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BUSINESS ETHICS AND CORPORATE GOVERNANCE COURSE Code: 4T1

Unit IV

PROGRAMME EDUCATIONAL OBJECTIVES: PEO

- Will be recognized as a creative and an enterprising team leader.
- Will be a flexible, adaptable and an ethical individual.
- Will have a holistic approach to problem solving in the dynamic business environment.

Course Objectives Of BECG

- CO1
- Student learner should be able to contrast the underlying theory of Ethics that is governing the organization under study.
- CO2
- Student learner should be able to design a Code of Ethics for professional behavior within an organization.
- CO3
- Student learner should be able to identify the possible ethical concerns which may be faced by an organization in given situation.

Course Objectives Of HROB

- CO4
- Student learner should be able to analyze a given situation and assess the negative impact it may have on society.
- CO5
- Student learner should be able to identify the various issues that may arise in the domains of Marketing, Finance, HRM, and Environment in a given organization/situation and suggest corrective action

Business & Organisational Ethics

Unit 2

Organizational Ethics

Guiding practices and beliefs through which a particular company and its managers view their responsibility toward their stakeholders

- Top managers play a crucial role in determining a company's ethics



Why should managers behave ethically?

- Managers are Responsible for using a company's financial capital and human resources to increase its performance
- Have the right to expect a good return or reward by investing their human capital to improve a company's performance
- The relentless pursuit of self-interest can lead to a collective disaster when one or more people start to profit from being unethical because this encourages other people to act in the same way

Historically

- Organisations started highlighting their ethical stature since the late 1980s and early 1990s, as the world witnessed serious economic and natural disasters because of unethical business practices.
- The [Bhopal disaster](#), and the fall of [Enron](#) are instances of the major disasters triggered by bad organisation ethics.

The Indian Business scene

- 'business ethics' is increasingly being considered an oxymoron
- The present scenario is rather bleak with ethical values fast declining in an extremely competitive business environment.
- With the onset of the LPG (Liberalization, Privatization, Globalization) policies, there has been massive privatization and firms are trying to maximize their gains by marginalizing values and societal well-being.

- The corporate leaders and senior managers working with every global organization are facing various dilemmas and concerns spanning various disciplines like marketing, finance, human resource, production etc

- Business decisions often concern complicated situations which are neither totally ethical nor totally unethical.
- Hence, the existence of gray areas
- We are concerned with “Pareto optimality,” which is related to the net balance of benefits over harm for society as a whole.

The Securities and Exchange Board of India

which regulates thousands of listed companies

- Believes that adoption of responsible business practices in the interest of the social set-up and the environment are as vital as their financial and operational performance
- Companies are accountable not merely to their shareholders from a revenue and profitability perspective, but also to the larger society, which is also its stakeholder.

SEBI

- wants listed companies to follow a nine-point disclosure norm against non-ethical business practices

National Human Rights Commission

- Indian industry's criteria for social and ethical aspects are yet to reach the desired level of sophistication.
- It is required that companies strive for providing a safe, healthy, clean and ergonomic working environment for their employees and indirect workers
- The NHRC appointed a panel which came up with the 12-point Code of ethics

Globalization, Business Ethics & Competitive Advantage

- Globalization has brought about greater involvement with ethical considerations and most importantly achieving competitive advantage through business ethics.
- Globalization and business ethics are linked as they affect a company's ability to commit to its shareholders, in particular to external investors, and preserve the trust needed for further investment and growth.

General Ethical Attitudes of Business Executives in India

| <i>No</i> | <i>Statements (% Strongly agree and agree)</i> | <i>India %</i> |
|-----------|--|--------------------|
| 1 | Sound Ethics is good business in the long run | 96 |
| 2 | It is difficult to make ethical decisions in the competitive world | 61 |
| 3 | Being ethical and being profitable do not go together | 17 |
| 4 | It is easier to know what is right than it is to do it | 73 |
| 5 | One acts ethically as long as one is acts legally | 44 |
| 6 | Two ethical standards: one for personal life and one for professional life | 57 |
| 7 | Business manager's concern is to make profit. Ethics is secondary | 41 |

Questionable practices

- Gift-giving
- Marketing unhealthy products
- Padding expense accounts
- Export of unsafe products
- Software piracy
- Injury to the environment
- Bribery
- Nepotism
- Compliance with the superior's order
- Dishonesty in advertising
- Sharing of insider information
- Firing of older supervisors

Perception of countries as least/ most corrupt

■ Least Corrupt countries

- Finland
- Denmark
- New Zealand
- Iceland
- Singapore
- Canada
- UK

■ Most Corrupt countries

- Bangladesh
- India
- Nigeria
- Kenya
- Indonesia

Plethora of Laws, Rules and Regulations to govern Business

- The Companies Act
- The Income Tax Act
- The SEBI Act
- The Factories Act
- The Environment Act
- The Minimum Wages Act
- The Provident Fund Act
- The Hazardous Substances Act
- The FEMA
- The Consumer Protection Act etc.etc.

Two Questions which arise:

1. When there is a plethora of Acts, Rules and Regulations to control business, where is the need to frame a separate Code of Business Ethics?
2. Why should the Corporate world be periodically rocked by scandals in spite of having the Code of Business Ethics?

The answer is Ethics begins where the Law ends.

Code Of Ethics

- A code of ethics is a **set of principles that guide** the organization in its **programs, policies** and **decisions** for the business.
- The ethical philosophy an organization uses to conduct business **can affect** the **reputation, productivity** and **bottom line** of the business.

- A positive and healthy corporate culture improves the morale among workers in the organization, which may increase productivity and employee retention; this, in turn, has financial benefits for the organization.
- Higher levels of productivity improve the efficiency in the company, while increasing employee retention reduces the cost of replacing employees.

Advantages of a Code of Ethics

1. To be a socially responsible organisation
2. To provide Employees and Official with guidelines
3. To establish a better corporate culture
4. To improve public image
5. To improve management
6. To minimize the risk of white collar crime
7. To communicate its expectations to the staff to suppliers, vendors and customers

Why have a code of ethics?

- To define acceptable behavior
- To promote high standards of practice
- To provide a benchmark for self-evaluation
- To establish a framework for professional behavior and responsibilities
- As a vehicle for occupational identity
- As a mark of occupational maturity.

Guide for Developing Organizational Codes of Conduct

Step 1. Establishing the Need for a Code

Step 2. Involve Senior Management

Step 3. Create a diversified and multidisciplinary advisory group

Step 4. Set the Objectives for your Organizational Code

Step 5. Tailor the Code of Conduct to the Needs and Values of the Organization

(A) Identify the organization's core values

(B) Identifying Risks: Assessing the potential for behaviours inconsistent with the values

(C) Define standards of conduct

(D) Determine your audience

Guide for Developing Organizational Codes of Conduct

Step 6. Use existing codes to develop your own

Step 7. Look for patterns and organize your ideas into specific principles.

Step 8. Know and understand the law as it applies to you and your situation.

Step 9. Create a diversified and multidisciplinary advisory group

Step 10. Validate the draft organizational code of conduct with Employees and Bargaining Agents

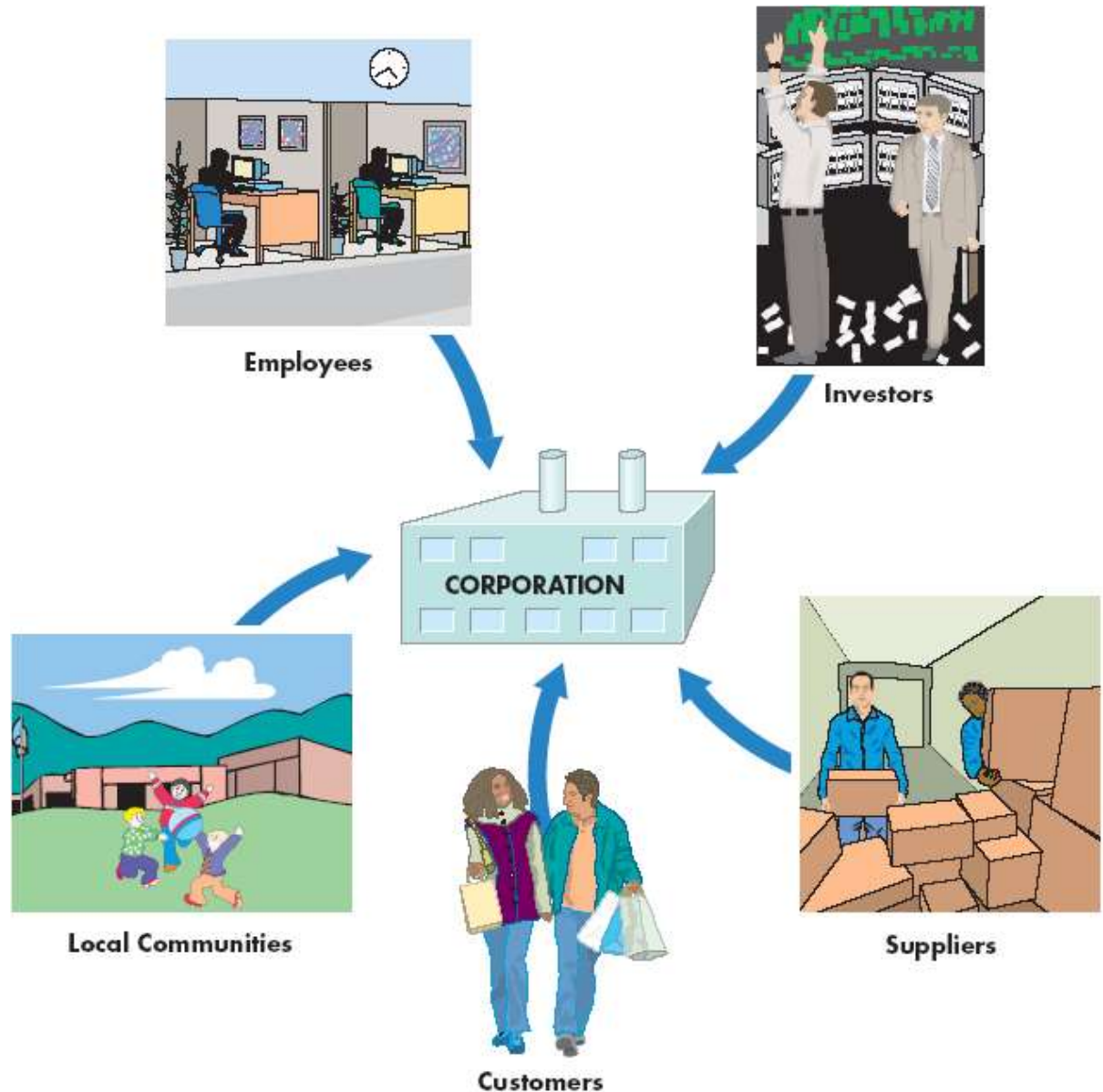
For a company's ethics policy to be successfully it is important that

- The code of ethics is clearly communicated to employees.
- Employees are formally trained in it.
- They are told how to deal with ethical challenges.
- The code is implemented strongly.
- The code is contemporary.
- The company leadership adheres to the highest ethical standards.

Major Corporate Stakeholders

Groups, individuals, and organizations that are directly affected by the practices of an organization

Businesses have a social responsibility toward them.



Role of Organizational Culture

Ethical values and norms help organizational members:

- Resist self-interested action
- Realize they are part of something bigger than themselves



An Ethical HRD Manager

- A Personnel Manager must be a good manager and to be a good manager, one has to be a good man-big-hearted, genuine concern for others, commands respect, big-minded and development of people below manager.
- HR men should provide proper Leadership.
- “You shall treat others as equals”
- “You should show the ability to forgive”
- “You shall love your fellowmen and women”

References

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