

# Corporate Governance and Business Ethics: An Indian Perspective

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## Abstract

For running a business successfully and sustaining it, an organization had to be ethical in its behavior. Business ethics is the application of general ethical behavior in the field of business. Following business ethics does not only protect the interest of community as a whole but it also protects the interest of business and its stakeholder. It is beneficial for the reputation of the organization as well. On the other hand, corporate governance is the set of policies and procedures which can be observed in the conduct of company's affairs and their relationship with outside world. It can be rather conceptualized as a complete system of well defined codes, rules and structure for the purpose of directing and controlling business and non-business organization. This article observes that business ethics and corporate governance go together in an organization and how the business ethics can make the corporate governance more meaningful especially in context of India.

**Key words:** Business Ethics, Corporate governance, Moral values, Ethical corporate behavior, Business organization.

## Introduction

Business and society are interrelated to each other in such a way that both find their existence in each other. Business runs in a social environment and largely depends on it for its input or factors of production – land, labour, capital etc. On the other hand business makes various contributions to society such as providing goods and services, creating opportunities of employment and wealth and facilitating various innovations for betterment of mankind. To meet above social needs in sustainable manner, it is must for the business to 'make profit'. Thus it can be widely accepted that 'making profit' is not itself an unethical act but making profit without taking care of needs of society is defiantly unethical. Business ethics essentially deals with conceptualizing the right code of conduct for business and understanding what is right and morally good in business. Corporate governance are internationally accepted norms for business and to promote honesty and integrity, to protect the interest of society and stakeholders- customers, shareholders and investors and above all to avoid all types of conflict of interest, whether actual or apparent, in personal and professional relationships.

## Business Ethics

Ethics may be explained as recognition of right behavior from the wrong one. It is the code of conduct which society or culture had accepted as its norms. By principles of ethics we can assess when our actions could be categorized as moral and when they could not. Ethics is a branch of philosophy and categorized as a normative science as it relates with norms of human conduct. Business ethics is the application of general ethical behavior in the field of business. Business ethics reflects the philosophy of business, of which one aim is to determine the fundamental purposes of a company. Corporate entities are legally considered as persons in India, USA and in most nations. The 'corporate persons' are legally entitled to the rights and liabilities as a person. Thus like a natural person business entities are also bound to follow certain ethical principles.

According to Cater Mcnamara “Business Ethics is generally coming to know what is right or wrong in the work place and doing what is right. This is in regard to effects of products/services and in relationship with the stake holders.”

“Business ethics is the systematic study of ethical matters pertaining to the business, industry or related activities, institutions and beliefs. Business ethics is the systematic handling of values in business and industry.” — John Donaldson

There is no unanimity of opinion as to what constitutes business ethics. There cannot be any separate ethics of business but every individual and organ in society should abide by certain moral orders. It was rightly observed by Peter Drucker, “There is neither a separate ethics of business nor is one needed”, implying that standards of personal ethics cover all business situations.

The concept of business ethics arose somewhere in the 1970s. It was the era when consumer based society was arising and companies became more aware and showed their concern regarding the environment, social causes and corporate responsibility. Since the evolution of concept of social responsibility of business, business ethics has now become management discipline. Various courses are now being offered in different management colleges to study this discipline. Researches and surveys are being carried out to assess the ethical behavior in organization.

### Need to follow Business Ethics

Ethics is closely connected with trust. Trust in turn leads and improves predictability and efficiency of business. Thus business ethics is needed to develop trust and maintain it in such a way that business can earn profit and reputation both. Business behavior must be in consistent with ethical values because it is so expected by it from public. By following the ethics, business facilitates and promote not only good to society but also gain confidence of public. Improved profitability, better employer-employee relationship, enhanced productivity are other advantage of following business ethical behavior. The business unit needs to follow the ethics of business because business ethics involves:

- ✓ The need of **Compliance** of legal enactments, principle of morality and customs of community together with policy of the company.
- ✓ The **Contribution** which business makes towards the society by providing goods, services and employment, creating wealth, carrying out social and welfare activities.
- ✓ Bearing the **Consequences** of business activities towards environment, various stakeholders and good public image.

An organization had to follow these 3 Ps of the business ethics for its existence in long run.

### Corporate Governance Ethics

After discussing several aspect of business ethics now let’s move to corporate governance. It is a specific mechanism to facilitate ethical business practices. Corporate governance is the complete set of policies and procedures; rules and conduct framed for the purpose of directing and controlling the business activities. Corporate governance ethics are ethical behavior in the context of corporate governance. Some of the ethical behaviour may be like:

- ✓ Working with honesty and integrity, avoiding all conflicts arising due to personal and professional relationships.
- ✓ Acting in good faith, with due caution and care, fulfilling all responsibility given at any level of management.
- ✓ To make responsible use of the resources provided at work place.
- ✓ To ensure punctuality and diligence in every aspect of work taken in hand.
- ✓ Maintain the confidentiality of the information of one’s workplace. It should neither to be disclosed to an outsider nor to be used for personal benefit.
- ✓ Furnishing all the required documents and reports in time with accurate, complete, relevant information.
- ✓ Compliance of law of the land, rules and regulation which are framed by different level of government and regulating body.

Every corporate organization had to realize the fact that it had to compete for the share in the market on its own internal strength especially the strength of its human resources. While the work competency of employees, help the business to meet quality, cost and profit requirement, it is value based personnel that help the organization to sustain even in adverse conditions. It would enable the organization to establish everlasting relationship to outside world.

## Ethical Practices in Indian Context

India had a rich ethical tradition which can be traced since our ancient time. Our holy books like Vedas, Gita and the Upanishads preached about 'Nishkam Karma' i.e. doing one's duty sincerely without any expectation of results. Results are nothing but the outcome of our deeds (*Karma*). From the ancient period to modern time, India had been great advocate of ethical practices in every aspect of life. As far as business practices are concerned, India had set many examples of ethical corporate behavior in due course of time. Some of them are discussed as follows:

- **Ancient Holy Books:** Hindu holy books speak of 'performing right duty in right time and in right manner'. Even one of *shlok* of Rigveda says that "A businessman should benefit from business like a honey-bee which suckles honey from the flower without affecting its charm and beauty".
- One of the first seen written accounts of business ethics can be seen in *Thirukural*, a book said to be written by Thiruvalluvar some 2000 years ago in Tamil Literature. Their literature speaks of business ethics in many of its verses like adapting to a changing environment, learning the intricacies of different tasks etc
- **Principle of Trusteeship:** Mahatma Gandhi had given principle of trusteeship. It is yet an example of business ethics and corporate governance. This philosophy implies that an industrialist or businessman should consider himself to be a trustee of the wealth he possesses.
- **Infosys Technologies** has unveiled a code of ethics for its finance professionals and a whistleblower's policy to encourage and protect employees willing to share information on frauds but who chose not to be disclosed.
- To enhance the quality of customer service and strength the grievance redressal mechanism in banking sector, RBI had constituted a new department called **Customer Service Department**.
- To promote consumer protection various **legislative enactments** are framed by the Government of India like- Consumer Protection Act 1986, Prevention of Food Adulteration Act 1954, MRTP Act, Bureau of Indian Standard Act 1986 and Essential Commodities Act 1955.
- E-Parisaraa Pvt. Ltd, India's first Government **authorized electronic waste recycler** started operations from September 2005, is engaged in handling, recycling and reusing of Waste Electrical and Electronic Equipment (WEEE) in eco friendly way. The initiative is to aim at reducing the accumulation of used and discarded. The objective of E-Parisaraa is to create an opportunity to transfer waste into socially and industrially beneficial raw materials like valuable metals, plastics and glass using simple, cost efficient, home grown, environmental friendly technologies suitable to Indian Conditions.
- **Attero:** Attero is the largest electronic asset management company of India. This company actively promotes eco-friendly reuse and recycling of electronics. It is India's only end-to-end e-Waste recycler and metal extraction company and aims to turn present waste into sustainable resources for future. It is the only company in India, as well as one among few other elite organizations globally, with the capability to extract pure metals from end-of-life electronics in an environmentally responsible manner.
- **Shuddhi** (शुद्धि) is registered Non-Governmental Organisation (NGO) working together with Partners & Local Communities in India & globally to improve Environment & Human Well-Being. SHUDDHI Support the following Causes:
  - ✓ Swachh Bharat Abhiyan - Clean India Mission
  - ✓ Water and Sanitation (WASH)
  - ✓ Digital Education & Skill Development
  - ✓ Child Education & Women Empowerment
  - ✓ Environment Protection & Legal Support
- To meet future environmental and economic challenges, the Ministry of Tourism adopted the **Buddhism Inspired Sustainable Economies model for growth**. The ministry had launched the infrastructural development project of the Buddhist circuit as India's first transnational tourist circuit with the cooperation of the World Bank.

This pro-poor tourism development project, can be seen as the first significant step towards meaningful development along the Buddhist circuit as it aims to improve livelihoods and create sustainable opportunities.

- Companies like LG Electronics have put forth environment friendly initiative and includes **rain water harvesting and solar heater** for use in canteens and for converting sludge into bricks.
- **Rally for Rivers:** A nation-wide campaign called “rally for rivers” is being organized by Isha Foundation (founder: Spiritual leader Sadhguru Jaggi Vasudev ) to save rivers in the country and create awareness on the issue.
- In the famous case of **Union Carbide Corporation v. Union of India 1992**, better known as **Bhopal Gas Leak Disaster Case** Supreme Court imposes the rule of *Strict Liability* on enterprises carrying on hazardous and inherently dangerous activity and gave the principle of “*Polluter Pays*”.

## Survey conducted on Ethical Behavior in India

Results of few surveys conducted on ethical behavior in context of India are discussed here forth. In July 2013, work ethics survey “*India at work: what our employee think of job ethics*” was conducted by Hindustan Times and C-fore. The aims was to study the level of honesty and dedication Indians felt towards their professional lives. Major highlights of the survey were:

- Nearly 68% employee answer in negative when asked that whether they would engage in any business directly or indirectly poses a conflict of interest to their current jobs.
- More than 54% employee answer in negative when asked whether they think dishonesty at work s all right as long as they are not caught.
- More than 50% take responsibility for any error they may have committed at work
- 45% said that they provide cover for their colleagues and do not mind sharing their work in their absence.
- Almost two-thirds (66%) agree that it is important to report to work on time.
- 52% of the respondents claimed that they push themselves extra, when they are going/or are back from a holiday.
- More than 60% says that they empathizes with their colleague
- More than half (52%) of working professionals in India do not enjoy their work and do not look forward to new challenges at work.
- About 29% of the work force in both organised as well as unorganised sectors feels that wasting time at work has become an unwritten office culture.
- Nearly 51% use office resources like telephone or stationary for personal use.
- 47% feels uncomfortable in granting holidays to subordinates.

Further in June 2017, A survey, titled ‘*Economic Uncertainty or Unethical Conduct: How Should Over-burdened Compliance Functions Respond?*’ was carried out by EY India. Major highlights of this survey in context of India are:

- 78 % of respondents said that bribery and corrupt practices occur widely.
- 57% of respondents said that senior management generally ignore unethical behaviour of employees to attain revenue targets.
- 58 per cent of respondents are still willing to work for organizations involved in major bribery or fraud case.
- 71 % expressed their unwillingness to use whistle-blowing hotlines and while 25% opined that there is insufficient protection for whistle- blowers.

## Conclusion

India had efficient legislature and judicial system for enacting rules and laws for ethical practices and as we had seen these two bodies had played their well to a large extent. Unsatisfactory level of ethical behaviour at workplace as shown by surveys indicates that the problem lies with executive part. Implementation of rules, regulation and enactment must be strictly followed by evaluation and follow up activities. Inconsistency and ambiguity in implementing high ethical standards and insufficient understanding of compliance programmes have automatically encouraged the employees to follow unethical behaviour at workplace. Employees not only follow such practices but they justify their act in their own way. India as an emerging economy had to evaluate its approach toward corporate governance in an objective way. Responsibility for unethical corporate behavior must be fixed; action must be taken

against individual and group misconduct. Organization needs to take step to ensure that personal values of the employee must match to the values of the organization as whole.

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