ethics Programs:

Boards must expect top management to provide a plan for developing and maintain an ethical corporate culture that affects decision making at all levels. If boards and executives do not explicitly address these issues, a culture may emerge in which unethical behavior is sanctioned and rewarded – whether in the boardroom or on the manufacturing line. To be most successful, ethical standards and expected behaviors should be integrated throughout every organizational process, from hiring, training, strategic planning, implementing, and rewarding to firing. Boards must adhere to the same code and set even higher standards for themselves. In addition to ensuring that organizational ethics are codified, the board will need to consider its own values and ethics in managing itself and overseeing corporate behavior and outcomes.

An organization needs a comprehensive ethical compliance program that includes a code of ethics, ethics training, an ethics officer, ongoing communication, an employee assistance “hot line”, and other systems to monitor and assess the program’s effectiveness. Top executives and boards of directors must provide the leadership and a system to resolve these issues.

Planning, strategy and business ethics program:

Enterprises of all sizes develop strategies to bring their resources together to achieve their goals and objectives. A business ethics program helps owners and managers improve their business performance, make profits, and contribute to the economic progress of their communities by meeting the reasonable expectations of their stakeholders.

To be effective over time, a business ethics program must be a formal plan, because it touches on all aspects of the enterprise – operations, human resources, communications, and marketing to name but a few. Formally planning a business ethics program ensures that owners and managers give due consideration to the enterprise’s relevant context, organizational culture, and reasonable stakeholder expectations.

Establishing the nature of the program:

Owners and managers should define and communicate the purpose of the business ethics program as early as possible. Responsible management recognizes that an effective business ethics program touches every decision and activity of the enterprise. It guides patterns of thought, choice, and action that subtly shape the organizational culture of the enterprise. The
business ethics program should be based on the core beliefs of the enterprise and should reflect an approach or orientation that will resonate with employees and other stakeholders.

**Orientation of the program:**

Program effectiveness is closely related to employees’ perceptions of the orientation of a business ethics program. A business ethics program usually has one of four primary orientations. The orientation reflects owner and manager motivations in designing and implementing the program and is an important condition of program effectiveness.

The primary orientations are:

- A compliance-based approach, which “focuses primarily on preventing, detecting, and punishing violations of law”
- A values-based approach, which “aims to define organizational values and encourage employee commitment to ethical aspirations”
- A satisfying external stakeholders approach through which enterprises “hope to maintain or improve their public image and relationships with external stakeholders”
- A protecting senior management approach, which “is introduced in part to protect owners and senior management from blame for ethical failures or legal problems”.

These primary orientations are not mutually exclusive. As a single orientation, values-based programs tend to be most effective. However, a business ethics program that includes aspects of compliance-based programs and pays attention to satisfying external stakeholders is also valuable. Employee perceptions that a program is oriented toward protecting senior management from liability or prosecution contribute to employee cynicism and lead to program outcomes that are “significantly more negative.”

4. **FUTURE OF CORPORATE GOVERNANCE AND ETHICAL LEADERSHIP:**

Since governance is concerned with the decisions made by boards of director and executives, it has the potential for far-reaching positive and negative effects. Until recently, governance was one area in the business literature that had not received the same level of attention as other issues, such as environmental impact, diversity, and sexual harassment. Over the next few years, however, ethical leadership and corporate governance will emerge as operational centerpieces of corporate responsibility. The future will require that business leaders have a different set of skills and attitudes, including the ability to balance multiple interests, handle
ambiguity, manage complex systems and networks, create trust among stakeholders, and improve process so ethical leadership is pervasive throughout the organization. A majority of executives from Europe, Asia and North America believe that diminished corporate reputations and corporate wrongdoing have permanently changed the business landscape.

5. **THE STOCK MARKET PLAYS AN ESSENTIAL FUNCTION**

Still, decrying shareholder primacy is not the same as saying that the stock market is devoid of value or that it should be eliminated. It is simply saying that shareholder gains should not be the sole value driving the corporation. There is room for other stakeholders to be considered as well.

The stock market does have its worthwhile functions. Stock serves as a kind of currency with which companies can buy other companies. A high share price can also be the basis for a good credit rating, making it easier for firms to borrow at favorable rates. Most vitally, public markets create liquidity, which is what makes genuine investment in companies attractive. Without an aftermarket for share trading, investors could cash out only when a company was sold or liquidated, which would make investing in a company like investing in a house. Money could be tied up for decades.

Because more bidders are available, a stock fetches a higher price, just as a first-edition Hemingway fetches a higher price on eBay than it would at a garage sale. But the auction function can get out of control when new wealth flows primarily to those already possessing substantial wealth. Because the wealth of a multimillionaire can never fully be spent, it can only be reinvested, leaving more and more money to chase essentially the same body of stocks. As we saw in the 1990s, this can cause stocks to artificially inflate in value. When that inflation becomes too large, the bubble bursts, often dragging the real economy down with it. Thus, while the stock market has its functions, it also has its dysfunctions. Bubbles are one dysfunction. A second is the artificial overvaluation of financial capital and the devaluation of other forms of wealth. This process has sped up dramatically in the last half-century, as the value of the stock market has increased over a hundredfold. In that same period, forests have shrunk, water tables have fallen, wetlands have disappeared, soil have eroded, fisheries have collapsed, rivers have run dry, global temperatures have risen, and countless plant and animal species have disappeared.
This same half-century, not incidentally, is when major public corporations, in cooperation with governments, have come to dominate the world. It is also when the shareholder primacy that drives them has become increasingly out of step with reality, due to a number of massive changes in the nature of major corporations:

- **Increasing Size:** Today, among the world’s hundred largest economies, fifty-one are corporations. They have revenues larger than nation-states, yet maintain the image of being the “private property” if shareholders.

- **The shrinking of ownership functions:** while we still call shareholders the “owners” of major public firms, they do not, for the most part, manage fund, or accept liability for “their” companies. The ownership function has shrunk to virtually one dimension, extracting increase in value.

- **The rise of the knowledge economy:** For many companies, knowledge is the new source of competitive advantage. To allow shareholders to claim the corporation’s increasing wealth, when employees play a greater role in creating that wealth, is a questionable allocation of resources.

- **The increasing damage to our ecosystem:** The rules of accounting were written in the fifteenth century, when to the Western mind nature seemed an unlimited reservoir of resources and an unlimited sink for wastes. That is no longer true, but the rules of accounting retain fossilized images of those ancient attitudes. Major public corporations have evolved into something new in civilization, more massive and powerful than our democratic forefathers dreamed possible. Today, as the name itself implies, public corporations are no longer fully private. The major public corporation, as President Franklin D. Roosevelt observed, permits “private enterprise to become a kind of private government which is a power unto itself”.

6. **AN AGENDA FOR SYSTEM REDESIGN:**

Maximum gain for speculators is unworthy of being the central purpose of a democratic economy. It is time we redefined economic success as something more than a rising stock market. The purpose of our economy is to support life. We need a new vision of a healthy economy, rooted not in the unsustainable wealth of a few, but in the enduring prosperity of the many.
In simplest terms, we must change the corporate design so that the economic rights of employees and the community are as vital as the rights of shareholders. In terms of system dynamics, the existence of such rights would diffuse the laser focus on share price, keeping corporate behavior more in tune with the real economy and less likely to fly off in destructive flights of fantasy.

As purpose shifts, so too must the measurement of success. This means creating supplemental financial statements that measure corporate impact on employees, the community, and the environment. Work on such statements is already far advanced through the Global Reporting Initiative, a coalition of social investors, environmentalists, and mainstream accounting groups.

7. **THE INTEGRITY CHALLENGE:**

Integrity means soundness, firm adherence to a code, principles and values, and openness and honesty (i.e. transparency, accountability and responsibility). Without integrity at the individual, organizational, or system level, there is no trust and there can be no social, competitive, community, or ecological sustainability, nor effective business transactions. The market system itself cannot survive without a foundation of participant trust in the integrity of the transactions that are taking place and the reporting that is being done by companies and their auditors. Without trust, the system tends toward chaos. If integrity is about wholes, honesty, and adherence to standards, then integrity challenges to business education exist at three important levels of leadership: individual, organizational, and societal, each nested as “holons” (wholes and parts simultaneously) within the other.

7.1 **Individual Leadership**

At the individual level, business education arguably needs to provide more ways for students to understand the importance of individual integrity and honesty, to explore personal values and to study standards, and the role of the individual in fostering a climate of integrity within an organizational context. It is in the exploration of individual values and purpose in the broadest (and probably spiritually relevant) sense that individual ethics course is most useful.

7.2 **Organizational Leadership:**

Individuals, however strong their integrity, operate within organizations that are nested within industries and societies. Pressures from these broader systems influence what happens
within each level in an interactive way. To be able to operate with integrity, businesses, like individuals need to ask the “critical values” question: what do we stand for? Asking employees this important question enabled Johnson and Johnson to act with integrity in the wake of the Tylenol scandal of the early 1980s and similarly later allowed Merck to give away Mectizan to combat river blindness when it became clear that there would be no profitable market for the drug.

7.3 The Mindfulness Challenge:

“Wisdom,” Russel Ackoff wrote, “is the ability to perceive and evaluate the long-run consequences of behavior. It is normally associated with a willingness to make short-run sacrifices for the sake of long-run gains”

Mindfulness is a concept that relates to the issue of “presence “or self-awareness of what we are doing here now, today, and implicitly of how what we doing impacts others through a connectedness that can be observed. Although derived from the literature on meditation, mindfulness is increasingly relevant to the process of business education because it can provide for an expanded awareness that somehow seems sorely lacking in business students and leaders. Jon Kabat-Zinn, who has studied the effects of mindfulness for many years, recently explained what happens when it is achieved. You come to see the possibility of being less reactive and less agitated through cultivating present-moment attention… (through what is called insight practice) you invite the field of your awareness to include a constantly changing field of objects. This is the cultivation of mindfulness-moment-to-moment, non-reactive, non-judgmental awareness.

8. CONCLUSION:

To sum up what business and what business education need, as one thinks about what truly inspires meaning in life, whether business life or some other aspect of a integrated, whole and full life, one might usefully remember the words of the great French philosopher Henry Thoreau, “Morning is when I am awake and there is a dawn in me ….. we must learn to reawaken and keep ourselves aware not by mechanical aids, but by an infinite expectation of the dawn, which does not forsake in our soundest sleep. I know of no more encouraging fact than the unquestionable ability of man to elevate his life by conscious endeavor. Is something to be able to paint a particular picture, or to carve a statue and to make a few objects
beautiful, but it is far more glorious to carve and paint the very atmosphere and medium which we look … to affect the quality of the day, that is the highest form of arts.”

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