

# COMMERCE ETHICS: ISSUES, CHALLENGES AND STRATEGIES

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## Abstract:

Father of nation, Mahatma Gandhi rightly opined, *“The things that will destroy us are: politics without principle; pleasure without conscience; wealth without work; knowledge without character; **business without morality**; science without humanity; and worship without sacrifice.”*

To deal effectively and responsibly with both ongoing and emerging ethics issues, business needs to shift its perspective from reactive compliance to proactive moral imagination.

This paper discusses ethical issues and its role in business. The paper highlight the challenges faced by corporate, and measure to combat those challenges in shaping corporate actors.

**Keywords:** *global economic, socio-techno-political crisis, free market economy, business ethics, multinational corporations, social responsibility*

## BUSINESS ETHICS: ISSUES, CHALLENGES AND STRATEGIES

*“Ends and means must match, that means govern and define ends, therefore only good means can realize good ends.” Maganbhai P. Desai*

## Introduction:

Ethical behaviour is like the lubricant to the economy. New trends and issues arising in today’s corporate world on an hourly basis, which create burden to organizations and end consumers. Flourishing economies need a healthy climatic level of mutual trust, reliability and fairness in day to day operations. The public scandals of corporate malfeasance and misleading practices, have affected the public perception and image of many big organizations. Enron, Arthur Andersen, WorldCom Tyco International, HealthSouth, Adelphia Communications, Global Crossing, Rite Aid, Satyam and other many big financial scandals have raised deep concerns about status of ethics in business. Money is the major deciding factor in all such collapses. As multinational companies expand globally and enter foreign markets, ethical conduct of the officers and employees assume added importance. In this context, ethics in business or professional world is superlative and global.

As per survey conducted by American Management Association (AMA), out of 462 executives who were asked, "What characteristics are needed to be an effective leader today?" 56% executives ranked ethical behaviour as an important characteristic, followed by sound judgment (51%) and being adaptable/flexible (47%). This is an enough evidence to prove the importance of ethics in business/profession. In this parlance, there is an urgent need to practice ethical behaviour in business field and professional career to avoid possible lawsuits, to be successful within as well as outside the organizations.

## Business Ethics: Historical background:

Jews, Christians, Buddhists and Muslims - believe that standards of ethical conduct come from God by revelation. UNESCO's study identified basic ethical principals are common to major religions and cultures of world. Kant opined, ethics should be based on principles that are useful and universal.

The term 'business ethics' came into common use in the United States in the early 1970s. The first conference on business ethics organized by Norman Bowie held at the University of Kansas. In 1980, the *Society for Business Ethics* emerged and later, business schools in Europe started the *European Business Ethics Network*. The seminal work of John Rawls, - *A Theory of Justice* (1971) was base for economic and business issues.

In 1982 the first single-authored books in the field appeared. Richard De George,- Business Ethics; and Manuel G. Velasquez,- Business Ethics: Concepts and Cases. These books found a ready reference. Many courses in business ethics both in philosophy departments and in schools of business developed rapidly.

The field continued to develop as business has developed. By the mid 1980's business had clearly become international in scope, and the topics covered by business ethics expanded accordingly. The focus on multinational corporations has been broadened in the light of the globalization. Similarly, business has moved more and more into the Information Age, business ethics has turned its attention to emerging issues of business. As time passes norms evolve, causing accepted behaviours to become objectionable. Business ethics and the resulting behaviour evolved as well.

### **Meaning and definition:**

Business Ethics is a relatively new, but increasingly important topic. There are many economists, sociologists and philosophers who have defined ethics in their own ways and from different perspectives.

Ethics is a philosophical term derived from the Greek word "ethos" which means '*character or custom*'. Formally defined, ethical behaviour is that which is morally accepted as "good" and "right" as opposed to "bad" or "wrong" in particular settings.

At the most basic level, business ethics are nothing more than the code of values and principles that govern the actions of a person, or a group of people, regarding what is right? What is wrong? Ethics is learnt by the actions what we take - and not by the values we state.

Business ethics defined as, "the application of a moral code of conduct to the strategic and operational management of a business"

Business Ethics can be defined as "the critical, structured examination of how people and institutions should behave in the world of commerce. In particular, it involves examining appropriate constraints on the pursuit of self-interest, or (for firms) profits, when the actions of individuals or firms affects others"

According to economist Milton Friedman, *corporate executives' responsibility... generally will be to make as much money as possible, while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom*".

### **Levels of Business Ethics:**

Johnson and Scholes classified business ethics in three levels; the macro level, the corporate level and the individual level.

At the highest (macro) level, the fundamental question of the role of business in society and what governance model works best to deliver the most benefits in a moral and responsible way.

At the corporate level, the interpretation of those rules and standards is often what defines business ethics, affected by the specific circumstances and socio-cultural context in which the business or public sector organisation is operating.

At the individual level, this separation creates a distinct ethical model - business ethics - which, depending on factors like personality, peer pressure and the socio-political environment, can be closer or further away from the individuals own moral/ethical code of conduct.

In this regard, Managers always keep in mind 'good ethics is good business.' Peter Drucker, father of modern management has opined, "*Profits are by-products of business not its very goal*".

### **Why to practice business ethics:**

Kautilya, author of *Arthashastra*, explore relevance of ethical principles and their application a long back. He emphasize mainly on guidance, decision making, adherence to law, doing one's duty to become a highly spiritual leader and successful businessmen.

Ethics is the vital part and the foundation, not only in business but in all aspects of life. It is related to all disciplines of management like Accounting, Information, Human resource management, Sales and Marketing, Production, Intellectual property, Knowledge and Skill, International business and Economic system etc. As said by Joe Paterno, once *"success without honour is an unseasoned dish. It will satisfy hunger, but won't taste good."* In business world, the organization's culture sets standards for determining the difference between good or bad, right or wrong, fair or unfair. Therefore, business or society that lacks ethical base is bound to fail sooner or later. As Mahatma Gandhi said, "Non-cooperation with the evil is as much a duty as is co-operation with good"

According to International Ethical Business Registry, "there has been a dramatic increase in the ethical expectation of businesses and professionals over the past 10 years. Increasingly, customers, clients and employees are deliberately seeking out those who define the basic ground, rules of their operations on a day today...." Henry Ford said, *"Business that makes nothing, but money is a poor kind of business"*.

"It is perfectly possible to make a decent living without compromising the integrity of the company or the individual, wrote business executive R. Holland, Further he added, " Quite apart from the issues of rightness and wrongness, the fact is that ethical behaviour in business serves the individual and the enterprise much better in long run." Some of well known Management guru's stresses on ethical companies have an advantage over their competitors.

Managers have to remember that leading by example is the first step in fostering a culture of ethical behaviour in the companies as rightly said by Robert Noyce, further added *"If ethics are poor at the top, that behaviour is copied down through the organization"*, however, the other methods can be creating a common interest by favourable corporate culture, setting high standards, norms, framing attitudes for acceptable behavior, making written code of ethics, applicable at all levels from top to bottom, deciding the policies for recruiting, selecting, training, induction, promotion, monetary / non-monetary motivation, remuneration and retention of employees etc.,. As Warren Buffet, well known investment advisor rightly pointed *" Price is what you pay. Value is what you get"*.

Thus present day managers should treat their employees, customers, shareholders, government, media and society in an honest and fair way by knowing the difference between right or wrong and choosing what is right, this is the foundation of ethical decision making.

### **Business Ethics: Issues:**

The ethical issues in business have become more critical and complicated day after day. Because of the global and diversified nature of large corporations and the complexity of economic, social, global, natural, political, legal, government regulations in specific and environment in general, hence the company must decide whether to adhere to constant ethical principles or to adjust to domestic standards and culture.

In the research study, "Does Business Ethics Pay?" by The Institute of Business Ethics (IBE), it was found that companies displaying a "clear commitment to ethical conduct" consistently outperform companies that do not display ethical conduct.

Realizing the significance of business ethics is a tool for achieving desired positive outcome. Many corporate started following policies-1. Be Trustful 2. Keep An Open Mind 3. Meet Obligations 4. Have Clear Documents 5. Become Community Involved 6. Maintain Accounting Control 7. Be Respectful. One should practice these principals; success will not be far off.

The Director of IBE, Philippa Foster Black, stated: "Not only is ethical behaviour in business life, the right thing to do in principle, we have shown that it pays off in financial returns." These findings deserve to be considered as an important insight for companies striving for long-term success and growth.

Despite hundreds of pages of policies, codes of business ethics, organizational values, and company culture, lapses in business ethics occur every day on work and off work. Some ethical lapses affect individual

employees and other business ethics problems hurt all stakeholders. Such failures come in all forms and sizes, both far reaching and close to home.

In a survey of 300 multinational corporations, 80 percent agreed with seven items being ethical issues for business. They are (1) employee conflict of interest, (2) appropriate gifts to corporate personnel, (3) sexual harassment, (4) unauthorized payments, (5) affirmative action (6) employee privacy; and (7) environmental issues (Brooks, 1989; Berenheim, 1987, 1989: 117-129, *Journal of Academic and Business Ethics International Business Ethics*, Page 4)

Business ethics failure gave rise to *corporate social responsibility* (CSR). A business manager cannot make the right decisions without understanding management in particular as well as ethics in general. Success that is attained without a foundation of strong ethics is bound to be short-lived.

Researches in several developing countries indicate a strong link between sustainability and business success. As per study, there are eight areas to be most relevant for the developing countries.

1. Efforts for environmental improvements, eco-efficiency measures using less energy and materials, lower pollution costs and fines, reorganizing production processes, material flows, and supplier relationships.
2. Cost savings from effective human resource management and increased labour productivity. Provision of training, health, and education benefits for workers; a clean and safe working environment; and fair wages are all factors that result in an increased productivity and reduced costs.
3. Increasing revenues by innovating and developing new 'environmental products' and by- products from waste.
4. Increasing revenue by building linkages with the local economy and employing local residents.
5. Reducing risk through engagement with stakeholders (employees, customers, NGOs, politicians, and other business partners) that assists the company in better management of environmental and social expectations, thereby reducing the risk of civil action and improving access to financial capital.
6. Building reputation by increasing environmental efficiency and improving environmental responsibility.
7. Developing human capital through better human resource management that improves productivity, product quality, and innovation. A study in India covering 52 000 employees in 200 companies found a positive correlation between employment practices and financial returns.
8. Improving access to capital through high standards of corporate governance, reassure investors on issues relating to shareholder and stakeholder rights, transparency and disclosure, and proper governance structures.

Over the time, specialised peer-review journals appeared, and more researchers entered this field. Corporate scandals in the earlier 2000's increased the field's popularity.

### **Business Ethics: Challenges:**

It has often been said that the only constant in life is change. As the twenty-first century approaches, companies face a variety of changes and challenges that will have a profound impact on organizational dynamics and performance.

In many ways, these changes will decide who will survive and prosper into the next century and who will not.

1. The challenge of international competition
2. The challenge of new technologies
3. The challenge of increased quality

4. The challenge of employee motivation and commitment
5. The challenge of managing a diverse workforce
6. The challenge of ethical behaviour

As recent survey concluded, "Over the past decade, the U.S. corporation has been battered by foreign competition, its own out-of-date technology and out-of-touch management and, more recently a flood of mergers and acquisitions. The result has been widespread streamlining of the white-collar ranks and recognition that the old way of doing business is no longer possible or desirable." (U.S. News & World Report, 1989, p. 42). Therefore emerging challenges must all be met by organizations and managers concerned about survival and competitiveness in the future.

### **Business Ethics: Strategies:**

The following are few positive suggestions to improve business and work culture.

1. Stop unfair and harmful trade practices and protects customers from exploitation through unfair trade practices like black-marketing, artificial high pricing, adulteration, cheating in weights and measures, selling of duplicate and harmful products, hoarding, etc
2. Improve customers' confidence in relations to quality, quantity, price, etc.
3. Safeguarding consumers' rights- right to health and safety, right to be informed, right to choose, right to be heard, right to redress, etc.
4. Protect interest of employees and shareholders, competitors, dealers, suppliers, etc.
5. Develop good and friendly relations between business and society.
6. Create good image for the business and businessmen.
7. Encourage smooth functioning which will grow, expand and diversify business easily and quickly.
8. Positive responsive for consumer movement, avoid or boycott poor quality, harmful, high-priced and counterfeit (duplicate) goods. Therefore, the only way to survive in business is to be honest and fair.
9. Consumer satisfaction: Treat consumer is the king of the market.
10. Treat workers as an assets, play a very crucial role in the success of a business.
11. Healthy competition: a monopoly is harmful to the consumers.
12. Follow appropriate code of conduct to survive in the market for long run.

### **Conclusion:**

Success in business is hard; acting with a strong sense of ethics is harder still. Business ethics as an issue is a hundred times more powerful than the internet or globalization or terrorism and can destroy business in a week. Failure in business ethics is a real threat to the future of every corporation.

To make matters worse, standards of business ethics are changing rapidly. In response to random events which capture public imagination. The "greed is good" mentality is no longer fashionable.

The recent development and the far-reaching expansion of global entities gave rise to ethical issues and concerns that are no longer related to the limited frameworks of international, national or even regional arenas. These issues have assumed global dimensions and require global solutions.

The challenge of ethical behaviour must be met by organizations if they are truly concerned about survival and competitiveness. Meanwhile, global organizations need to develop and enforce their own codes of ethics specifically directed at the issues related to a multicultural, multinational business environment.

Business ethics should be at the center of any new road-map for the global economy. Markets should not only be more stable, but morally acceptable as well. It is time to reunite ethics and business which allows businesses to engage to produce, to employ, to grow. To restore trust, transparency, objectivity, reliability, honesty and prudence we need to build a more robust moral as well as regulatory framework. If corporations are to wisely use the wealth they generate, management must pay more attention to business ethics.

To deal effectively and responsibly with both ongoing and emerging ethics issues, business needs to shift its perspective from reactive compliance to proactive moral imagination.

There is an urgent need in today's complicated times, more and more organizations to step forward and operate with strong, positive, and ethical cultures. Organizations have to ensure that their employees know how to deal with ethical issues in their everyday work lives.

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