

Business Ethics : Issues & Challenges

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Sambhal **Abstract**

Ethics or morality plays a significant role in business. No company or business may get long term benefits if it has not adopted the ethical principles. Ethics create goodwill or reputation of a business that is the most important asset of a company. A business should therefore, possess all those qualities or characteristics which are necessary to satisfy the interests of various groups connected with the business and avoid all the unethical issues which may be harmful for these groups as well as business.

Origin of the research problem:

It has been seen that ethical issues are becoming more challenging day-by-day in every type of organization except 5-10 % business units in the country. In spite of so many researches on the topic and acts of the government, the unethical practices are increasing gradually. Therefore, it is the serious issue that how the awareness about business ethics should be created in the minds of business professionals and the society?

Inter disciplinary relevance:

Ethics is created by systematic & critical reflection on human actions with the objective of increasing knowledge about & improving culturally or personally accepted behavior. The critical reflection is different from morality which is largely independent of conscious thoughts. Because ethics bridges knowing & doing, it creates a site for multiple inter disciplinary engagements. It is a major branch of the discipline of philosophy – alongside logic, epistemology & metaphysics. Yet, ethics is seen as drawing on a number of disciplines that may be stated as having emerged from it, disciplines such as psychology, anthropology, politics and economics significantly influence the domain of ethics. In applied or practical versions, ethics takes form as hybridization of disciplines and specialized concerns in the cases of biomedical ethics, environmental ethics, computer ethics – each of which depends on multi-disciplinary interactions with other domains.

Review of research & development in the subject:

The review of research & development provides a road map to identify the basis for strategy formulation & implementation of Ethics code in India & in other foreign countries. Some of the important studies by various authors relevant to this topic are as follows:

D.G. Arnold, T.L. Beauchamp & Norman L. Bowie in their book entitled as “ Ethical theory & business” published by Pearson in 2012, have highlighted the role of ethics in all functional areas of business including management, marketing international business ,human resource, finance and accounting. Andrew Crane & Derk Matten in their book “Business Ethics” published by OUP OXFORD in 2010, have studied the various situations, activities and decisions where the issues of right & wrong are addressed. R.W. Paul & Linda Elder have discussed business ethics as a set of concepts & principles that guides us in

determining what behavior helps or harms sentient creatures. Boye De Mente(Japanese manners & Ethics in business-1961), Ruben G Apressyan (Business Ethics in Russia-1997), G. J. Rossouw(Business Ethics in South Africa-1997), John R. Boatwright (Globalization & the Ethics of business -2000) , Ronald Duska (Business Ethics: Oxymoron or good business-2000) & R.C. Baumhart(How ethical are businessmen) all of these have discussed the ethical problems in different countries. Stephen E. Brimmer in his article –The Role of Ethics in 21st century organizations-published in Leadership Advance online to which the organizations are obligated has stated that the organizations’ ethics must be considered as social responsibility.

After studying these views, it may be said that business ethics is the mixture of moral principles & social values that helps in determining the behavior of a business towards its different interested groups and the society. It helps in (i) knowing the merits or demerits of business policy. (ii) Setting a welfare plan for the concerned parties and (iii) avoiding or removing the unfair competition, black marketing and illegal activities.

National & international status:

Business ethics plays an important role at national as well as international level. But there may be some social & cultural aspects, sexual & racial discrimination, environmental regulation etc. which may differ from country to country. Therefore,

While doing business in foreign countries, a company can adopt its policies & procedures developed in home country or may adopt the norms of that foreign country where it is doing its business. In second case, a company may make different policies & procedures in different countries for business ethics.

There are many reports to justify unethical behaviour at work places. The cases of bribery & corruptive practices are occurring widely. Many times the unethical behaviour of employees is ignored by the top management to attain the revenue targets. To stop such type of practices, timely action is needed against the individual misconduct & reinforce commitment to make compliance programs more visible, technologically- led and resilient.

Significance of the study:

A business gets all of its resources from the society. It depends completely on the society in performing its functions. It should ,therefore discharge its duties to enhance the overall welfare of the society including its shareholders, Employees, Customers, Creditors, Lenders, Suppliers, Competitors etc. A business should provide fair & regular return to its shareholders, fair ,timely , regular wages / salaries and proper working conditions to its employees and pure & better quality of goods & services at reasonable prices to satisfy the needs of customers. It should not harm the competitors and environment by any means, pay taxes regularly with honesty and should promote socio- economic development of the society & nation.

Good relations are the result of fairness & justice and play an important role in smoothly functioning of a business. When the related parties are treated equally, fairly and honestly, it creates trust and this trust is a source of pride & self-respect to the company. A company operates its activities successfully in peaceful atmosphere. There is no strike or lock-out in the company. Thus good relations promote sales,

generate more revenues / profits and as a result, the company is able to discharge its responsibilities towards different groups in the most beneficial way.

Objectives:

The objectives of the study are:

- To know those ethical & non-ethical issues which affect the business positively & negatively, directly & indirectly & have a great impact on consumers, society & the nation, and
- How the problems of non-ethical issues can be tracked or removed.
- To study the child labour (most important future asset) as an unethical issue working in the business organisations.

Methodology:

The study will be conducted with the application of both qualitative and quantitative research methods. Case studies will be conducted to highlight the ethical issues & challenges. The source of data collection will be primary but if needed, secondary sources will also be used for comparative study.

Introduction

First of all, the word 'business Ethics' was introduced in the United States of America in the year 1970. It is also known as Corporate ethics / Applied ethics or Professional ethics. It means good habits, qualities & customs. It is the best way of doing business or to live a satisfactory life. It examines the principles of ethics, moral and the ethical problems which arise in the business organizations. It states that how a business organization should perform its duties towards its employees, customers, competitors, creditors & the society and how the employees, employers and management should behave with each other in the business world. In brief, we may say that when a business is started with a human touch in order to provide its benefits to the different persons or sections of the society, the ethic is seen. In business ethics, the study of various situations, activities and decisions of the business is done in order to find out the right and wrong or good and bad actions taken by it. The government also sets rules & regulations for registrations of business or manufacturing units in the country. As per these rules & regulations, every business has some responsibilities to discharge towards different groups having interest in the business. Therefore, it must act honestly and follow the principles of integrity, fairness, social justice while doing its business.

Key words: Business scandals, fraudulent financial Reporting, Ethical Behavior, Right & wrong actions, corporate Social Responsibility, creative Accounting, unfair Trade Practices.

Non-ethical Issues:

Before studying ethical issues, we should know about unethical problems which damage the reputation of a business unit and adversely affect the customers also. In a market economy, "a customer is a king who determines what to produce, how to produce and by whom to produce. The economic wheel moves around his whims & fancies"¹. Such types of practices must be removed at the priority. These problems include preparation of synthetic or poor

quality products by sophistication / adulteration, sale of expired items in rural areas, corruption, tax avoidance, bribery, insider trading, kickbacks, securities fraud, facilitation payments, accounting scandals, discrimination, use of child labour, sexual harassment, sexual discrimination, time misuse, unlawful use of copy rights/ trademarks, palming off, disparagement misappropriation of assets, fraudulent financial reporting, creative accounting, earning management, lack of corporate social responsibilities, unethical behavior, misleading advertisement, harming environment, unsafe & unsanitary working conditions, lack of fair wages to workers etc.

Bribery & corruption: when a person gives or receives money in exchange of some kind of influence or return, it is known as bribery. In bribery, an offer is given to influence the actions of officials. Bribery gives birth to corruption and opens all the doors for illegal / unethical work. Therefore, a business should fairly deal with all of its employees/ customers / creditors/ suppliers and related parties. It should not promote corruption by any means. A company should select the talented and eligible employees without the feelings of regionalism, communalism/religiousism, casteism, nepotism, languageism and should not be indulged in any practice of black marketing.

Corporate tax avoidance: If a company does not pay the fair amount of taxes imposed on it by the central / state or local government at the right time, it is known as tax avoidance. It may use tax shelter to reduce taxable income or high profit margin method to indicate high operational efficiency or low sales turnover rate.

Fraudulent Financial Reporting: when the accounting policies or estimates are manipulated by the management of a company to improve the financial records of business, it is known as fraudulent financial reporting. Therefore, the accounting policies & practices should be used honestly & consistently.

Misappropriation of Assets: The management or the employees of the company should not make fraud or use of the company's assets / cash or cash equivalents as credit notes, vouchers, data etc. for their personal benefits without authorization. They should not misuse their positions to steal the company's assets through fraudulent activities i.e. creation of false invoices, claims for false expenses or payroll fraud.

Insider trading: It may be legal or illegal. When a person buys or sells such securities / stocks about which the full information is not available to the general public, it is known as insider trading. This person may be a corporate officer / Director or any other person who has nonpublic information. If the complete information about shares / securities is provided to the general public, such trading is known as legal trading. Insider trading may be regarded as white colour crime and the guilty person should be punished.

Facilitation payment: This type of payment is made to foreign officials and is not considered as bribe. Such payments are questionable from the point of view of business ethics. These payments may create additional risks and also discourage investments.

Accounting & business scandals: such scandals are done by top level management/ employees by altering financial statements for their personal benefits as over stating revenues, under stating expenses, misusing of funds, over stating the value of Assets and under stating the amount of liabilities.

Table No. 1

Some Famous Business/ Accounting Scandals in India				
S.N.	Name of Scandals	Year	Amount of fraud	Main Accused
1.	Yes Bank Scandal	2020	4300 crore	Founder- Rana Kapoor
2.	PMC Scandal	2019	4355 crore	Former chairman- Waryam Singh
3	Rotomac Bank Fraud	2018	RS. 3695 crore	Directors: Vikram, Sadhana & Rahul Kothari
4	PNB Scam	2018	Rs. 11,600 crore	Neerav Modi
5	IL & FS scam	2018	Rs. 13,000 crore	Arun Shah, K. Ramchandra, R C Bava & Hari Sankaran
6	winsome Diamonds Jewellery	2017	Rs. 1,530 crore	jatin Mehta
7	Gujarat Fisheries Scam	2017	Rs. 400 crore	Purshottam Solanki
8	Sahara India investors' frauds	2014	300 crore Dollar	Subrata Rao
9	Satyam Scandal	2009	Rs. 8,000 crore	Ramalinga Raju
10	2G Spectrum	2008	Rs. 17,600 crore	A. Raja
11	Stamp papers scam	2002	Rs. 20,000 crore	Abdul Karim Telgi
12	Ketan Parikh stock market scam	1998-2001	Rs. 2,000 crore	Ketan Parikh
13	Harshad Mehta stock market scam	1992	Rs. 5,000 crore	Harshad Mehta, Biggest Bull

Creative Accounting: It is the root of accounting scandals. It is the false & misleading representation of company's income / profit or assets. It refers to "an accounting practice that may follow the rules of standard accounting practices but deviate from the spirit of those rules." The words Aggressive Accounting and Innovative Accounting are also used as Creative Accounting.

Under delivering & over charging: By under delivering or over charging practice, a company is likely to turn off or lose its customers. Such practices disappoint customers and lead to a lot of

anger & frustration in the minds of customers. The trust of customers in a company is VALUABLE & PRICELESS. So, understand it, respect customers and earn money for future by satisfying customers in present.

Unfair Trade Practices : These include deceptive, injurious, unlawful and fraudulent practices by a company as false representation about quality / quantity/ standard/ bait & switch selling/ bargain sale/ composition/ grade/ old or new goods/ sponsorship/ approval/ performance/ uses/ benefits/ guarantee/ warranty/ need/ usefulness/ price/ false offers/ free gifts/ prize schemes/compliance of prescribed standards/ false or misleading advertising/ trade secret/ misappropriation/unfair competition for promoting sales, contacting people without their consent, sexual discrimination, unsafe & unsanitary working conditions, releasing pollutants into air or water etc. Such trade practices provide economic injury / loss to the customers or the concerned parties. In India, "Tata Steel Limited, a multi-national company, tenth largest steel producing company in the world has been rated as one of the most ethical companies in the world" ²

Palming off: When goods or services of a company are shown as the goods & services of another company, it is known as palming off and it is unlawful. It is the synonyms of passing off or unfair competition.

Disparagement: When a company or firm publishes false statements that harms the reputation of another company / business or product as use of another trade mark, firm's name, product labeling or packaging etc., it is known as business disparagement or commercial disparagement.

All of the above unethical issues and practices can destroy the reputation of a business and will lead to legal troubles.

Ethical Issues:

What a business should adopt for the welfare of its customers, society and for its own goodwill? Its answer includes-

- a. The principles of Integrity, Honesty, Equity, Fairness & Social Justice,
- b. Good relations among various related parties / groups,
- c. Corporate social responsibilities of a business.
- d. Concepts of right & wrong, and
- e. Overall satisfaction.

(a) Ethical Principle:

The principles of ethics include-

Integrity: "Integrity is doing the right things, even when no one is watching. -----C.S.Lewis

"Integrity is the light that shines from a disciplined conscience". ----- James E. Faust

Integrity is like a blooming flower in the desert. It arises when our thoughts & actions are based on values and not for our personal benefits. Our behavior is guided by the principle of integrity.

Kinds of Businessmen



Failure (Without integrity)



Cheater (Without integrity)



Successful (With integrity)

- Cheater entrepreneurs are those who may be successful temporarily or for a short period,
- Successful entrepreneurs are the winners who follow the ethical principles.

The success or failure of an organization or company depends upon the integrity of its employees. It shows that how we should behave with each other in and out of the business organization. Personal Integrity plays an important role in human behavior. It is the foundation of ethics. If the behavior of a company's officials & employees is good, it would encourage the employees and workers to act in a better way for the company. If a person works hard to develop a high level of integrity, it is considered that he would transfer this principle to his professional life. Therefore, everyone in the organization should have this virtue of integrity.

Honesty:

"Honesty is glittering diamond amongst the thousand beads"----- Pandit Shree Ram Sharma Acharya

"Honesty is the first chapter in the book of wisdom"----Thomas Jefferson

"Honesty is the first foundation stone for a balanced success."...Me

It is said and it is the reality that Honesty is the best and great policy. It is the most important and valuable quality for every human & the organization. If the business transactions are done by adopting this policy, then the business would have a high value of goodwill. A businessman starts his business to earn the profit but he has to provide a valuable service to the society. He communicates the truth in various ways to different parties. He should adopt the honesty in paying the bills and the employees of the company, filing taxes, and in informing the investors about their returns. If he fails in meeting the corporate responsibilities, he would lose the climate of trust due to which the business may suffer in future.

Thus, the practice of honesty builds the foundation of trust with the colleagues, creditors, competitors, staff, customers & every other individual related to the organization. When employers deal honestly with their staff, the employees are encouraged and motivated to do the work with loyalty and push the business forward. The creditors and investors have their confidence in the company and they finance the business as before. Honesty is, thus a corner stone of the trust. The executives therefore should not provide the **misleading or false information by any means. They should supply only relevant and true information.**

Fairness:

"Win or loss, do it fairly".-----Knut Rockne

"Be fair. Treat the other men as you would be treated".-----Everett W. Lord

“Fairness is not an attitude. It is a professional skill that must be developed & exercised.

-----Brit Hume

The executives, employers & the employees of the company should be fair in all dealings with the company and the outsiders. They should not use any unfair and indecent means to earn money or profit. They also should not take any undue advantage of another person's mistakes. They should behave with justice, treat everyone equally, should have the power of tolerance and accept diversity. They should be open-minded and ready to accept that they are wrong (If they are wrong). They should change their positions and beliefs when and where it is necessary.

Due Care / Diligence:

Due care means duty of care or correcting something immediately or implementation of control.

“Diligence is the mother of good luck’.....Benjamin Franklin

“Diligence leads to competence”.....Jeffrey Benjamin

“Due care or Diligence means doing his duty to the best of his knowledge & ability”.....Me

Due care should be taken while performing the legal duties and observing the ethical & technical standards of the profession. Due care means the conduct of a person for the safety of others in and outside the organization. The company should therefore, improve the competence & the quality of the services

Objectivity:

“Objectivity is the judgment based on observable phenomena & uninfluenced by emotions or personal prejudices”.....Vocabulary.com

It means that the members should be free of conflicts of their interests while discharging their professional responsibilities. The company's staff members should be independent, impartial & intellectually honest. To remain independent, they should continually assess their relationship with their clients and their responsibilities towards the society.

Code of conduct :

“What you feed your soul is what you harvest with your action.”-----Shannon L. Alder

A code of conduct is a set of rules outlining the social norms, religious rules & responsibilities of , proper practices for , an individual.....<https://en.m.wikipedia.org>

“It is well re-written code that defines the values, principles, goals, missions of the organization and link these with standards of professional conducts.”

.....Airportcollege.com

The code of conduct states the actions & behavior to be followed at the place of work. By developing a code of professional ethics & conduct, you may not stop unethical behavior. But

It may give people something to think about a measurement to assess their behavior. The code of conduct serves as a framework for decision making and guiding the staff members.

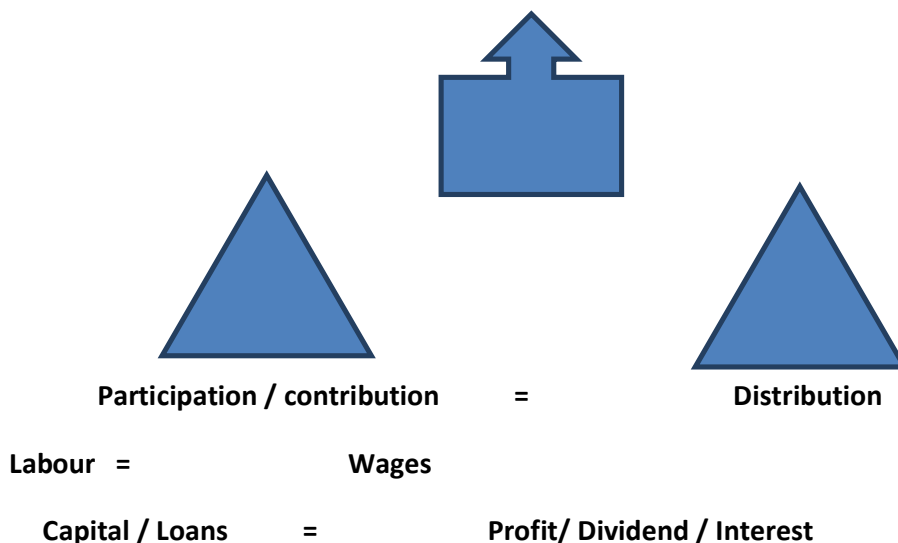
A code of conduct may help you in defining the accepted / unacceptable behavior, in promoting a high standard of practice, in establishing a framework for ethical behavior & responsibilities and in establishing the identity of your business. While performing the audit work, the ethical standards must be taken into consideration

Social justice:

“Until the great mass of the people shall be filled with the sense of responsibility for each other’s welfare, social justice can never be attained”.
....Helen Keller

There should be no violation of human rights. Equal opportunities should be provided to equal category of workers/ employees in employments, education, welfare programs etc. There should be no discrimination on the basis of sex, caste, region or religion. “Every year on 20 February, the world day of social justice is celebrated from the year 2009 to tackle the issues related to poverty & unemployment”⁸. Social justice thus, promotes the welfare of society and provides pleasure and satisfaction to the people.

Social Justice(Balance)



If there is any threat to the above principles as conflict of interests, evaluating the previous judgment result, sympathy to the interests of close relationship, advocacy and intimidation threat), the significances of threats should be assessed and corrective action should be taken to remove / solve such issues.

(b) Good Relations & ethics:

Good relations are the result of fairness & justice and play an important role in smoothly functioning of a business. When the related parties are treated equally, fairly and honestly, it creates trust and this trust is a source of pride & self-respect for the company. A company operates its activities successfully in peaceful atmosphere. There is no strike or lock-out in the company. Thus good relations promote sales, generate more revenues / profits and as a result, the company is able to discharge its responsibilities towards different groups in the most beneficial way.

(c) Corporate Social Responsibilities of a business:

A business gets all of its resources from the society. It depends completely on the society in performing its functions. It should, therefore discharge its duties to enhance the overall welfare of the society including its shareholders, Employees, Customers, Creditors, Lenders, Suppliers, Competitors etc. A business should provide fair & regular return to its shareholders, fair ,timely ,regular wages / salaries and proper working conditions to its employees and pure & better quality of goods & services at reasonable prices to satisfy the needs of customers. It should not harm the competitors and environment by any means, pay taxes regularly with honesty and should promote socio- economic development of the society & nation. As per the Ethisphere Institute of USA, only two Indian companies (Tata Steel Ltd. & WIPRO Ltd.) are selected among 135 of the world' most ethical companies for the year 2018.

(d) Right & wrong actions:

“Greatness is not found in possession, power, position or prestige. It's discovered in goodness, humility, service and character.”

..... William Arthur Ward

The right actions mean those decisions of the business which are implemented to benefit the different related parties as consumers, creditors, competitors, bankers, suppliers, society and the nation. **The wrong actions** of the business adversely affect the interests of the concerned groups and as a result, there is a loss of goodwill to the company. Such actions are the result of miss-management or the bad policies adopted by the business to promote its sales. Due to these non- ethical /harmful actions, a business may earn money in short run but in long run, it may loss its goodwill. Therefore while taking decisions about the business; the management should thoroughly study the impact of such policies on consumers, society, environment etc. It should fairly deal with all the sections of the society. A business must always believe in **“KAR BHALA HOGA BHALA”** (Do better and get better) This thinking will satisfy the interests of different related parties which in turn would satisfy the business itself.

Conclusion & Suggestions:

It may be concluded that the principles/ values or goals of the organization that respect the human needs and the welfare of people are included in business ethics. Ethics provide a good

image & profit to the business , good relations among the employees/ customers/ creditors and various connected groups with the business and safe environment to the society. But now a days, it has been seen that non ethical practices are occurring without any fear of law in the mind of fraud businessmen. In most of the cases of frauds, the promoters/ chief executives or directors of the companies are involved. Therefore, it is the necessity of time to make & implement the law forcefully to punish the fraud / corrupt business persons by the government at national level and international level, the government should have mutual agreements of handing over with those foreign countries where such persons mostly go away. . The government should also forfeit passports of such persons The deceivers who play with the health of the people should be heavily fined & jailed and not bailed for a minimum period of 10 years or as the case may be. At the level of management, the following measures must be adopted:

- a. An effective system of checking should be set up to look after the unethical issues and the responsible person/ agency should be punished.
- b. The sources of information should be checked to avoid scams / scandals.
- c. A business should monitor the activities of its employees, creditors & customers.
- d. Ethical education & training should be provided compulsorily to the management & employees. It should also be compulsory in different courses from primary to higher education level.
- e. Some necessary but Hazardous & pollutant industries should also be banned near the residential areas.
- f. There should be a confidential, accessible and effective system of reporting complaints.
- g. Motivational feelings & professionalism should be encouraged.

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