ETHICS AND BUSINESS: THEIR INTER RELATIONSHIP

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ABSTRACT

Individuals will accept external moral authority when it is independently filtered. The problem is that most public service leaders do not follow a consistent approach to ethical decision making and accomplishing ethical behavior in the bureaucratic organizations they lead. While formal codes of ethics offer some standards of conduct and guidelines for ethical decision-making, a more effective approach is to mesh code enforcement with a normative approach to establishing an ethical climate. Public Administrative style, methods, hierarchy and training are closely interrelated with ethics. Training alone is not enough. However, serious, sustainable improvements of the public service without adequate education and training seem to be impossible. Evaluation of training policies in every country in the region appears to be necessary. Public servants must understand what is acceptable behavior, and, in the end, when the risk of detection and punishment outweighs the gains.

Modern people who have embraced scientific development as truth do not judge goodness according to the will of God. They ask their own insight for advice and often end up in conflict because insights differ. If we concentrate on the basis of the conflict, we discover common ground that is often hidden or misconstrued. The groups who are fighting, willing to kill each other, are actually striving for the same goals, “progress and justice.” Students will grasp the importance of ethics only when educators give it the same priority as other areas of accounting. Academia should accept ethics as a research and teaching specialty equal to other areas of accounting. CPAs should emphasize to faculty and administrators the importance of ethics teaching, such as speaking to students, holding faculty training sessions, or funding faculty curriculum development in ethics. Stressing the importance of the fundamentals, character, integrity, and responsibility should be part of accounting education.
INTRODUCTION

In concept, business ethics is the applied ethics discipline that addresses the moral features of commercial activity. In practice, however, a dizzying array of projects is pursued under its rubric. Programs of legal compliance, empirical studies into the moral beliefs and attitudes of business people, a panoply of best-practices claims (in the name of their moral merit or their contribution to business success), arguments for (or against) mandatory worker participation in management, and attempts at applying traditional ethical theories, theories of justice, or theories of the state to firms or to the functional areas of business are all advanced as contributions to business ethics—even and especially in its academic literature. These projects vary considerably and often seem to have little in common other than the conviction, held by those who pursue them, that whatever each is pursuing is business ethics.

ETHICS AND BUSINESS: THEIR INTER RELATIONSHIP

What constitutes business varies from society to society. To relieve a business of likely specific problems, the business is to be decided by the people of the society and not by business or those who run the business. The basic problem is that the ethical course of action is not always clear to company’s managers. Business ethics is a study of moral standards as they apply to business policies, behaviour and institutions, and to the people who work within these organizations. Its function is not only to analyze moral norms and values, but also to attempt application of this analysis to business.

Business ethics partly aims to analyse the presuppositions both moral presuppositions and the presuppositions from a moral point of view of business. Since business operates within an economic system, part of the proper task of business ethics is to raise questions about economic systems in general and about the morality of a country’s economic system in particular. This, in turn, raises questions about the appropriateness of using moral language to evaluate these systems.

WHAT BUSINESS ETHICS CAN DO AND CANNOT DO: Business ethics can help people approach moral problems in business more systematically and with better tools than they might otherwise approach them. It can help them to see issues they might normally ignore. It can also drive them to make changes that they might otherwise not be moved to make. However, business ethics does not by itself make anyone moral. Business ethics presupposes that those who study it are moral beings, and they wish to be even better, more thoughtful, and more informed moral beings. Business ethics does not change business practices unless those engaged in the practices that require moral change wish to change them. Business ethics can produce arguments to show that a practice is immoral, but obviously only those in a position to implement the change can be able to bring them about.

MORAL REASONING IN BUSINESS: The pertinent questions that arise are: Is morality simply a matter of individual choice? Is it culturally determined? Is the claim that there is a universal morality applicable to all people and at all times, defensible? Certainly, some business practices are held to be moral and proper and others improper. But the question to be asked is: Whether these conventional norms should be held, whether some of them may infact be
improper? At times, conventional morality is challengeable and is attacked. A moral law at times needs to be violated.

ARGUMENTS FOR AND AGAINST BUSINESS ETHICS

There may be objections toward application of moral standards to business. Let us see what some of these objections are and what can be said against or in favour of applying moral standards to business.

OBJECTIONS TO BRINGING ETHICS TO BUSINESS

The objection is that in perfectly competitive free market, the behaviour of people in business organizations should not be subjected to moral standards. On this view, the people in business should single mindedly pursue the financial interests of their firm without diverting their energies or their firm’s resources into “doing good works”. In support of this view there may be advanced three different arguments as also put by Velasquez (De George, 2002).

These are as mentioned below.

FIRST OBJECTION-ARGUMENT: The pursuit of business being profit, the society will benefit most if managers do not impose their own values on a business and devote themselves to produce ‘efficiently’ what the society wants (or values). Arguments of this sort conceal a number of such questionable assumptions that require quite lengthier discussion. However, briefly, first assumption is that contrary to a point in the argument advanced, most industrial markets are ‘not’ “perfectly competitive”, and as such, therefore, to the extent that firms do not have to compete they can maximize profits “despite inefficient production”. Second, it is a wrong presumption of the argument that ‘any’ steps taken to increase profits will “necessarily” be socially beneficial. In fact, several ways of increasing profits actually cause injury to society: allowing bribery, fraud, tax evasion, deceptive advertising, harmful production to go Psychology uncontrolled concealing product hazards. Third, the argument assumes that by producing whatever the buying public wants (or values) firms are fulfilling the want of ‘the whole’ of the society. Infact, the wants of large segments of society (the poor and disadvantaged) are not necessarily met because they cannot participate fully in the market place. Fourth, the objection-argument is essentially making a normative statement (“managers should devote themselves to the single-minded pursuit of profits”) on the basis of unproved moral standards (“people should do whatever will benefit those who participate in markets”). Thus, although the argument tries to ‘show’ that ethics does not matter, it can do this only by assuming an ‘unproved’ moral standard that at least appears mistaken.

Second objection-argument for bringing ethics into business is that business manager (as loyal agent of his employer) should single mindedly pursue the interests of his firm and should ignore ethical considerations.

Agreements do not change the moral character of wrongful acts. If it is morally wrong for a manager to do something out of self-interest, then it is also morally wrong for him to do it in the
interests of his company even though he has agreed to serve the company. The assumptions of the loyal agent’s (manager’s) argument, then, are mistaken.

THIRD OBJECTION-ARGUMENT FOR BRINGING ETHICS INTO BUSINESS: TO BE ETHICAL IT IS ENOUGH FOR BUSINESS PEOPLE MERELY TO OBEY THE LAW

Business ethics is essentially obeying the law. It is wrong to see law and ethics as identical. It is true that some laws require behaviour that is the same as the behaviour required by moral standards, e.g., the laws that prohibit murder, rape, fraud, etc. In such cases, there is coincidence between law and morality, and the objection to obey such laws is the same as the obligation to be moral. However, law and morality do not always coincide. Some laws have nothing to do with morality because they do not involve serious matters, e.g., laws of parking, dress codes, and other laws covering similar matters. Other laws may even violate our moral standards so that they are actually contrary to morality. Thus, ethics is not simply following the law. Nevertheless, this does not mean that ethics has nothing to do with following the law. Our moral standards are sometimes incorporated into the law when enough of us feel that a moral standard should be enforced by psychological pressure of a legal system. In contrast, laws are sometimes criticized and eliminated when it becomes clear that they blatantly violate our moral standards. E.g., law permitting job discrimination and bribery in business must be eliminated since they violate our moral standards. Therefore, morality shapes and influences many of the laws.

THE CASE FOR ETHICS IN BUSINESS

There may be quite some arguments for bringing ethics into business.

(1) One way to argue is that ethics should govern all voluntary human activities, and, business is such an activity. Therefore, ethics should also govern business.

(2) Another argument is that business activities, like any other human activities, cannot exist unless the people involved in the business and its surrounding community adhere to some minimal standards of ethics. Business is a cooperative activity whose very existence requires cooperative behaviour. First, any business will collapse if all of its managers, employees, and customers come to think that it is morally permissible to steal, lie, or break their agreements with the company. Because no business can exist entirely without ethics, the pursuit of business requires at least a minimal adherence to ethics on the part of those involved in business. Second, all businesses require a stable society in which to carry on their business dealings, the stability of a society requires that its members adhere to some minimal standards of ethics. The impossibility of conducting business in society without ethics, a society in which lying, theft, distrust, cheating, and unrestrained self-interested conflict became the norm, is shown by the way in which business activities break down in Indian Psychological societies torn by strife, conflict, and distrust. Because business cannot survive without ethics, it is in the interests of business to promote ethical behaviour both among its own members as well as within its larger society (Michales, 1980, for a similar version of this argument).
(3) Third argument for bringing ethics to business is by showing that ethical considerations are consistent with business pursuits, in particular with the pursuit of profit. That ethics is consistent with the pursuit of profit can be shown simply finding examples of companies where a history of good ethics has existed side by side with a history of profitable operations. Such companies have combined a good history of profit with exemplary ethical climates.

However, the above mentioned claim-proposition that ethics is consistent with the pursuit of profits is not fully demonstrated by certain individual companies. There may be many chance factors that affect profitability, e.g., over-capacity in a particular industry, changing consumer tastes, recessions, weather patterns, interest rates, etc. There are many difficulties involved in trying to see whether ethical companies are more profitable than unethical ones. There are many different ways of defining ethical, many different ways of measuring profit, many different factors that can affect a company’s profits, many different ways of deciding whose actions count as the actions of company, and many different dimensions along which companies can be compared. Despite these difficulties, several studies in examining whether profitability is correlated with ethical behaviour, suggest that, by and large, ethics does not detract from profit and seems to contribute to profits.

(4) Yet another reason (Fourth Argument) to think that ethics should be brought to business is that in a situation when two parties in business are faced with a dilemma of choice as ‘to cooperate’ or ‘not cooperate’, they must opt for mutual cooperation. For, if both cooperate with each other, each of them will benefit.

Any conclusive proposition that the rational self-interested person should behave unethically in business when there is something to be gained through unethical behaviour is a false assumption. The threat of future retaliation by the victim against his exploiter makes it more rational for the parties in a series of repeated exchanges to cooperate than to try to take advantage of each other. Through cooperation, the parties will gain the advantages conferred by mutually beneficial activities, whereas non-cooperation will lead to deteriorating series of costly clashes.

2. THE CORPORATION IN BUSINESS ETHICS

Although self-conscious, academic business ethics is of recent vintage, its intellectual roots are found in the corporate social responsibility (CSR) and business-and-society literatures originating in law and in business in the early and middle 20th century. Academic business ethics displays its CSR heritage in the peculiar constellation of concerns that pervade its literature. Those concerns surround the business corporation, which Robert Solomon (1991) calls “the basic unit of commerce today.”

The corporate focus is evident in the titles of early works of academic business ethics that have done much to shape the subsequent discussion in the field. Tom Donaldson's Corporations and Morality (1982) and Patricia Werhane's Persons, Rights, and Corporations (1985) take business ethics to be concerned centrally with questions about the corporation's proper role in and relationship to the social order. These questions, taken up by the field and continuing to inform its main conversation, are said to surround the “moral status of the corporation,” by which is
meant typically one or both of: (1) Is the corporation a moral agent, distinct from the persons who compose it? (2) Morally, how or in whose interests ought the corporation to be managed?

2.1 IS THE CORPORATION A MORAL AGENT?

At law, the corporation is a person, distinct in its personality from the persons who bear ownership shares in it (its shareholders) or conduct activities on its behalf (its directors, officers, and other employees). Among the many manifestations of the corporation's separate legal personality are: (i) Distributions of dividends from the corporation to its shareholders are subject to income taxation in the same way that gifts between persons are subject to income taxation. If the corporation were not a separate legal person (as, for example, in U.S. and English law a partnership is not a separate legal person from the partners who compose it) the distribution of dividends would not be a taxable event (because money would not be changing hands). (ii) Corporations are subject to civil liability that is distinct from that of its owners. Indeed, one of the principal motivations for organizing business activities in the corporate form is that corporate assets are legally separate from the personal assets of the corporation's shareholders. Shareholder liability for corporate debts is limited to whatever assets owners have contributed to the corporation in return for their ownership stakes. (iii) Corporations are subject to criminal liability that is distinct from that of its owners, directors, officers, or employees.

If the corporation is a legal person, is it also a moral person? Anglo-American law takes no explicit position on this, although the corporate personality is frequently described there as a legal fiction, suggesting that the corporation's legally recognized personality is not also ontological fact. Business ethicists have taken a variety of positions on the question whether the corporation is a moral person or moral agent.

Peter French (1979, 1984, 1995) argues that important features of the corporation and corporate decision making exhibit all of the necessary components of moral agency. He argues that corporations have corporate internal decision (CID) structures that provide sufficient grounds for attributing moral agency to them. These CID structures consist of two main parts: (i) an organization chart that corresponds to decision authority within the corporation and (ii) rules (usually contained in the corporation's articles of incorporation or its by-laws) for determining whether a decision, made by one who possesses decision making authority according to the organization chart, is a corporate decision rather than merely a personal decision. That is, analogous to H.L.A.

HOW AND IN WHOSE INTERESTS OUGHT THE CORPORATION TO BE GOVERNED?

Seeing the large, publicly-traded corporation as the key actor in business, most academic business ethicists understand the foundational normative question of their discipline to be that of how and in whose interests corporations ought to be governed. Over the last two decades, the main attempts to answer this foundational normative question have been understood as constituting a ‘shareholder-stakeholder debate’ in business ethics.
Originating in the work of R. Edward Freeman (1984), stakeholder theory is widely regarded among academic business ethicists as the most significant theoretical construct in their discipline. Normative ethical stakeholder theory articulates the view that a business firm ought to be managed in a way that achieves a balance among the interests of all who bear a substantial relationship to the firm—its stakeholders. In Freeman’s account, the very purpose of the firm is coordination of and joint service to its stakeholders.

Closely-held corporations and partnerships lack the fluid markets for ownership shares that make exit a viable choice for the disgruntled shareholder. Moreover, closely-held corporations and partnerships are marked frequently by widely diverging interests among members of the ownership class, whether due to the fact that some of those members are in day-to-day control of the enterprise whereas others are not, or that one or a small coalition of owners form an effective voting majority of shareholders, leaving minority shareholder interests to the majority's mercy.

INTEGRATING VALUES AND ETHICS

The implication for teaching at the college and university level is that instructors need to understand the ways in which values and ethical frameworks are relevant to their course content. To create understanding and properly extend the learning of students, instructors need to make clear their perspectives on moral literacy. As discussed in the preceding section, valuation processes can be relevant to leadership as conscious and unconscious influences on the cognitive processes of individuals, as rubrics or codes for responding to problematic situations, and as meta-values around which to establish consensus on shared objectives and purposes.

3. THE EMPLOYMENT RELATION IN BUSINESS ETHICS

Falling neatly out of concern about the power of large, publicly traded corporations is a concern about the terms of employment they afford. The discussion of the employment relation in academic business ethics has crystallized into a debate over the relative moral merits of at-will employment terms and just cause employment terms, especially in light of the place each occupies in employment law.

Most of the discussion of the employment relation in academic business ethics concerns the fairness of the at-will doctrine and whether other terms of employment ought to be substituted for it through public policy initiatives. Indeed, the debate makes little sense outside the public policy context. On broadly Kantian grounds, Werhane (1985) argues that arbitrary dismissal is incompatible with respecting employees as persons. Respecting employees as persons demands that they be supplied with good reasons when adverse action is taken against them. Thus, at-will employment (or at least, dismissal without cause undertaken in accordance with the at-will doctrine) is incompatible with recognizing and respecting the employee's personhood.

The debate over at-will employment is a debate not about what employers and employees ought or ought not to do, but instead about the merits of taking the terms of employment continuation out of the realm of contract and into the realm of public policy. In that sense, it is more like the debate over the minimum wage. The at-will doctrine neither commends nor incentivizes a managerial practice. Instead, it apportions the legal risk of arbitrary firing in a way different than
just cause rules do. Which apportionment is better may tell us much about the public policies we ought to have, but it doesn’t tell us how we ought to conduct business.

INTERNATIONAL BUSINESS ETHICS

Doing business transnationally raises a number of issues that have no analogue in business dealings done within a single country or legal jurisdiction. International business ethics seeks to address those issues. Where ethical norms are in conflict, owing to different cultural practices, which ethical norms ought to guide one's business conduct in other nations and cultures? Some discussions of international business ethics conceive this home country/host country question as central. On one hand, adopting host country norms is a way to respect the host culture and its members. Thus, business persons are advised that when in Rome they ought do as the Romans do—as in etiquette, so too in ethics. On the other hand, business persons are advised to resist host country norms that are morally repugnant. Therein lies the rub. When, for example, bribery of officials is central to doing business where you are, ought you to embrace the practice as a mark of cultural respect or forswear the practice on the grounds that it is morally repugnant?

One common approach in international business ethics is to refer to or to construct lists of norms that ought to guide transnational business conduct. Thus, for example, the United Nations' Universal Declaration of Human Rights or, more recently, the United Nations Global Compact, is advanced as a guide to conduct.

5. CONCLUSION

The main conversation in academic business ethics is focused on the large, publicly traded corporation. It owes its prescriptions mainly to normative political philosophy, rather than moral theory. It speaks more to public policy toward business (and especially the large, publicly traded corporation) and the institutions of capitalism than it does to ethical business conduct, i.e., what one ought to be doing when one is doing business.

To be sure, there are cases of corruption that respond to the unethical nature of the corrupt individual. But for the most part, the unethical behavior stems from the environment in which individuals must interact. Convoluted regulations and weak rule of law foster a culture of corruption and informality both in the private and public sectors.

In the public sector, convoluted regulations and weak rule of law provide ample opportunities for public officials to accept bribes without punishment. In the private sector, those two factors push some people to do business informally as a means to survive and others to profit far more than they would if the possibility of bribery did not exist. The result is an increasingly unequal society, in terms of the opportunity to create wealth and improve living standards.

To fight corruption and informality, it is essential to understand that corruption is a symptom—of overregulation, lack of rule of law, a large public sector—not the root of the problem. The perceived problem is unethical/corrupt behavior of the private sector, which leads the government to press more on private-sector activities. The real problem is the government
action/regulations causing undesired behavior of the private sector. The optimal solution would be to eliminate burdensome regulations so that unethical behavior does not occur.

Countries must advance economic freedom in all possible areas of the economy, with particular emphasis on regulations affecting small and medium business, in order for corruption and informality to decrease. The Index of Economic Freedom is an excellent guide to identify what is obstructing economic activity and, therefore, perpetuating poverty.

Countries must also preserve the independence and effectiveness of the judiciary to punish corrupt actions. Economic freedom with a strong rule of law will foster a culture of investment, job creation, and institutional respect--all essential factors in massively improving the living standards of ordinary people.

BIBLIOGRAPHY


