Chapter 3

Business Ethics as the major context of the study

Before getting into business ethics some understanding is required about ethics vis-à-vis morality. Ethics is derived from the word ethos (Ethos is a Greek word meaning "character") (Rao, 2006). Ethos is also related to with the customs, habits and traditions of people. Ethics describes the guiding beliefs or ideals that characterise a community, nation, or ideology (Suresh and Raghavan, 2007). Such ethos may change in response to new ideas or forces. Ethics guides human beings regarding what is good and what is right for the sake of doing good for the society. Osula and Upadhyay (2011), Pratley (2003) say that ethics refers to a branch of philosophy. It is for human’s good living and thus is concerned with right and wrong of human conduct. Singh (2010) also expresses that ethics is a discipline that deals with and governs human beings’ moral duties and their obligations. It guides them in understanding what is good and bad. Ethical behaviour of human beings must conform to accepted standards of conduct. Singh (2001) is of the view that ethics is a very old concept and its meaning has been changing. He opines that ethics means moral conduct for living a good life in a good society and it is focused on what is ought to done as compared to what is actually done. According to him, ethics has been a perennial problem as the gap has also differed with cultural differences. He also rightly comments that presently, all over the world, the problem of ethics is considered serious. Newell is of the opinion that ethical behavior can be defined either as behaviour that maximizes happiness and minimizes harm or as behavior that is motivated by principles of duty.
Rao(2006) is also of the view that ethics are concerned with actions that are proper or improper, conduct that is right or wrong, decisions that are fair or unfair. As values and cultural traits of individuals differ therefore so morality varies from individual to individual. Hence moral of one person may not be moral of another person. Pratley (2003) further asserts that ethics is a study of both moral and immoral behaviour in order to make well founded judgments and to arrive at adequate recommendations. It evaluates human practices by calling upon moral standards. It may give prescriptive advice on how to act morally in a specific kind of situation.

'Morality' comes from Latin word ‘moralitas’ meaning manner, proper character, behaviour. It relates to customs, rules i.e. do-s and don’t-s and is accepted as standards in a society or community. Morality is concerned with principles (of right and wrong) whereas ethics deals with conduct (conduct that is right and wrong). The relevance of ethics is in its application. Thus ethics can be described as moral action. It is an applied discipline and is concerned with human action and it’s compliance with the general principles i.e. the morals. Ethics is the response of an individual in a particular circumstance.

As recognised by philosophers, ethics, generally, can be divided into four areas namely-descriptive ethics, meta ethics, normative ethics and applied ethics. Descriptive ethics is also called comparative ethics. It is concerned with what people think is right? In other words, it is the study of peoples' belief about morality. It is linked to the social sciences.

Meta ethics is concerned with goodness and it’s meaning. The Greek word meta means after or beyond and indicates a concept which is an abstraction or idea from another concept. The object of meta ethical studies is morality and ethics itself. Here the aim is to
understand the origin and meaning, logical and practical structures of moral and ethical theories.

Normative ethics (also called prescriptive ethics) deals with peoples' actions. It is the study of ethical action. Here norms and standards for actions and conduct are being established and such norms are argued for or against.

As a branch of normative ethics, there is applied ethics which addresses the usage of philosophical methods or moral knowledge and putting them into practice. Here normative ethics theories are applied to specific moral issues in the fields of business ethics, professional ethics, bio ethics, medical ethics, etc.

3.1: Importance of Business Ethics

Business ethics is the study of business situations, activities and decisions where issues of right and wrong are addressed (Crane and Matten, 2007). From the above discussion it is clear that business ethics is normative or applied ethics. Business ethics is concerned with human interactions in situations of sourcing of raw materials, human resources, etc, producing and marketing goods and services for profit and also include the relationships between business managers and the employees, the firm or organisation and its stakeholders (Poulton, 2005). In the context of business ethics, Ghosh (2009) opines that moral standards, take priority over self-interest. He argues that the standards that govern human conduct in business situations regarding product's safety and quality, work conditions, etc are the matters that are concerned with morality.

Business ethics is applicable to any type of business organisation. Thus, business ethics or corporate ethics is a form of applied ethics that examines ethical principles and moral or ethical problems that arise in a business environment. It applies to all aspects of business
conduct, and is relevant to the conduct of individuals and the entire organisation. Business ethics deals with code of conduct which business people or business managers are expected to follow while dealing with others in different business situations. Code of conduct or code of ethics is a set of principles and standards that guides behaviour or conduct of business people, managers and relevant people in various activities of business such that businesses balance their desire to maximize profits with the needs of the stakeholders and businesses earn profits without harming individuals or the society as a whole.

The domain of business ethics is very wide because it deals with compliance to norms and standards relating to an organisation and its employees and it’s other stakeholders. It relates to different functional areas in any organisation. The philosophy of organisation gets reflected through the ethical perspective of the business.

Practicing business ethics yields many benefits to an organisation. People from the society desire to join that organisation that has high ethical values because it could be such organisation practices fair treatment of employees and takes appropriate care of its employees and help employee growth. The organisation in turn gets benefitted by the employees who become more productive and intends to stay in the organisation. Talented employees gets retained and organisation experiences sustainable growth.

Since ethical climate of a firm can lay the foundation for productivity and profits, therefore an ethical firm can attract more and more shareholders because the latter are concerned with firm’s ethical climate which, they know, can lead to organisation’s goodwill, sustained performance and social responsibility. Business ethics can lead to long term business success by creating amiable atmosphere for work.
Customer satisfaction and loyalty is crucial for a company’s success. This is possible by ethical conduct towards customers which in turn can build a strong competitive advantage.

There must be a commitment by top management in organisations to follow ethical code of conduct in order to reap the above benefits. Business ethics leads to sustainability and stakeholders’ satisfaction vis-à-vis profit orientation. It also develops a better relationship between business organisations and the society.

Any business survives for the sake of the community and the country and so, the community has expectations from the business. Therefore the business should also be involved in such actions that look into the interests of the members of the community and the country and hence act responsibly and ethically, taking into account it’s focus on social, economic and environmental impact on the community. From (www.unglobalcompact.org/docs/.../How_Business_Affects_Us.pdf) it is found that some of the positive or good impacts of businesses (as they fulfill community’s expectations and needs) are - business not only provides jobs for youth in the area but also helps small businesses to survive and thrive in the community. Recreation facilities in the community get promoted. Business organisations can make people aware about their rights. Peoples’ needs are met regarding different products and services. Business products can also be exported and consequently the economy can earn money. This also helps the country to build relations with other countries. However, there are certain negative or bad impacts of businesses on the community and the country because such business organisations may not be able to fulfill different stakeholders’ expectations.
Business may cause environmental pollution (through smoke, chemicals and sound) which has a great impact on health. Business can sometimes be corrupt.

The above discussion logically leads to the following figure 3.1.

**FIGURE : 3.1 - The contemporary need for business ethics**

There should be strategic focus of the business on ethics in all functional areas. It should be incorporated as a corporate philosophy. Business ethics is the study that is concerned with truth and justice in workplace or in business situations, activities, and decisions. It covers a variety of aspects viz. fair competition, advertising, public relations, superiors-subordinates relations, social responsibilities, corporate behaviour in the domestic arena as well as in the international arena and many more.

According to Raj (2007), business ethics helps the organisation to achieve corporate excellence in many ways. Raj (2007) argues that quality products are almost always impossible to produce without dedicated and loyal workers, committed to the cause of quality of the organisation and throws light on the importance of internal ethical system
and moral culture and argues that without the presence of these in the organisation, fair employment policies and practices are impossible. Thus it is understood that business ethics strengthens the organisation’s culture, improves relationships between employees and employers and leads to greater consistency in quality standards of products and services.

Newell is of the opinion that behaving ethically is clearly the key to the long-term sustainability of any business. Focusing on the triple bottom line—the social and environmental as well as the economic impact of a company—provides the basis for sound stakeholder relationships that can sustain a business into the future.

Newell also rightly asks a question - Will organisations that behave unethically attract the employees they need? He then answers by saying that ultimately, a business relies on its human resources. So, if an organisation cannot attract high-quality people because it has a poor public image based on previous unethical behavior, it will certainly falter.

Ethical behaviour is essential for long term success in business (Ghosh, 2009). According to Rao (2006) the purpose of business ethics is to help determine what business practices are right and what are wrong. He is of the opinion that that even businessmen care about whatever right and wrong and they are also interested in ethical practices apart from making money. Ethical businesses need to be centered around standards namely fair treatment to stakeholders viz. competitors, customers, suppliers/collaborators, and employees, standards that a businessperson expects others to apply to him or her, standards which he or she applies to other people who think well of each other.

While discussing importance of business ethics, Crane and Matten (2007) express that even firms themselves appear to be increasingly recognising that being ethical may
actually be good for business. Ethical issues are faced by any type of organisations. They are of the opinion that business ethics might be regarded as an increasingly important area of study. The reasoning they give in favour of importance of business ethics is that businesses have the potential to provide a major contribution to our societies. This is in terms of producing the products and services for the people. Businesses provide employment to people. Businesses also pay taxes thereby helping economic development. Crane and Matten (2007) also express that business ethics helps to understand more about the causes and consequences of malpractices and seeks, as the founding editor of the Journal of Business Ethics has suggested (Michalos, 1988), 'to improve the human condition'.

They opine that stakeholders are constantly placing demands on businesses to be ethical and such demands are becoming more and more complex and challenging. Business ethics provides the means to understand such challenges more clearly such that firms can meet these ethical expectations more effectively.

Business ethics can help to improve ethical decision-making by managers. This is possible by providing managers with the appropriate knowledge so that they can correctly identify and analyse ethical problems and dilemmas they face and provide solutions to such problems and dilemmas. Crane and Matten (2007) further point out that ethical violations continue to occur in business, across countries and across sectors. They cite about a survey of over 1,000 UK employees working in public and private sectors. The survey found that one in three workers did not consider their employers to be fair. Business ethics provides ways of
looking at the reasons behind such violations, and the ways in which the parties interested in improving business ethics (viz. the managers and employers) deal with such problems.

3.2: Scope of business ethics in HRM vis-à-vis the present study

Ethical problems and dilemmas creep in across different functional areas in organisations and at various levels of management viz. strategic, tactical and operational levels. Problems, requiring intervention or involvement of business ethics, may arise in accounts and finance, marketing, purchases, human resource management and administration.

The ethical issues of human resource management (HRM) are centred on the employer-employee relationship and the practices of organisations regarding human resources. The various HRM functions and dimensions where less ethical practices are possible include recruitment and selection, promoting employees, remunerating, discriminating or showing favouritism, training and development, disciplining, performance appraisal and many more. The present study is about ethical implications of HRM practices related to it’s functions and dimensions in select organisations in India.

Employees or human resources are one of the most important stakeholders of any business or organisation. They are internal customers of the organisation. Organisations perform by the performance of human resources. Therefore, human resources should be kept satisfied. Verma and Goyal (2012) is of the view that issues faced by human resources managers raise questions about fairness, honesty, self-discipline, and consequences of behavior. They also talk about ethical dilemma and are of the opinion that human resources managers face dilemma between what is legally and morally best for the employee and what is financially advantageous to the company. They throw light
on various aspects of HRM practices in which HR managers face ethical dilemmas. These include employee hiring, referrals and recommendations, retrenchments, maintaining employees' dignity in work place, listening to employees and their views, etc.

This research is the study of the HRM practices and their ethical implications in select categories and sectors of organisations in India.

**FIGURE : 3.2 - Ethics and Human Resource Management**

| Strategic focus on ethics in the organisation (incorporated as a organisation philosophy in it's Vision) for organisational sustainability and organisational excellence | Ethics has to be woven in the entire fabric of the organisation i.e. in all activities of the organisation in all functional areas or departments. |
| HRM to contribute to all departments and hence to organisation indirectly by ethically providing support regarding manpower related issues and by ethical practices |

There is need for ethics institutionalisation in organisations regarding HRM. It is difficult for employees to determine what conduct is acceptable within a company if the firm does not have established ethics policies and standards and the codes of ethics should provide guidelines and principles that can help employees achieve organisational objectives and address risks in an acceptable and ethical way. Badaracco and Webb (1995) stresses on presence of ethical standards and ethics institutionalisation in organisations and are of the view that the managers are familiar with conventional wisdom and practice of business
ethics. They are of the view that well-intentioned business executives rely on some mix of corporate credos, statements of their own convictions, ethics hotlines, ombudsmen, and training programs to set the ethical standards for their organisations.

3.3: Summary

Ethics is concerned with what is good and what is right for the society (Suresh and Raghavan, 2007). Business ethics is the study of business situations, activities and decisions where issues of right and wrong are addressed (Crane and Matten, 2007). Business ethics has its importance in terms of making organisations sustainable by satisfying all stakeholders, enhancing organisational excellence and contributing to the society and the country, etc. Human resources being one of the important stakeholders must be kept satisfied through honest and fair practices related to them and hence business ethics pertaining to HRM is of vital importance to organisations.

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